



Mary Taylor, CPA
Auditor of State

MARTINS FERRY CITY SCHOOL DISTRICT PERFORMANCE AUDIT

SEPTEMBER 15, 2009



Mary Taylor, CPA Auditor of State

To the Residents and Board of Education of the Martins Ferry City School District:

Based on Martins Ferry City School District's (Martins Ferry CSD) October 2008 financial forecast, a performance audit of the District was initiated beginning in December 2008. The three functional areas assessed in the performance audit were financial systems, human resources and facilities. These areas were selected because they are important components of District operations and support its mission of educating children. Improvements in these areas can assist in further stabilizing District's financial condition.

The performance audit contains recommendations that identify the potential for cost savings and efficiency improvements. The performance audit also provides an independent assessment of Martins Ferry CSD's financial situation and a framework for its financial recovery plan. While the recommendations contained in the audit report are resources intended to assist in developing and refining the financial recovery plan, the District is also encouraged to assess overall operations and develop alternatives 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 scope, objectives and methodology of the performance audit; and a summary of noteworthy accomplishments, recommendations, issues for further study and financial implications. This report has been provided to Martins Ferry CSD, and its contents discussed with the appropriate elected officials and District administrators. The District has been encouraged to use the results of the performance audit as a resource for further 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 toll free at (800) 282-0370. In addition, this performance audit can be accessed online through the Auditor of State of Ohio website at <http://www.auditor.state.oh.us/> by choosing the "Audit Search" option.

Sincerely,

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

September 15, 2009

Executive Summary

Project History

In accordance with House Bill (HB) 119, the Auditor of State's Office (AOS) conducted a performance audit of Martins Ferry City School District (MFCSD or the District) to identify programs or areas of operation in which it believes greater operational efficiency, effectiveness, or accountability may be achieved. In December 2008, AOS initiated a performance audit based on the District's October 2008 five-year financial forecast, which showed a negative fund balance in FY 2008-09, projected to grow to just over \$1.6 million by FY 2012-13.

During the course of the audit, MFCSD submitted its May 2009 forecast to ODE, which projected deficits in each year of the forecast. In FY 2012-13, MFCSD projected an accumulated General Fund deficit of approximately \$3.05 million. However, according to the Treasurer, actual FY 2008-09 year-end expenditures were more modest than projected and reductions made through the year helped MFCSD avoid a current-year deficit. Furthermore, the State passed House Bill 1 (HB1) on July 17, 2009, which will have an impact on District operations (see *Subsequent Events*).

Based on AOS research and discussions with MFCSD officials, the following areas were assessed in the performance audit:

- Financial Systems;
- Human Resources; and
- Facilities.

Transportation and Food Service operations were determined to be efficient and effective when compared with peer and national practices and were therefore excluded from the audit scope.

Audit work concluded in May 2009. The goal of the performance audit process was to assist the MFCSD administration and Board of Education in identifying opportunities for cost savings and improving management practices. The ensuing recommendations provide options that the District should consider in its continuing efforts to improve and stabilize its long-term financial condition.

District Overview

MFCSD is located in Belmont County and in FY 2008-09, provided educational services to 1,566 preschool through grade twelve students. For FY 2007-08, the Ohio Department of Education (ODE) reported that the District received 28.0 percent of its revenue from local sources, 62.0 percent from State, and 10.0 percent from federal sources. In FY 2007-08, ODE reported that the District's expenditures per pupil were \$9,145, compared with the State-wide average of \$9,939. The District met 19 of 30 academic performance indicators established by ODE in FY 2007-08 and was categorized as an *effective* district. ODE's Report Card results also indicate that the District increased its academic performance in FY 2008-09 to meet 27 out of 30 indicators.

In FY 2007-08, the District employed approximately 199.0 full-time equivalent (FTE) staff, consisting of 10.0 FTE administrators, 108.0 FTE educational personnel, 4.0 FTE professional / technical personnel, 30.5 FTE office/clerical staff, and 46.5 FTE operations and other staff. The regular education student-to-teacher ratio in FY 2007-08 was 18-to-1. District employees are covered under two bargaining agreements: one for certificated staff and one for classified staff.

MFCSD has experienced an increase in student enrollment over the past several years, with total enrollment in FY 2008-09 up about 4.5 percent from FY 2005-06. The District operates two school buildings containing three schools: one elementary school (grades K-4), and one building that includes middle school (grades 5-8) and high school (grades 9-12) students. In FY 2007-08, the District had an enrollment of 1,354 students, with 128 open enrollment students into the District and 66 open enrollment students out of the District.

The economic climate in the region has had a negative impact on MFCSD. According to the U.S. Census Bureau, Belmont County's population declined approximately 3 percent from 2000 to 2007, despite an overall population increase of 1 percent in the State of Ohio. Furthermore, the poverty rate was 15 percent in 2007, compared with the State average of 13 percent. Despite these economic conditions, the residents of MFCSD have historically supported the schools through additional property tax levies, which has allowed the District to offer additional programs and construct new buildings. The last levy, a construction bond, passed in 2004. The levy will ultimately generate \$10.5 million for MFCSD's local portion of the total cost of the construction of its new school buildings, completed as part of the Ohio School Facilities Commission (OSFC) project. The elementary and middle/high schools, and the administrative building were completed in 2008. However, drainage and erosion problems have increased the cost for the facilities by \$750,000 from the local share. This additional construction cost contributed to a financial deficit for the District in FY 2008-09. The District is taking steps to resolve the drainage issue and payment responsibility with OSFC.

In order to address its projected financial deficits, MFCSD administrators and Board members will have to make difficult decisions regarding District operations. Some of the

recommendations in this performance audit are subject to negotiations, but represent opportunities for significant cost savings. Additional savings not identified by this performance audit would provide the District a greater range of choices for cost reductions. Conversely, failure to implement cost saving strategies may require MFCSD to make additional reductions in mission critical service areas such as educational personnel.

Subsequent Events

In its updated May 2009 forecast submitted to ODE, the MFCSD is projecting a \$3 million deficit at the end of forecast period (FY 2012-2013). According to the FY 2009-2010 financial settlement report from ODE, the District will be receiving \$208,000 less State unrestricted funding in FY 2009-2010 than in the previous year (FY 2008-09). However, MFCSD will receive \$229,000 in American Recovery and Reinvestment Act (ARRA) “stimulus funds” in FY 2009-2010 that will lead to a net increase of approximately \$20,000 in foundation funding over the previous year. It should be noted that the ARRA funding will be eliminated in two years (FY 2012-13), and the status of future State unrestricted funding is unknown. Therefore, the District should be cautious in its use of these funds and seek additional opportunities to reduce operating expenditures.

During the course of this audit, House Bill 1 (HB 1) was enacted into law on July 17, 2009. This Bill contains substantial changes to the school funding formula and educational requirements for Ohio school districts. It contains several staffing requirements and lower student-to-teacher ratios in grades K-3. According to the Treasurer, MFCSD has not yet determined how HB 1 will affect staffing levels. However, these requirements may increase MFCSD’s costs and should be considered in the District’s staffing and financial plans.

Also, HB 1 (ORC § 3321.01 and § 3321.05) requires that, beginning in the FY 2010-11 school year, each school district must provide all-day kindergarten to each kindergarten student. MFCSD already provides all day kindergarten. However, its student to teacher ratios in Kindergarten are 18:1 and range from 20-22:1 in grades 1-3. The superintendent indicated that classroom space would be a barrier to fully implementing class size reductions in certain grades.

Financial Outlook

Table 2-1 in the **financial systems** section presents a framework for financial recovery for MFCSD that demonstrates the impact of the performance audit recommendations on the District’s financial condition. **Table 2-5** in the **financial systems** section shows that MFCSD will still likely experience deficit ending fund balances for the last two years of the forecast period (not including carry-overs from the previous years) when AOS adjustments and the financial implications of performance audit recommendation are considered. As a result, the District must consider other options for addressing the projected deficits or enact changes that go

beyond the targeted savings identified in the performance audit recommendations. However, the outcomes in **Table 2-5** are contingent upon the attainment of MFCSD and AOS projections, the timing of implementation of the performance audit recommendations, and the actual impact of those recommendations, as well as the affects of HB 1 and ARRA funds. See **R2.10** in the **financial systems** section for additional discussion.

Prior to the adoption of final strategies for addressing the financial difficulties, MFCSD is encouraged to discuss all potential options with stakeholders to obtain their input and expectations. Furthermore, enhancing the reliability of the five-year forecast (**R2.4**) and developing a strategic plan (**R2.1**) would help ensure that potential options are based on the Districts goals and objectives.

Objectives, Scope & Methodology

The overall objective of this performance audit is to assist MFCSD in identifying strategies to reduce expenditures and, in turn, help eliminate future deficits. The following presents the major assessments conducted in this performance audit:

- Expenditures, forecasting, stakeholder communication, strategic planning, budgeting, and purchasing practices were reviewed in the **financial systems** section.
- District-wide staffing levels, salary and benefit costs, collective bargaining agreements, Board operations, and special education expenditures were assessed in the **human resources** section.
- Custodial and maintenance staffing, facility-related expenditures, policies and procedures, preventive maintenance and planning, and the work order system were examined in the **facilities** section.

The recommendations in the performance audit comprise options that MFCSD can consider in its continuing efforts to stabilize its financial condition.

This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that AOS plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Audit work was conducted between December 2008 and May 2009.

To complete this report, the auditors gathered a significant amount of data pertaining to the District, conducted interviews with numerous individuals, and reviewed and assessed available information from various sources. District data was deemed reliable unless otherwise noted in

the report sections. In the staffing and salary comparisons presented in **human resources**, District and peer data was aggregated on a functional basis to provide comparisons that are more relevant. Peer school district data and other information used for comparison purposes were not tested for reliability, although the information was reviewed for reasonableness and applicability.

The performance audit process involved significant information sharing with the District, including preliminary drafts of findings and proposed recommendations related to the identified audit areas. Furthermore, periodic status meetings were held throughout the engagement to inform the District of key issues affecting selected areas and to share proposed recommendations. Throughout the audit process, input from MFCSD was solicited and considered when assessing the selected areas and framing recommendations. Finally, the District provided verbal and written comments in response to various recommendations, which were taken into consideration during the reporting process. Where warranted, AOS modified the report based on the District's comments. In addition to the report, auditors also communicated less significant issues separately to District administration.

AOS developed a database of ten districts that was used for peer comparisons. The ten districts are classified by ODE as Type 4 school districts (Urban – low median income, high poverty). In addition, these ten school districts met a high number of performance standards, as measured by the Ohio school proficiency tests, at a relatively low cost per pupil. Furthermore, six out of the ten peer districts had an open enrollment in FY 2007-08 between 145 and 234 students. Specifically, the peer districts were Bath Local School District, Boardman Local School District, Columbiana Exempted Village School District, Dover City School District, Girard City School District, Heath City School District, Lowellville Local School District, McDonald Local School District, Tiffin City School District, and Wheelersburg Local School District. External organizations and sources were also used to provide comparative information and benchmarks, such as the following:

- Government Finance Officers Association;
- State Employment Relations Board;
- American School and University Magazine; and
- National Center for Education Statistics.

The Auditor of State and staff express appreciation to Martins Ferry City School District for its cooperation and assistance throughout this audit.

Noteworthy Accomplishments

This section of the executive summary highlights specific MFCSD accomplishments or efficiencies identified throughout the course of the audit.

- **School of Distinction Awards:** In FY 2004-05 and FY 2005-06, two of the District's elementary schools, Hilltop Elementary and North Elementary, were given "School of Distinction Awards" from ODE. Schools were selected based on stringent criteria, which includes having at least 75 percent of the school's special needs students in each of the tested grade levels pass the Ohio Achievement Tests. The Superintendent attributes these awards to the Quality Change Process that the District implemented in 2001.
- **Transportation:** The overall efficiency of MFCSD's transportation services exceeds benchmark levels of operation. This enables the District to better control costs and helps ensure that limited resources are directed toward classroom instruction. The District's relocation to a central campus, which is inaccessible by walking and is set back more than one mile from the road, led to a dramatic increase in the number of students transported. In fact, the District increased regular ridership from 762 in FY 2007-08 to 1,313 in FY 2008-09, a 72 percent increase, while only adding two buses to the morning runs. This was accomplished through the use of multi-tier routing and cluster stops. Without this change in operation and increase in ridership, the District would have needed to eliminate routes to increase efficiency. With these changes, however, the District is operating at a level above efficiency targets.

ODE's Office of Pupil of Transportation sets efficiency standards for how many students each District should strive to transport on each bus. For MFCSD, ODE reports an adjusted target ridership of approximately 70 students per bus, based on the population density of the District. The District transported nearly 94 students per bus in FY 2008-09. Creative routing practices have helped MFCSD achieve ridership levels above targeted amounts.

Although costs per bus were higher than the peers, it was determined that these costs were related to higher employee benefit costs overall, and not because of the arrangement of transportation operations (see **human resources** for the benefits analysis).

- **Food Service Operations:** MFCSD's Food Service Fund has been self-sufficient in FY 2005-06, FY 2006-07, and FY 2007-08. The Food Service Supervisor attributes the financial success of the operation to expenditure controls. The Supervisor purchases supplies through a cooperative purchasing consortium and manages all purchases made by head cooks by developing and approving a supply price list. Furthermore, the Supervisor has eliminated overtime, thereby reducing personnel costs. Effective

management and the application of recommended practices ensure that the MFCSD food service program achieves its goals and does not require assistance from the General Fund.

Conclusions and Key Recommendations

Each section of the audit report contains recommendations that are intended to provide the District with options to enhance its operational efficiency and improve its long-term financial stability. In order to obtain a full understanding of the assessed areas, the reader is encouraged to review the recommendations in their entirety. The following summarizes the key recommendations from the performance audit report.

In the area of Financial Systems, MFCSD should:

- Develop an updated District-wide strategic plan that provides vision and direction for all operational and educational programs.
- Enhance its budgeting process by soliciting a greater level of input from key administrators and department heads. The District should develop formal policies and procedures to ensure coordination of the budget process.
- Revise the Employees' Retirement/Insurance Benefits (ERIB) and personal services projections in its five-year forecast. MFCSD should also ensure that its forecast assumptions are accompanied with detailed support for each line item of the five-year forecast.
- Follow its Board-approved purchasing policies by seeking competitive pricing for goods and services. It should also develop a comprehensive purchasing manual to ensure compliance with the Board policies.
- Expand the use of direct deposit to all existing employees. It should also mandate use of direct deposit by new employees.

In the area of Human Resources, MFCSD should:

- Develop a formal staffing plan to address current and future personnel needs.
- Consider eliminating personnel in the following classifications:
 - 9.0 FTE regular education teachers (maintaining a staffing level at approximately 20 percent above State minimums). If MFCSD is unable to make cost reductions

in other areas to close its financial gap, it may need to reduce educational staff to State minimums (up to 17 FTEs).

- 2.0 FTE site-based administrative positions to achieve a level more comparable to the peers.
- 4.0 FTE educational service personnel (ESP) (maintaining a staffing level 20 percent above State minimums). If MFCSD is unable to implement other cost saving recommendations, it may need to move closer to State minimum requirements, a reduction of up to 5.0 FTEs.

MFCSD's ability to implement certain staffing reductions may be impacted by revised operating standards under development by ODE which will reflect the requirements of HB 1.

- Negotiate an increase in the percentage that the employees contribute toward the monthly medical (including vision and dental) premiums. Increasing the minimum employee share to at least 15 percent would bring the District in line with industry benchmarks.
- Review its benefit plan design (e.g., co-pays, deductibles) within and outside its network to ensure that the premium costs and benefit levels remain cost effective.

In the area of Facilities, MFCSD should:

- Eliminate 1.0 FTE M&O Department employee to bring overall staffing in line with industry standards. In addition, the District should regularly monitor and evaluate staffing levels to ensure that they are consistent with industry standards.
- Establish formal policies and procedures outlining energy efficient practices that District staff and students should follow to help reduce energy costs.

Issues for Further Study

Auditing standards require the disclosure of significant issues identified during an audit that were not reviewed in depth. These issues may not be directly related to the audit objectives or may be issues that the auditors do not have the time or resources to pursue. The following summarizes the issues requiring further study.

- **Vocational Education:** The District offers four in-house vocational programs to its juniors and seniors. These programs are also available at the Belmont County Harrison Career Center. The District employs 2.02 FTEs vocational teachers per 1,000 students, compared with the peer average of 0.40 FTEs. MFCSD's vocational education

expenditures are 425 percent higher than the peer average. MFCSD should analyze the costs and benefits of its in-house vocational education programs and evaluate the cost-efficiency of duplicative programs based upon participation.

- **Water and Sewage Utility Management:** In prior years, the District's water usage was unmetered and it received estimated billings. With the construction of the new campus, MFCSD's water usage is now metered and the District is charged based on the measured use. AOS reviewed the District's March 2009 water, sewer, and sanitation bill and verified that its rates were accurate based on the City of Martins Ferry Water & Utility Department's rate schedule. However, MFCSD's water and sewer costs are higher than the peers (see **Table 4-2** in **facilities**). MFCSD should further study its water management practices and overall water and sewer usage and cost to determine if the high costs are due to additional water needs corresponding with the move to the new campus, high local water rates, and/or overall inefficiencies in water usage.

Summary of Financial Implications

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

Summary of Financial Implications

	Estimated Cost	Estimated Annual Cost Savings
Recommendations NOT Subject to Negotiations		
R2.9 Establish mandatory use of direct deposit for all employees		\$4,000
R3.2 Eliminate 9.0 regular education teachers		\$442,200
R3.3 Eliminate 2.0 administrators		\$197,000
R3.4 Eliminate 4.0 educational service personnel (ESP)		\$241,100
R4.5 Eliminate 1.0 custodian		\$45,000
R4.4 Purchase CMMS software	\$1,000	
R4.7 Implement an energy conservation program		\$9,000
Subtotal Not Subject to Negotiations	\$1,000	\$938,300
Recommendations Subject to Negotiations		
R3.5 Increase health care premium contributions to 15 percent		\$220,000
R3.5 Increase vision and dental premium contributions to 15 percent		\$21,900
Subtotal Subject to Negotiations		\$241,900
Total Recommendations	\$1,000	\$1,180,200

Source: AOS Performance Audit Recommendations

Financial Systems

Background

This section focuses on the financial systems in the Martins Ferry City School District (MFCSD, or the District). It analyzes the current and future financial condition of MFCSD for the purpose of developing recommendations to improve financial management and identify opportunities for greater efficiency. The District's five-year forecast was also analyzed to ensure that the projections were reasonably indicative of future operational and financial conditions. Operations were evaluated against leading practices, industry benchmarks, operational standards, and selected peer districts¹ in order to develop recommendations that will improve efficiency and business practices. Leading practices and industry standards were drawn from various sources including the Ohio Department of Education (ODE), the Government Finance Officers Association (GFOA), and the National Institute of Governmental Purchasing (NIGP).

Treasurer's Office Operations

The Treasurer's Office is responsible for processing payroll, overseeing purchasing, preparing the annual budget, creating the five-year forecast, and reporting District finances to the Board of Education (the Board) and general public. Each month, the Treasurer provides Board members with a standard packet of information that includes the following:

- An investment summary;
- A report showing the District's Ohio School Facilities Commission (OSFC) bond repayment schedule;
- A monthly financial report showing revenues and expenditures;
- A report comparing the current fiscal year with the prior year; and
- A monthly cafeteria report.

The Office consists of the Treasurer, who has worked at the District since 1984, and an Assistant Treasurer. Operations in the Treasurer's Office are guided by Board-approved policies and procedures that address administrative ethics, forecasting, payroll, and purchasing (see also **R2.3**).

¹See the **executive summary** for a description of the 10 peer districts.

Financial History and Condition

MFCSD has functioned with fluctuating General Fund balances as well as fluctuating cash balances over the last three fiscal years (FYs), and the District has experienced declining ending fund balances as a result of escalating expenditures. Expenditures have increased due to rising personnel costs, higher than anticipated OSFC building project costs, and unanticipated construction costs.²

Because of changes in revenues and expenditures, the District's FY 2008-09 October five-year forecast projects deficits each year in the District's ending fund balance and declining cash balances throughout the forecast period. The five-year forecast projects the District will end FY 2012-13 with a negative General Fund balance of approximately \$1.6 million.

For FY 2008-09, MFCSD has a voted General Fund millage of 35.5 mills. The effective millage is 26.85 for residential and agricultural properties, and 31.67 for commercial and industrial properties. The District's property taxes are estimated to generate approximately \$1.9 million in local revenue for FY 2008-09. In addition to its General Fund millage, the District has a permanent improvement levy of 2.0 voted mills and a bond levy of 5.59 mills.

Financial Forecast

Ohio Revised Code (ORC) § 5705.391 requires each city, local, exempted village, and joint vocational school district to submit a five-year forecast of general operating revenues and expenditures to ODE. The forecast format consists of three years of historical data, projections for the current and four ensuing years, and a summary of key assumptions. When this audit was initiated, the October 2008 five-year forecast was the most recent projection available. Near the conclusion of the audit, MFCSD submitted to ODE its May 2009 forecast, which projects deficits each year for the next five years, culminating at \$3.05 million in FY 2012-13.

The MFCSD October 2008 forecast is presented as **Table 2-1** and illustrates actual revenues, expenditures, and ending fund balances for fiscal years 2006, 2007, and 2008, as well as projected revenues, expenditures, and fund balances for fiscal years 2009, 2010, 2011, 2012, and 2013.

² Primarily due to an erosion slip at the baseball field next to the Ayers Elementary School and behind the bus garage.

Table 2-1: MFCSD October 2008 Five-Year Forecast (in 000's)

	Actual			Forecasted				
	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Revenues:								
General Property Tax	\$1,838	\$1,953	\$1,919	\$1,920	\$1,945	\$1,960	\$1,980	\$2,000
Tangible Personal Property Tax	\$814	\$725	\$721	\$257	\$100	\$0	\$0	\$0
Unrestricted Grants-in- Aid	\$6,714	\$6,757	\$6,955	\$7,660	\$7,780	\$7,950	\$8,150	\$8,310
Restricted Grants-in-Aid	\$812	\$848	\$879	\$869	\$895	\$930	\$965	\$1,000
Property Tax Allocation	\$312	\$464	\$456	\$555	\$600	\$610	\$620	\$630
All Other Revenues	\$852	\$949	\$888	\$1,078	\$850	\$861	\$870	\$880
Total Revenues	\$11,343	\$11,698	\$11,818	\$12,339	\$12,170	\$12,311	\$12,585	\$12,820
Advances-In	\$5	\$5	\$0	\$0	\$0	\$0	\$0	\$0
All Other Financial Sources	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Other Financing Sources	\$5	\$5	\$0	\$0	\$0	\$0	\$0	\$0
Total Revenues and Other Financing Sources	\$11,348	\$11,703	\$11,818	\$12,339	\$12,170	\$12,311	\$12,585	\$12,820
Expenditures:								
Personal Services	\$6,445	\$6,516	\$7,061	\$6,950	\$6,705	\$6,912	\$7,127	\$7,005
Employees' Retirement/Insurance Benefits (ERIB)	\$2,713	\$2,911	\$3,091	\$3,209	\$3,189	\$3,409	\$3,540	\$3,620
Purchased Services	\$1,402	\$1,297	\$1,468	\$1,422	\$1,470	\$1,510	\$1,540	\$1,590
Supplies and Materials	\$515	\$505	\$547	\$473	\$450	\$430	\$460	\$480
Capital Outlay	\$283	\$241	\$813	\$771	\$250	\$270	\$240	\$260
Debt Service ¹	\$0	\$0	\$82	\$80	\$80	\$80	\$80	\$80
Other Objects	\$130	\$147	\$148	\$133	\$136	\$140	\$145	\$150
Total Expenditures	\$11,489	\$11,616	\$13,210	\$13,038	\$12,280	\$12,751	\$13,132	\$13,185
Advances-Out	\$5	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Other Financing Uses	\$5	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Expenditures and Other Financing Uses	\$11,494	\$11,616	\$13,210	\$13,038	\$12,280	\$12,751	\$13,132	\$13,185
Result of Operations (Net)	(\$146)	\$87	(\$1,392)	(\$698)	(\$110)	(\$440)	(\$547)	(\$365)
Beginning Cash Balance	\$1,967	\$1,821	\$1,908	\$517	(\$182)	(\$292)	(\$732)	(\$1,279)
Ending Cash Balance	\$1,821	\$1,908	\$517	(\$182)	(\$292)	(\$732)	(\$1,279)	(\$1,644)
Outstanding Encumbrances	\$12	\$47	\$12	\$20	\$20	\$20	\$0	\$0
Ending Fund Balance	\$1,809	\$1,861	\$505	(\$202)	(\$312)	(\$752)	(\$1,279)	(\$1,644)

Source: MFCSD October 2008 Five-Year Financial Forecast (Treasurer's Office and ODE)

Note: Totals may not sum due to rounding.

¹ Debt Service includes Principal-Notes, Principal-Other, and Interest and Finance Charges.

By its nature, forecasting requires estimates of future events. Therefore, differences between projected and actual revenues and expenditures are common, as circumstances and conditions frequently do not occur as expected. The performance audit includes a detailed review of the District's October 2008 forecast, including those assumptions that have a significant impact on the forecast: general property tax, unrestricted grants-in-aid, personal services, and employees' retirement and insurance benefits. The Auditor of State's Office (AOS) analyzed the District's forecasting spreadsheet,³ assumptions, and methodologies for these line items, and recommended changes where appropriate (see **R2.4**).

Revenues and Expenditures

The Expenditure Flow Model (EFM) report illustrates the total revenue received by MFCSD and the peers, and categorizes revenue into three categories: local, State, and federal. **Table 2-2** compares the District's revenues with the peer averages.

Table 2-2: FY 2007-08 Revenue per Pupil Comparison

Revenue Category	MFCSD		Peer Average		Difference per Pupil	Percent Difference
	Total	Per Pupil ¹	Total	Per Pupil		
Local Revenue	\$3,476,650	\$2,243	\$8,900,894	\$4,135	(\$1,892)	(45.8%)
State Revenue	\$8,469,200	\$5,464	\$6,708,247	\$3,706	\$1,758	47.5%
Federal Revenue	\$1,635,250	\$1,055	\$1,122,808	\$570	\$485	85.2%
Total	\$13,581,100	\$8,762	\$16,731,949	\$8,411	\$351	4.2%

Source: ODE EFM Revenue data for MFCSD and peer districts.

Note: Totals may not sum due to rounding.

¹ Per pupil represents the EFM average daily membership (ADM).

As shown in **Table 2-2**, MFCSD's FY 2007-08 total revenue per pupil was \$351 higher than the peer average. However, local revenue accounted for only 25.6 percent of the District's revenue, compared with 49.2 percent for the peers. **Table 2-2** also shows that the peers have a more balanced revenue structure (local and State) than MFCSD. Because the District is heavily reliant on State revenue (62.4 percent of MFCSD's total revenue, compared with 44.1 percent of the peer average), any fluctuations in the State's per pupil funding will disproportionately impact the District. Although the District's enrollment has declined slightly since FY 2005-06, MFCSD's average daily membership (ADM) increased from 1,367 in FY 2007-08 to 1,397 in FY 2008-09. Open enrollment in the District accounts for approximately 12 percent of the student headcount reported to ODE. Fluctuations in enrollment impact the District's revenues, as enrollment is the primary driver of State funding. Approximately 12.0 percent of MFCSD's revenue is from federal sources, whereas federal revenue comprises less than 7 percent of revenue for the peers.

The allocation of resources between the various functions of a school district is one of the most important aspects of the budgeting process. Given the limited resources available, operational

³ The Treasurer uses software to develop his forecast.

expenditures by function level should continually be evaluated and prioritized. **Table 2-3** shows a breakdown of MFCSD's FY 2007-08 expenditures on a per pupil basis compared with the peer averages. Total expenditures are based on the ODE Expenditure Flow Model (EFM).⁴

Table 2-3: FY 2007-08 Expenditures per Pupil Comparison

Expenditure Category	MFCSD		Peer Average		Difference per Pupil	Percent Difference
	Total	Per Pupil ¹	Total	Per Pupil		
Administrative	\$1,625,960	\$1,049	\$1,818,046	\$953	\$96	10.0%
Building Operations	\$2,751,856	\$1,775	\$2,994,893	\$1,471	\$305	20.7%
Staff Support	\$128,087	\$83	\$168,052	\$74	\$9	11.9%
Pupil Support	\$1,635,572	\$1,055	\$1,696,492	\$808	\$249	30.8%
Instructional	\$8,028,363	\$5,180	\$9,093,840	\$4,606	\$576	12.5%
Total	\$14,169,838	\$9,142	\$15,771,324	\$7,912	\$1,233	15.6%

Source: ODE Expenditure Flow Model for MFCSD and the peers

Note: Totals may not sum due to rounding.

¹ Per pupil represents the EFM average daily membership (ADM).

As shown in **Table 2-3**, MFCSD's per-pupil expenditures exceeded the peer averages in all five categories. In total, expenditures exceed the peers on a per-pupil basis by 15.6 percent. The implementation of recommendations in **human resources** and **facilities** will help bring the District's expenditures per pupil more in line with the peer average.

An additional analysis of the District's expenditures was completed at the function level to identify areas in which MFCSD dedicated more of its resources than the peers. **Table 2-4** compares the District's per pupil expenditures with the peer averages at the function level.

⁴ The purpose of the EFM, as described by ODE, is to categorize and report expenses related to the education of kindergarten through twelfth grade students, and it does not include all the funds accounted for by a school district. Similar to the five-year forecast, the EFM includes the General, Permanent Improvement, and Poverty Based Assistance (PBA) Funds. However, it excludes items such as the Debt Services Fund.

Table 2-4: FY 2007-08 MFCSD Function-Level Expenditure Comparison

Function Level	Expenditures per Pupil ¹		Difference per Pupil	Percent Difference
	MFCSD	Peer Average		
Regular Instruction	\$3,611	\$3,809	(\$198)	(5.2%)
Special Instruction	\$1,276	\$701	\$575	82.0%
Vocational Instruction	\$195	\$37	\$158	427.0%
Other Instruction	\$103	\$33	\$70	212.1%
Support Services – Pupils	\$390	\$386	\$4	1.0%
Support Services - Instructional Staff	\$554	\$302	\$252	83.4%
Support Services – Administration	\$758	\$627	\$131	20.9%
Fiscal Services	\$199	\$277	(\$78)	(28.2%)
Operation & Maintenance of Plant Services	\$909	\$838	\$71	8.5%
Support Services - Pupil Transportation	\$485	\$321	\$164	51.1%
Food Service Operations	\$405	\$297	\$108	36.4%
Sport Oriented Activities	\$112	\$157	(\$45)	(28.7%)
Other Reported Functions ²	\$146	\$117	\$29	24.8%
Total	\$9,142	\$7,903	\$1,239	15.7%

Source: MFCSD and Peer EFM Inclusion Reports

¹ Per pupil represents the EFM average daily membership (ADM)

² Includes central and business support services, enterprise operations, academic oriented activities, occupation oriented activities and co-curricular activities. The amount represents less than 2 percent of total expenditures.

As illustrated in **Table 2-4**, MFCSD spent less than or the same as the peers in the areas of regular instruction, support services-pupil, fiscal services, and sport oriented activities. The District spent more in the areas of vocational instruction (see **executive summary issue for further study**) and other instruction. Auditors further examined functions in which the District's expenditures were higher than the peers and accounted for more than 5 percent of total expenditures. The following provides an explanation of the expenditures within those functions:

- **Special Instruction:** Based on the initial analysis in **Table 2-4**, MFCSD spent approximately \$575 (82.0 percent) more per pupil than the peer average. Auditors completed a more detailed special education analysis of FY 2007-08 expenditures in **human resources** and found that MFCSD spends 15.0 percent less than the peer average *per special education student*. MFCSD's average cost per special education student was \$10,769 compared with \$12,674 for the peers.
- **Support Services – Instructional Staff:** MFCSD spent approximately \$252 more per pupil than the peer average. Expenses associated with *support services – instructional staff* can be attributed to personal services and ERIB costs which comprise 62.9 and 30.9 percent of total expenditures, respectively. See **human resources** for further analysis.
- **Support Services – Administration:** MFCSD spent approximately \$131 more per pupil than the peer average. Personal services and ERIB account for 60.3 and 22.9 percent of

support services—administration expenses. See **human resources** for an administrative staffing analysis.

- **Operation and Maintenance of Plant Services:** MFCSD spent approximately \$71 more per pupil than the peer average. Personal services and ERIB account for 30.6 and 15.8 percent of expenditures. Additionally, high costs stem from purchased services, which comprised 42.9 percent of expenditures. See also **facilities**.
- **Pupil Transportation:** MFCSD spent approximately \$164 more per pupil than the peer average. Personal services and ERIB account for 38.1 and 19.9 percent of total expenditures, respectively. The District's higher *transportation* expenditures can also be attributed to supplies and materials (17.2 percent) and capital outlay (19.0 percent) expenditures. High capital outlay costs reflect the purchase of two new buses. See **executive summary** for further discussion on transportation services.

Audit Objectives for the Financial Systems Section

The following is a list of the audit objectives used to evaluate the District's financial management practices:

- What is the District's financial history and does the District have policies and procedures to ensure effective and efficient financial management?
- Does the five-year forecast reasonably and logically project the future financial position of the District?
- Does the District have an effective system of communicating its financial data and does the District actively involve stakeholders in the decision-making process?
- Has the District developed a strategic plan that links educational and operational plans and incorporates recommended practices?
- Is the District's budgetary process consistent with recommended budgetary practices, and how does the District's revenue and expenditure information compare with the peers?
- Do the District's purchasing practices follow recommended practices and do procedures ensure adequate control over purchases?
- Has the District developed effective internal controls over the payroll process?

Auditors found the District's financial data to be reliable. MFCSD also has effective internal controls over the payroll process.

Recommendations

Planning and Budgeting

R2.1 MFCSD should develop an updated District-wide strategic plan that provides vision and direction for all operational and educational programs. The plan should incorporate educational and operational plans, clearly delineate the District's goals and objectives, and include performance measures and funding sources. The District should focus on measurable objectives and should regularly monitor progress. Furthermore, the strategic plan should be linked to the budget and the five-year financial forecast. Once adopted, the strategic plan should be reviewed on an annual basis and amended to reflect changes to internal and external conditions.

MFCSD has a mission statement and an outdated five-year Continuous Improvement Plan (CIP) that established broad educational and operational goals and performance measures for FY 2002-03 through FY 2007-08. However, the District has not updated the plan to reflect current operations, and the plan includes financial goals that no longer align with the fiscal condition of the District.

Recommended Budget Practice on the Establishment of Strategic Plans (GFOA, 2005) advocates that all governments develop strategic plans in order to provide long-term perspectives for service delivery and budgeting, thus establishing logical links between authorized spending and broad organizational goals. The focus of a strategic plan should be on aligning organizational resources to bridge the gap between present conditions and the envisioned future. Accordingly, the District should take the following actions when developing its strategic plan:

- Initiate the strategic planning process;
- Prepare a mission statement;
- Assess environmental factors and critical issues;
- Agree on a small number of goals and develop strategies and action plans to achieve them;
- Develop measurable objectives and incorporate performance measures;
- Approve, implement, and monitor the plan; and
- Reassess the strategic plan annually.

Without an up-to-date strategic plan to link operational and program plans, MFCSD risks overfunding or underfunding particular programs relative to District needs. By implementing a comprehensive strategic plan, the District can gain better perspective on its future financial needs and develop a more comprehensive approach to balancing its finances with its educational mission. Moreover, a strategic plan could help improve

communication between MFCSD and the community, provide additional direction for the Board, and align planning and budgeting processes to the District-wide vision.

R2.2 MFCSD should enhance its budgeting process by soliciting a greater level of input from key administrators and department heads, and by tying the budget to the strategic plan (see R2.1). The District should develop formal policies and procedures to ensure coordination of the budget process (see R2.3). The inclusion of key stakeholders in the budget development process will help ensure that it reflects all District priorities and effectively supports the goals contained in the strategic plan.

The Treasurer is responsible for preparing the budget, which the Superintendent reviews before it is shared with the Board. Because MFCSD has not developed a strategic plan (see R2.1), the District's budget is based primarily on historical expenditures rather than funding actions to achieve specific goals and objectives. Moreover, District administrators and department heads do not have significant input in the preparation of the budget.

Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting (GFOA, 1998) recommends that governments develop budgets that are consistent with approaches to achieve goals, and that they include performance measures. Some of these performance measures should document progress toward achievement of previously developed goals and objectives, as defined by the government-wide strategic plan. Furthermore, governments should provide opportunities in the budget process for obtaining stakeholder input. This helps ensure that stakeholder priorities are identified, and enhances support for the approved budget.

Developing a budget based on goals and objectives outlined in the strategic plan will help focus the District's limited resources, which should allow for the more efficient use of those funds. Including the Superintendent, Transportation Supervisor, Building and Grounds Director, and principals in the budget process will ensure the budget incorporates administrators' knowledge of building and department needs. Furthermore, a collaborative budgeting process will broaden these stakeholders' understanding of the District's financial situation.

*Policies***R2.3 MFCS D should enhance its current set of financial policies by incorporating several of the GFOA-recommended practices, which will help it address current and future funding instability. These policies should be tailored specifically to the District and its operations.**

MFCS D has developed financial management policies within its Board Policy Manual with the assistance of the Northeast Ohio Learning Associates (NEOLA). Even with policies in place, the District has several recurring noncompliance issues that are raised in the District's financial audits. These citations are related to managing appropriations and purchasing controls. Additionally, recent changes in economic conditions and school funding in Ohio create revenue uncertainties. Developing a more comprehensive set of financial management policies would help the District prioritize the use of limited resources during volatile economic times and plan for the use of one-time revenue.

Best Practices in Public Budgeting (GFOA, 2000) recommends that governments develop comprehensive sets of financial policies that are consistent with broad organizational goals. These policies should be the outcome of sound analysis. Policies also should be consistent with each other and relationships between policies should be identified. To ensure that its financial management policies follow recommended guidelines, MFCS D should adopt and follow the following GFOA-recommended policies and practices:

- **Budget Stabilization Funds** – A government should develop policies to guide the creation, maintenance, and use of resources for financial stabilization purposes. The policies should establish how and when a government builds up stabilization funds and should identify the purposes for which they may be used.
- **Debt Issuance and Management** – A government should adopt policies to guide the issuance and management of debt. Policies on debt issuance and management should include elements including, but not limited to, purposes for which debt may be issued, limitations on the amount of outstanding debt, types of permissible debt, refunding of debt, and investment of debt proceeds. The policy should also be integrated with other financial policies and reflect statutory and legal requirements, as well as the government's financial condition and philosophy.
- **Debt Level and Capacity** – A government should adopt a policy on the maximum amount of debt and debt service that should be outstanding at any one time.

- **Use of One-Time Revenue** – A government should develop a policy limiting the use of one-time revenues for ongoing expenditures. By definition, one-time revenues cannot be relied on in future budget periods. A policy on the use of one-time revenues should explicitly define such revenues and provide guidance to minimize disruptive effects on services due to non-recurrence of these sources.
- **Use of Unpredictable Revenues** – A government should identify major revenue sources it considers unpredictable and define how these revenues may be used. For each major unpredictable revenue source, the District should identify those aspects of the revenue source that make the revenue unpredictable. Most importantly, the District should identify the expected or normal degree of volatility of the revenue source.
- **Balancing the Operating Budget** – A government should develop a policy that defines a balanced operating budget, encourages commitment to a balanced budget under normal circumstances, and provides for disclosure when a deviation from a balanced operating budget is planned or when it occurs.
- **Revenue Diversification** – A government should develop a policy that encourages diversification of revenue sources. Because all revenue sources have particular characteristics in terms of stability, growth, and impact of tax and rate payers, a diversity of revenue sources can improve a government's ability to handle fluctuations in revenues and help better distribute the cost of providing services.
- **Contingency Planning** – A government should have a policy to guide the financial actions it will take in the event of emergencies, natural disasters, or other unexpected events. When emergencies or unexpected events occur, having a policy that can be applied, or at least serve as a starting point, for financial decisions and actions improves the ability of a government to take timely action and aids in the overall management of such situations.

Adopting the comprehensive policies recommended by GFOA and tailoring them to the District and its operations could help MFCSD better manage its limited resources and help ensure consistency in financial practices. Such policies may also help the District operate more smoothly, could be used as a tool for financial decision-making, and may improve the ability of the District to take timely action. In addition, financial policies could aid in the overall management of the budget and help in the achievement of the District's long-range goals.

Forecasting

R2.4 MFCSD should revise its ERIB projection to account for retirement costs and increases in health care expenses. By not accounting for known costs like retirement, the ERIB line does not fully reflect the District's financial obligations or industry trends.

Likewise, the District should revise its personal services projection to incorporate step increases and negotiated wage increases (NWIs) throughout the entire forecast period. By projecting no step increases over the forecast period, MFCSD is presenting a scenario that does not accurately reflect its negotiated obligations or historical trends.

Finally, MFCSD should ensure that its financial forecast assumptions are accompanied by detailed support for each line item. Lack of detail supporting the assumptions may preclude the Board and District stakeholders from understanding the factors that impact each line of the forecast.

Although MFCSD's FY 2008-09 October forecast assumptions contain brief explanations of the forecast projections, the assumptions lack sufficient explanations to support the methodology used to forecast each line item. For instance, the ERIB forecast assumption states only that health care costs continue to rise and that recent increases have been close to 7 percent. The assumption goes on to state that the overall age of District staff has been reduced over the last several years as more tenured teachers have retired and younger teachers have been hired to replace them. The District feels this could have a positive effect on the rising cost of the District's health care. While the forecast assumption for ERIB provides insight into the District's demographics, it fails to explain the methodology used to forecast fluctuating ERIB expenditures.

Similarly, the forecast assumption for the personal services line acknowledges FY 2008-09 staffing reductions and anticipates possible future staffing changes. However, the assumption does not provide sufficient detail to support the methodology used by the Treasurer. Further, a review of the District's forecast supporting documentation found that the District did not include step increases in its FY 2008-09 October forecast.

To better reflect likely conditions, auditors adjusted MFCSD's ERIB line to include adjustments to certificated and classified retirement, based on salary changes to the personal services line and projected health care cost increases of 7 percent. **Table 2-5** shows the impact of the proposed adjustments on MFCSD's ERIB line item.

Table 2-5: Revised ERIB Projection

Line Item	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Forecasted ERIB	\$3,209,000	\$3,189,000	\$3,409,000	\$3,540,000	\$3,620,000
Adjusted ERIB	\$3,220,034	\$3,401,568	\$3,601,487	\$3,813,955	\$4,004,402
Difference	(\$11,034)	(\$212,568)	(\$192,487)	(\$273,955)	(\$384,402)

Source: District October 2008 Forecast/AOS Calculations

Similarly, auditors revised the personal services line item to include a blended step increase of 2.17 percent as well as negotiated wage increases in FY 2009-10 through FY 2011-12 of 2.35, 3.00, and 3.00 percent, respectively, to mirror historical trends. **Table 2-6** shows the impact of the proposed adjustments on MFCSD's personal services line item over the forecast period.

Table 2-6: Revised Personal Services Projection

Line Item	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Forecasted Personal Services	\$6,950,000	\$6,705,000	\$6,912,000	\$7,127,000	\$7,005,000
Adjusted Personal Services	\$6,964,117	\$7,162,190	\$7,453,163	\$7,755,367	\$7,840,121
Difference	(\$14,117)	(\$457,190)	(\$541,163)	(\$628,367)	(\$835,121)

Source: District October 2008 Forecast/AOS Calculations

The Auditor of State's *Best Practices* (AOS, Spring 2004) notes that a common problem with forecasts is that they do not contain adequate assumptions. Sometimes assumptions are based on unsupported or inaccurate information. As assumptions are the essence and most important determinant in developing useful financial forecasts, the entity should include detailed, sound assumptions in each forecast. AOS recommends that assumptions be sufficiently detailed to allow the reader to understand the factors included in each line item of the forecast. Best practice forecasts are accompanied by explanations of each assumption, which often include supporting documentation. Supporting documentation may include trend analyses, expert opinions, or other critical information.

The auditing and accounting guide *Prospective Financial Information* (American Institute of Certified Public Accountants (AICPA), 2008) states that the disclosure of significant assumptions is essential to the reader's understanding of the financial forecast. The basis or rationale for the assumptions should be disclosed to assist the user of the financial forecast in understanding the presentation and making an informed judgment about it.

Identifying those assumptions that, at the time of preparation, appear to be significant to the financial forecast requires the careful exercise of judgment by the responsible party. By nature, financial forecasts embody a large number of assumptions, and an attempt to communicate all assumptions in great detail may be unreasonable. At minimum, the information disclosed should include:

- Assumptions for which there is a reasonable possibility of variation that may significantly affect the prospective results; that is, sensitive assumptions;
- Assumptions about anticipated conditions that are expected to be significantly different from current conditions, which are not otherwise reasonably apparent; and
- Other matters deemed important to the prospective information or its interpretation.

MFCSD could increase the accuracy and reliability of the forecast by taking into account AICPA-recommended practices and avoiding common forecast problems identified by AOS and outlined in *Best Practices* (Spring 2004). By not fully explaining forecast line items, the District risks preparing and publishing a forecast which does not allow the reader to fully understand the factors that serve as its foundation.

Communication

R2.5 MFCSD should enhance the involvement of its Finance and Audit committees to ensure all Board members are aware of current financial circumstances and understand financial challenges. The Audit Committee should continue to meet as financial audits are released, but should also oversee efforts to implement corrective actions. Finally, the District should create a formal policy that outlines the role and responsibilities of the Finance Committee.

The District's Finance and an Audit committees are ineffective. The Treasurer and Superintendent serve on both committees and two Board members are appointed to each committee. According to the Superintendent, the Finance Committee meets twice per year (in the fall and in the spring) and discusses the five-year forecast, assessments, and adjustments. A general description of MFCSD's "committees" describes the Finance Committee's objective as consulting with the Treasurer to recommend operating expenses, projected budgets, etc.

The Audit Committee meets annually to discuss the results of the financial audit. However, this discussion typically consists of the Treasurer explaining any non-compliance citations to the Board members on the Audit Committee. According to the Treasurer, Board members on these two committees could improve the effectiveness of the committees by developing a more complete understanding of school district finances.

Although there is no comprehensive listing of the Finance Committee's functions within the Board policy manual, it does describe the Audit Committee's functions. According to the Board policy manual, the Audit Committee serves as a professional link between the Board and the independent auditors. Furthermore, the Audit Committee is charged with

assisting the Board in understanding unfamiliar audit terminology and concepts, and to verify that audit recommendations are addressed in a timely and appropriate manner. Specifically, the Audit Committee is directed to perform the following functions:

- Review the annual unaudited financial report submitted to the Auditor of State;
- Periodically review the process used to prepare interim financial information submitted to the Board;
- Review audit results;
- Assure that the audit recommendations are appropriately assessed;
- Assure auditors' independence from the Board and Administration; and
- Serve as a liaison between the Board and the independent auditors.

According to *The Community Tool Box, Section 5. Creating a Financial and Audit Committee* (University of Kansas, 2007), a finance committee is typically a standing committee of the board that works with the administration to monitor the organization's finances. The finance committee is often chaired by the treasurer and may consist of only board members or may include extra-organization supporters with specific skills that are valuable to the board. For example, those who have a specific useful expertise or those whose participation lends greater credibility to the finance committee, and, by extension, the board. Common responsibilities of the finance committee include:

- Overseeing the financial dealings of the organization;
- Participating in the annual audit;
- Evaluating the organization's fiscal operation, and those in charge of it;
- Ensuring the financial elements of the organization are in accord with its vision, mission, and strategic plan; and
- Reporting to the full board about the financial condition of the organization and/or any financial irregularities or inefficiencies.

Recommended Practice: Audit Committees (GFOA, 2006) notes that an audit committee is a practical means for a governing body to provide much-needed independent review and oversight of the government's financial reporting processes, internal controls, and independent auditors. GFOA recommends that the governing body of every state and local government establish an audit committee or its equivalent.

Furthermore, the Auditor of State's *Best Practices* (AOS, Spring 2005) notes that the National Commission on Fraudulent Financial Reporting (NCFRR) recommends the creation of an audit committee to enhance the credibility of an agency's financial reporting and to strengthen its internal control structure. In general, the audit committee serves in an advisory role to the governing body. Through its activities, the audit committee helps to reduce fraudulent financial reporting and helps to facilitate both

internal and external audits. As part of its activities, the audit committee reviews the draft financial statements, notes to the statements, and, if applicable, any accompanying information, such as management's discussion and analysis. The audit committee typically works with management, and internal and external audit staff to review accounting standards, discuss sensitive audit areas, and resolve disagreements between management and audit staff. In working with the independent auditors, the audit committee should be apprised of the occurrence of any of the following matters:

- Fraud and illegal acts;
- Deficiencies in internal controls;
- Auditor responsibilities and expectations;
- Significant accounting policies and estimates;
- Significant audit adjustments;
- Disagreements with management and consultation with other accountants; and
- Difficulties encountered in performing the audit.

Given the uncertainty of future economic conditions, expanding the involvement of the Finance and Audit committees would increase their awareness and understanding of District finances. Furthermore, enhancing the involvement of the District's Audit Committee would allow MFCSD to improve its internal control environment while promoting an independent and objective review of all District financial reporting.

R2.6 MFCSD should include information on its web site that informs and educates parents, employees, and stakeholders about its operations and financial condition. By making information about its operations available on the web site, MFCSD would reduce the costs associated with the dissemination of information. Furthermore, improved information sharing may help increase community involvement in the District and encourage stakeholder feedback.

The District's web site does not provide stakeholders with information about MFCSD. The web site is designed and managed by students enrolled in a high school technology course. As a result, the information that is included on the web site is evolving but currently communicates only student activities.

According to the Treasurer, financial information is not available on the MFCSD web site because some financial data, including the forecast, is made available to interested parties through the Ohio Department of Education (ODE) web site. Adding links to and/or posting financial information such as the five-year forecast, tax budget, financial reports, property tax, millage, and valuation on the District's web site would allow MFCSD to educate the public about the District's financial situation and potentially increase public awareness and support. Furthermore, the District's web site could be a useful tool for faculty and staff by communicating updated policies and procedures, and providing

human resource related forms. Likewise, posting job vacancies online would enhance communication with interested parties. With the leadership of the Technology Coordinator, the District could use students in the high school technology course to increase the information included on the District's web site at no additional cost.

According to *Using Websites to Improve Access to Budget Documents and Financial Reports* (GFOA, 2003), a government that effectively uses its web site can realize a number of benefits, including increased public awareness, increased public usage of the information, and availability of information for use in public analysis.

Prior reviews of Westerville City School District (Franklin County), Columbiana Exempted Village School District (Columbiana County), and Ridgewood Local School District (Coshocton County) highlighted financial information available on their web sites. This information included:

- Contact information for the Treasurer's Office;
- Explanations of and links to the five-year forecast and assumptions;
- Minutes from past Board meetings;
- An overview of the school district income tax;
- The fiscal year tax budget;
- Historical financial reports;
- Property tax, millage, and valuation information;
- Historical costs per pupil;
- A glossary of school financial terms; and
- Electronic versions of forms used by District employees.

Hemet Unified School District (Hemet, California) also maintains an extensive web site. The web site includes detailed information on different departments (including facilities, human resources, purchasing, and transportation) and links to helpful forms and handbooks that pertain to each department. Additionally, the web site includes a list of frequently asked questions and bell schedules.

MFCSD has the means to communicate more efficiently and effectively with all individuals interested in District operations and functions through an increased and more focused use of its web site. Improving the content and quality of information available on its web site would allow the District to increase community support and receive stakeholder feedback necessary for more effective management.

Purchasing

R2.7 MFCSD should follow Board-approved purchasing policies and seek competitive pricing for goods and services. It should also develop a comprehensive purchasing manual to ensure compliance with the policies. The manual should include specific procedures for requisitioning, approving, and making purchases for the District. Furthermore, the District should expand its membership in purchasing consortia to increase the pool of available products and prices.

MFCSD has developed purchasing policies with the emphasis on seeking competitive pricing. However, the District purchases its Maintenance & Operations Department supplies and materials from local vendors rather than through consortia, regardless of cost. According to the Superintendent, it is the Board's decision to favor local purchasing, rather than purchasing materials and supplies of quality at the lowest possible cost through widespread competition. This may be the reason for the District's higher costs per square foot for supplies and materials and purchased services, as mentioned in **facilities** (see **Table 4-2**).

Additionally, in December 2007, the District entered into a contract with a third-party vendor for upgrading its copiers. According to the Treasurer, the District did not seek competitive bids before entering into the agreement.

The Board policy on local purchasing recognizes that the District is a major purchaser in the community. While it is the intention of the Board to purchase materials and supplies of quality at the lowest possible cost through widespread competition, if all other considerations are equal, the Board prefers to purchase within the District from established local merchants.

Moreover, the Board policy on purchasing states that it is the policy of the Board of Education that the Treasurer seek at least two (2) price quotations on purchases of more than \$10,000 for a single item, except in case of emergency or when the materials purchased are of such a nature that price negotiations would not result in a savings to the District or when the item is subject to a formal bid.

While policies establish the governing principle or plan, procedures are the detailed series of related activities that must be completed and the sequence in which they must be done to accomplish a given task. According to *Introduction to Public Procurement* (NIGP, 2009), procedure manuals are written in detail, intended not just to provide guidance but also to set out the forms, process requirements, and steps for each procurement action. A procedure manual is best structured in exactly the same sequence as the procurement cycle, detailing each step in the process and showing the forms to be used, the information required, and the standard length of time necessary to complete any step in

the process. This facilitates operational planning and provides benchmarks for monitoring the process. Procedure manuals should be tailored to meet agency requirements and, at a minimum, should include:

- Procurement goals, objectives, and responsibilities;
- A step-by-step outline of the procurement process;
- Guidelines and steps for preparing procurement requisitions;
- Other special procedures, such as a description of a cooperative purchasing program, how to process invoices for payment, and how to process blanket purchase orders; and
- A listing of important forms used in the procurement process, instructions to bidders and general conditions governing contracting, and a glossary of procurement terms used in the manual.

Some Ohio school districts have developed purchasing procedure manuals to guide staff through the purchasing process and ensure regulations and district policies are adhered to. For example, Miami East Local School District in Miami County has a requisition and purchase order handbook that includes reference to ORC statues for purchase order authorization; detailed procedures for purchase orders, emergency purchases, and creating and managing online requisitions; USAS coding definitions; and sample forms.

Although MFCSD has purchasing policies, it has not compiled its existing purchasing policies as well as NIGP-recommended policies and procedures in a comprehensive purchasing manual. Establishing a comprehensive purchasing manual would ensure compliance with applicable regulations and strengthen the overall purchasing process. Furthermore, development of a purchasing manual will help the District to clarify and communicate its purchasing policies to faculty and staff.

Payroll

R2.8 The District should take steps to cross-train Treasurer's Office employees. This will help ensure continued service delivery in the absence of employees with extensive institutional knowledge. To facilitate cross-training, MFCSD should create and develop standard operating procedures for critical Treasurer's Office operations, such as payroll.

Payroll operations at MFCSD are the responsibility of the Treasurer's Office, and the Treasurer is the only employee in the District trained to process payroll through the District's information technology center (ITC), Ohio Mid-Eastern Regional Education Service Agency (OMERESA). Having one person responsible for recording and processing payroll increases the District's risk for error because there is no separation of

duties or independent oversight, and it may prove challenging to maintain operations if this one person is absent for a length of time.

Although the District has not cross-trained employees on processing payroll, the Treasurer has compiled instructions that outline how to use the payroll system. The instructions provide a guide in completing several payroll functions, including adding employees, processing payroll, printing checks, posting payroll, running retirement reports, and completing payroll.

Cross Training – Value in Today’s Environment (Society of Human Resource Management, November 2001), suggests that cross-training can be beneficial to both the organization and to the employees, as it improves productivity, helps create a learning organization, and motivates the workforce and instills commitment. Most importantly, cross-training is invaluable if a jobholder leaves an organization, as someone else is able to perform duties until the position is filled. Small organizations can better accommodate their employee’s time off for personal reasons with the implementation of cross-training.

Cross-training increases employees’ knowledge and ability to perform different tasks by using current skills or by learning new skills. It adds variety to employees’ workdays, adds new challenges to their jobs, enhances future career opportunities within the organization, and improves productivity. Cross-training can also help employees better understand interrelationships between jobs and enhance their operational perspectives.

In addition, cross-training employees allows an organization to be prepared in the event of planned and unplanned absences or attrition (see **human resources** for analysis on succession planning and recruitment). Training other employees to perform payroll duties would help the District to ensure tasks are performed consistently and seamlessly in the absence of the Treasurer.

R2.9 MFCSD should expand the use of direct deposit for all existing employees. It should also mandate use of direct deposit by new employees. Negotiating compulsory direct deposit for all employees would improve the efficiency of payroll operations in the Treasurer’s Office.

MFCSD offers voluntary direct deposit of payroll to all employees. In its February 26, 2009 payroll, the District processed payroll for 213 employees. Of those employees, 84, or 39.4 percent, were enrolled in direct deposit. The District has not successfully negotiated compulsory direct deposit for all employees because more senior employees prefer paper checks. Furthermore, MFCSD does not require that new employees enroll in direct deposit.

According to the National Automated Clearing House Association (NACHA)/Electronic Payment Association, direct deposit can be very beneficial to both the organization and its employees. The use of direct deposit reduces the potential for errors, simplifies account reconciliation, reduces the chance of fraud, and increases the efficiency of the payroll process. Businesses can save \$1.25 per payment through the elimination of manual check preparation and use of direct deposit. Furthermore, employers and employees can financially benefit from the use of electronic pay stubs while simultaneously increasing efficiencies within a payroll department. The employer benefits because electronic pay stubs eliminate the need to print, mail, and distribute pay stubs or reproduce lost pay stubs. At the same time, the employee benefits because he or she can easily access their pay information from any computer with a browser and internet connection. Also, a more extensive record of the employee's pay history is available, beginning with the first electronic pay stub. Electronic pay stubs also make it easy for employees to provide pay stub information to third parties, such as accountants, mortgage lenders, and other agencies requiring pay verification.

Coventry Local School District (Summit County) successfully negotiated a mandatory direct deposit program for all of its employees, and has consequently seen improvements and cost savings in its payroll operations. Implementation of compulsory direct deposit at MFCSD would streamline payroll operations in the Treasurer's Office and provide cost savings.

Financial Implication: If MFCSD fully mandates direct deposit and achieves savings of \$1.25 per payment, the District could potentially save \$160 per pay or approximately \$4,000 per year.

R2.10 MFCSD should implement the performance audit recommendations contained in this and other report sections. Implementing the performance audit recommendations would help offset projected deficits and assist in maintaining positive year-end fund balances through FY 2011-12. Enhancing general operating revenue and/or identifying additional savings beyond those included in this performance audit would help MFCSD to improve its overall future financial condition and assist in addressing changing circumstances.

Table 2-7 illustrates the effect of the performance audit recommendations on the District's October 2008 five-year financial forecast and ending fund balances, assuming that all recommendations contained in this audit are implemented. Full implementation of the performance audit recommendations is projected to result in a positive fund balance in three out of the four years of the forecast. If the District does not make any further reductions in expenditures outside of the recommendations and does not experience an increase in revenues, it is projected to experience a deficit of \$114,000 in FY 2012-13.

Table 2-7: Revised Five-Year Forecast (in 000s)

	Actual				Forecasted			
	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Revenues:								
General Property Tax	\$1,838	\$1,953	\$1,919	\$1,920	\$1,945	\$1,960	\$1,980	\$2,000
Tangible Personal Property Tax	\$814	\$725	\$721	\$257	\$100	\$0	\$0	\$0
Unrestricted Grants-in-Aid	\$6,714	\$6,757	\$6,955	\$7,660	\$7,780	\$7,950	\$8,150	\$8,310
Restricted Grants-in-Aid	\$812	\$848	\$879	\$869	\$895	\$930	\$965	\$1,000
Property Tax Allocation	\$312	\$464	\$456	\$555	\$600	\$610	\$620	\$630
All Other Revenues	\$852	\$949	\$888	\$1,078	\$850	\$861	\$870	\$880
Total Revenues	\$11,343	\$11,698	\$11,818	\$12,339	\$12,170	\$12,311	\$12,585	\$12,820
Advances-In	\$5	\$5	\$0	\$0	\$0	\$0	\$0	\$0
All Other Financial Sources	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Other Financing Sources	\$5	\$5	\$0	\$0	\$0	\$0	\$0	\$0
Total Revenues and Other Financing Sources	\$11,348	\$11,703	\$11,818	\$12,339	\$12,170	\$12,311	\$12,585	\$12,820
Expenditures:								
<i>Personal Services</i>	\$6,445	\$6,516	\$7,061	\$6,964	\$7,162	\$7,453	\$7,755	\$7,840
<i>Employees' Retirement/Insurance Benefits</i>	\$2,713	\$2,911	\$3,091	\$3,220	\$3,402	\$3,601	\$3,814	\$4,004
Purchased Services	\$1,402	\$1,297	\$1,468	\$1,422	\$1,470	\$1,510	\$1,540	\$1,590
Supplies and Materials	\$515	\$505	\$547	\$473	\$450	\$430	\$460	\$480
Capital Outlay	\$283	\$241	\$813	\$771	\$250	\$270	\$240	\$260
Debt Service ¹	\$0	\$0	\$82	\$80	\$80	\$80	\$80	\$80
Other Objects	\$130	\$147	\$148	\$133	\$136	\$140	\$145	\$150
Total Expenditures	\$11,489	\$11,616	\$13,210	\$13,063	\$12,950	\$13,485	\$14,034	\$14,405
Advances-Out	\$5	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Other Financing Uses	\$5	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Expenditures and Other Financing Uses	\$11,494	\$11,616	\$13,210	\$13,063	\$12,950	\$13,485	\$14,034	\$14,405
<i>Performance Audit Recommendations – Net Savings</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	\$1,175	\$1,246	\$1,288	\$1,332
Result of Operations (Net)	(\$146)	\$87	(\$1,392)	(\$723)	\$395	\$72	(\$162)	(\$253)
Beginning Cash Balance	\$1,967	\$1,821	\$1,908	\$517	(\$207)	\$208	\$300	\$139
Ending Cash Balance	\$1,821	\$1,908	\$517	(\$207)	\$188	\$280	\$139	(\$114)
Outstanding Encumbrances	\$12	\$47	\$12	\$20	\$20	\$20	\$0	\$0
Unreserved Fund Balance	\$1,809	\$1,861	\$505	(\$207)	\$208	\$300	\$139	(\$114)

Source: AOS recommendations and Treasurer's forecast.

Note: Totals may not sum due to rounding.

The forecast projections in **Table 2-7** will depend, in part, on the District's ability to achieve the estimated cost savings. Therefore, monitoring the projections and updating

the forecast as necessary will ensure the District bases future decisions on the most current information available.

Table 2-8 details those performance audit recommendations reflected in the forecast in **Table 2-7**. The recommendations are divided into two categories: those requiring negotiations with the District's bargaining units, and those not requiring negotiations.

Table 2-8: Summary of Financial Implications

	Estimated Cost	Estimated Annual Cost Savings
Recommendations NOT Subject to Negotiations		
R2.9 Establish mandatory use of direct deposit for all employees		\$4,000
R3.2 Eliminate 9.0 FTE regular education teachers		\$442,200
R3.3 Eliminate 2.0 FTE administrators		\$197,000
R3.4 Eliminate 4.0 FTE educational service personnel (ESP)		\$241,100
R4.4 Purchase CMMS software	\$1,000	
R4.5 Eliminate 1.0 custodian		\$45,000
R4.7 Implement an energy conservation program		\$9,000
Subtotal Not Subject to Negotiations	\$1,000	\$938,300
Recommendations Subject to Negotiations		
R3.5 Increase health care premium contributions to 15 percent		\$220,000
R3.5 Increase vision and dental premium contributions to 15 percent		\$21,900
Subtotal Subject to Negotiations		\$241,900
Total Recommendations	\$1,000	\$1,180,200

Source: AOS Performance Audit Recommendations

Human Resources

Background

This section of the performance audit focuses on the human resources (HR) functions of the Martins Ferry City School District (MFCSD or the District). Operations were evaluated against leading practices, industry standards, and selected peer districts.¹ Comparisons were made for the purpose of developing recommendations to improve efficiency and business practices. Recommendations also identify potential cost savings to assist the District in its efforts to address projected deficits. Recommended practices and industry standards were drawn from various sources, including the Ohio Revised Code (ORC), the Ohio Administrative Code (OAC), the Ohio Department of Education (ODE), the Society for Human Resource Management (SHRM), the Ohio Education Association (OEA), the Kaiser Family Foundation (Kaiser), the State Employment Relations Board (SERB), and the Ohio Department of Administrative Services (DAS).

Organization

MFCSD does not have a separate department dedicated to human resource functions. The primary human resource responsibilities are carried out by the Treasurer's Office and the Superintendent. The Treasurer's Office administers the District's employee benefit programs, helps negotiate and administer the collective bargaining agreements, manages the workers' compensation program, conducts payroll functions, and monitors the budget. The Superintendent oversees the activities that are used to recruit, select, and evaluate employees, and also helps negotiate and administer the collective bargaining agreements.

The District uses the Education Management Information System (EMIS) software to report student enrollment and staffing levels to ODE. Student enrollment is used in this audit to calculate the number of full-time equivalent (FTE) employees per 1,000 students.

Staffing

Table 3-1 shows the number of FTE employees per 1,000 students for MFCSD compared with the peer district averages. Presenting staffing data in this manner reduces variances attributable to the size of the peers.

¹ See the **executive summary** for the full listing of the peer districts.

Table 3-1: Staffing Comparison (FTEs ¹ per 1,000 Students)

	MFCSD	Peer Average	Variance
Students ²	1,482	1,879	(397)
Administrators	6.8	6.2	0.6
• Site-Based Administrators	4.1	2.7	1.4
• Central Office Administrators	2.7	3.5	(0.8)
Educational Staff	72.9	66.1	6.8
• Regular Education Teachers	42.5	47.2	(4.7)
• Special Education Teachers	11.5	4.6	6.6
• Remedial Specialists/Tutors	10.1	2.0	8.1
• Other Educational Support	2.7	7.7	(5.0)
• Educational Service Personnel (ESP)	4.1	4.3	(0.2)
• Vocational Teachers	2.0	0.4	1.6
Professional Staff	2.0	1.6	0.5
Technical Staff	0.7	2.7	(2.0)
Office / Clerical Staff	20.6	9.0	11.5
• Clerical	5.1	5.0	0.0
• Teaching Aides	14.8	3.2	11.6
Craft & Trade Workers	2.1	1	1.1
Custodians/Groundskeepers	6.8	6.1	0.6
Transportation Staff	8.4	6.1	2.4
Food Service Workers	10.2	6.1	4.1
All Other Reported Personnel	4.1	1.0	3.0
Total FTEs Reported	134.4	108.0	26.4

Source: ODE EMIS Report for MFCSD and the peer districts for FY 2007-08

Note: Totals may vary due to rounding.

¹ According to ODE's 2008 EMIS instructions for reporting staff data, 1.0 FTE is equal to the number of hours in a regular working day for that position, as defined by the District.

² Reflects students receiving educational services from the District and excludes the percent of time students are receiving educational services outside of the District.

Table 3-1 shows the District has 26.4 more employees per 1,000 students than the peer average. MFCSD is above the peer average in each category, with the exception of technical staff. The largest staffing variance was in the administration, educational, and office/clerical areas. Additional explanations for the variances are as follows:

- **Administrators:** MFCSD has 6.0 FTE site-based administrators and 4.0 FTE central administrators. In comparison with the peer average, MFCSD has 1.4 FTE site-based administrators more than the peers (see **R3.3**), which was attributed to the manner in which it consolidated its buildings and adjusted its staff after the consolidation.

- **Regular Education Teachers:** MFCSD has 63.0 FTE regular classroom teachers and its student-teacher ratio (18.1) is slightly lower than the peers (18.7). The District has an informal teacher staffing plan that places an emphasis on its educational goals and maintains staffing levels well above State minimum standards. State minimum standards require at least 1.0 classroom teacher FTE for every 25 students in the regular student population as defined in ORC § 3317.023. The District has 17.5 FTE regular classroom teachers more than required by State minimums (see **R3.2**).
- **Educational Service Personnel (ESP):** MFCSD has 4.0 FTE ESP per 1,000 students, compared with the peer average of 4.3 FTE ESP per 1,000 students. Although the District is in line with the peer average, MFCSD is 5.3 FTE ESP over the State minimum requirement (see **R3.4**). State minimum standards for ESP staff are outlined in OAC § 3301-35-05(A)(4).
- **Special Education Teachers:** Within the educational area, the remedial specialist, special education, and vocational staffing levels are above the peer average. MFCSD has 15.0 FTE remedial specialists, of which 12.0 FTEs are funded through federal grants (Title I), Individuals with Disabilities Education Act (IDEA), or Improving Teacher Quality grants. The remaining 3.0 FTE remedial specialists are funded through the General Fund, and this number is in line with the peer average. Although special education staffing levels are above the peer average, the District's special education staffing levels are in line OAC § 3301-51-09 (State minimum) provisions.
- **Office/Clerical:** MFCSD is 11.5 FTE teaching aides per 1,000 students higher than the peer average. In December 2008, the District eliminated several General Fund and Poverty Based Assistance funded part-time teaching aide positions. With the reductions, the District is still 3.5 FTE teaching aides per 1,000 students above the peer average. When teaching aides supported through grants are subtracted, the District is in line with the peer average.
- Craft and trade workers, custodians, and groundskeepers are assessed in **facilities**.
- Transportation staff was analyzed as part of the overall transportation operations assessment. MFCSD was determined to have an efficient transportation system and no further analysis was conducted (see the **executive summary** within "*noteworthy accomplishments*" for further discussion on efficiency of transportation operations).
- Food service operations and staffing is maintained out of the Food Service Fund and was determined to be self-sufficient (see the **executive summary** within "*noteworthy accomplishments*" for further discussion on efficiency of operations).

Compensation and Benefits

MFCSD's FY 2007-08 average salaries were 13.4 percent below the peer average. Beginning wages, years of service, negotiated wage increases, step increases, other personnel benefits, and in some cases, educational levels attained by the personnel within a category, all influence average salaries.

As part of its compensation package, the District provides a comprehensive insurance benefit package including medical, prescription drugs, dental, vision, and life insurance to eligible employees. MFCSD offers two medical plan options to its employees: Health Assurance, a Preferred Provider Organization (PPO), and Health Plan, a Health Maintenance Organization (HMO). There are 157 employees who participate in the District's medical plan: 60 who participate through the Health Plan, and 97 who participate through Health Assurance.

MFCSD's FY 2008-09 annual insurance premiums are compared with industry benchmarks from OEA and SERB in **Table 3-2**.

Table 3-2: Insurance Premium Comparison (Annualized)

	Single	Family
Medical		
MFCSD Health Assurance (PPO)	\$7,434	\$18,588
MFCSD Health Plan (HMO)	\$6,535	\$16,337
OEA	\$4,968	\$12,600
SERB	\$5,054	\$13,081
Dental		
MFCSD	\$726	\$726
OEA	\$480	\$840
SERB	\$468	\$984
Vision		
MFCSD	\$114	\$317
OEA	\$108	\$228
SERB	\$156	\$216

Sources: MFCSD, OEA Survey of District and Educational Service Center Health Plans (2008), and SERB's 2007 16th Annual Report on the Cost of Health Insurance in Ohio's Public Sector

The comparison in **Table 3-2** illustrates that the District's HMO and PPO plan premium costs are higher than the industry averages from OEA and SERB (see **R3.5**). The District's certificated and classified collective bargaining agreements require the following employees to contribute 5 percent of the monthly medical premiums: all certificated employees; classified employees hired before 1984 (regardless of hours worked), and classified employees who were hired after 1984 but prior to 2004, and who work at least 35 hours per week.

Negotiated Agreements

The District has two collective bargaining agreements: one with its certificated personnel and the other with its classified personnel. Administrators work under personal contracts with the District. An overview of the bargaining agreements is as follows:

- **Martins Ferry Education Association (MFEA) Agreement:** Membership in this collective bargaining unit includes all teachers and other professional certificated personnel. This collective bargaining agreement is effective for the period September 1, 2008 through August 31, 2011.
- **Ohio Association of Public School Employees (OAPSE) Agreement:** Membership in this collective bargaining unit includes all non-certificated school support personnel including maintenance and custodial staff, clerical staff, food service workers, educational aides, technology employees, and transportation personnel. The OAPSE agreement covered the period January 1, 2005 through December 31, 2008. The bargaining unit extended the contract for a period of one year.

As part of the performance audit, certain contractual and employment issues were assessed, such as holidays, sick leave accruals, vacation leave, evaluations, and daily work hours. and the District's contractual provisions in these areas were found to be similar to ORC and OAC minimums or standard practices. MFCS D has a certificated and a classified union negotiation team that act on behalf of the District, which includes the Superintendent, Treasurer, and two Board members.

Specialized Programs

MFCS D has programs in place for special and vocational education students. It provides special education services to students through inclusion classes and resource rooms. According to OAC § 3301-51-09, the District should have a minimum of 16.8 special education teachers, based on the number of special needs students reported to ODE and the types of disabilities represented. In FY 2007-08, MFCS D employed 17.0 FTE special education teachers. MFCS D also contracts with the Belmont County Educational Service Center (ESC) for services relating to its special education and gifted students. The District has managed to maintain low special education expenditures by using federal grant funds to support its special education staff.

Vocational education is available to MFCS D high school students through the Belmont County Harrison Career Center (BHCC). The BHCC offers vocational programs in the areas of business, technical, personal services, mechanics, and skilled trades (see the **executive summary issues for further study**).

Audit Objectives for the Human Resources Section

The following performance objectives were reviewed in this section:

- Is the District's allocation of personnel efficient and effective?
- Is the District's compensation package in line with other high performing districts, State averages, and industry practices?
- How does the cost of benefits offered by the District compare with State averages and industry benchmarks?
- Are the District's negotiated agreements in line with industry standards, State law, and best practices?
- Does the District effectively address human resource management and has it created a working environment that enhances its workforce?
- Does the Board operate in an effective manner?
- Does the District provide special education programs for students with disabilities that maximize resources and are compliant with State and federal regulations?
- Does the District provide effective and efficient workforce development programs (such as vocational-technical education) that meet the needs and expectations of the community?

The following areas were analyzed and determined to be comparable to recommended practices or peer averages: salaries, retirement contributions, classified and certificated negotiated agreements, workers' compensation, and special education.

Recommendations

Staffing

- R3.1 MFCS D should develop a formal staffing plan to address current and future personnel needs. A staffing plan will help ensure the District is proactively addressing its staffing needs and aligning them with its educational goals and financial condition. This is particularly important considering the District’s slight increase in enrollment and new staffing guidelines established with HB 1 (see *subsequent events in the executive summary*).**

MFCS D does not have a formal staffing plan that outlines personnel levels based on enrollment, State guidelines, or educational goals. According to the Superintendent, the District has informal teacher staffing goals that it uses at each grade level. For instance, the District uses the ratio of 25 students to each regular classroom teacher for second through fifth grade. The target student-to-teacher ratio for kindergarten and first grade are below the 25-to-1 ratio. The high school and the middle school each have a high number of special needs students. Therefore, the student-to-teacher ratios are also slightly lower than in the elementary grades. The District uses the Ohio School Facilities Commission Maintenance Plan to assist in determining custodial staffing levels, but maintenance and operations staffing is still higher than national benchmark standards (see **facilities** for further analysis).

Strategic Staffing Plans (SHRM, 2002) notes that high performing organizations use staffing plans and systems to monitor and control the cost of engaging human capital. A strategic staffing plan forms an infrastructure to support effective decision-making in an organization. In addition, *Estimating Future Staffing Levels* (SHRM, 2006) notes that the most important question for any organization is what type of workforce it will need in order to successfully implement its strategic mission. Once this question is answered, the organization can focus on recruiting, developing, motivating, and retaining the number and mix of employees that will be required at each point in time.

Tulsa (OK) Public Schools has established an industry-recognized approach for developing a staffing plan. The Tulsa Public Schools staffing plan incorporates staff allocation factors such as state and federal regulations, workload measures, industry benchmarks, and staffing levels, as determined by its administration, for building configurations and enrollment. In this plan, Tulsa Public Schools benchmarks staffing based on general fund revenues to help maintain a focus on a balanced budget when considering school staffing levels. The plan is used as a guide to determine staffing levels on an annual basis, as well as mid-year, to determine if the staffing levels need to be modified based on actual enrollment.

Similar to Tulsa Public Schools, Cincinnati City School District (Hamilton County) has developed a staffing plan linking staffing decisions with the District's student-based budgeting system. The plan works to incorporate State requirements, contractual agreements, available resources, and educational goals, and serves as a guide to staffing educational and support staff at each building. Also, Lakota Local School District (Butler County) has developed a formal staffing plan which aids the district in determining classified staffing needs based on enrollment and workload measures.

Because MFCSD has limited resources and an experienced administrative team, it has not felt it needed a staffing plan. However, a formal plan would assist the District in adjusting staffing levels to address declining student enrollment and anticipated changes in resources, while aligning any staff reductions with the District's goals and values. This is especially important to ensure appropriate staffing for the District's large special education population. Moreover, implementing a more formal plan would provide the District with a resource to communicate its staffing priorities and goals with the community and ensure continuity and the transmission of institutional knowledge in the event of turnover among top administrators.

In order to ensure it is prepared for changes in future enrollment, programs, or financial circumstances, MFCSD should develop and maintain a formal staffing plan. Modeling its plan after those used in the above-mentioned districts would provide MFCSD the necessary elements to ensure its staffing plan is comprehensive and encompasses the recommended elements.

R3.2 Because of its projected financial condition, MFCSD should consider eliminating 9.0 FTE regular education teachers, which would allow it to maintain a staffing level at approximately 20 percent above State minimums. If MFCSD is unable to make cost reductions in other areas to close its projected financial gap, it may need to reduce educational staff to State minimums (up to 17 FTEs).²

MFCSD should ensure that any staffing reductions it makes comply with the new operating standards under development by ODE (see also *subsequent events* within the executive summary).

Table 3-3 compares MFCSD's regular education teacher staffing with the peer average and State minimum requirements.

² Adopting State minimums would result in annual savings of approximately \$1 million (based on a reduction of 17 FTE teachers).

Table 3-3: Regular Education Teachers

	MFCSD	Peer Average	Difference
Regular Education Teachers (FTE)	63.0	89.2	(26.2)
Regular Student Population (ADM)	1,138	1,637	(499.0)
<hr/>			
Regular Students-to-Regular Teacher Ratio (Average)	18.1	18.7	(3.2%)
Total ADM / Total Teachers	23.5	21.4	9.8%
Performance Indicators Met (out of 30) ¹	19.0	27.2	(30.1%)
Performance Index (out of 120) ²	94.5	99.5	(5.0%)
<hr/>			
Teachers Above/(Below) Peer Districts Based on Regular Student Population	2.1		
Comparison with State Minimum Requirements			FTE Teachers
Regular Classroom Teachers Employed	63.0		
State Minimum Required Classroom Teachers (1:25)	45.5		
Teachers Above/Below State Minimum Requirement	17.5		

Source: MFCSD FY 2007-08 EMIS data as reported to ODE.

¹ FY 2008-09 Report Cards had not been publicly released by ODE by the conclusion of this audit. However, according to the Superintendent, MFCSD's performance increased to 27 out of 30 indicators met.

² FY 2008-09 Report Cards had not been publicly released by ODE by the conclusion of this audit. However, according to the Superintendent, MFCSD's performance index increased to 97.5 out of 120.

As shown in **Table 3-3**, MFCSD employs 63.0 FTE regular classroom teachers, and its student-to-teacher ratio (18.1) is slightly lower than the peers (18.7). State minimum standards outlined in OAC § 3301-35-05 require at least 1.0 classroom teacher FTE for every 25 students in the regular student population. The District employs 17.5 FTE regular classroom teachers above the State minimum.

The District could reduce its regular classroom teacher staffing by approximately 9 FTEs and still comply with OAC requirements. Reductions to State minimums, if needed, would likely have an impact on the District's programs, and therefore, should be carefully analyzed.

Financial Implication: The reduction of 9.0 FTE classroom teachers could save the District approximately \$442,200 in salaries and benefits in FY 2009-10, while maintaining student-to-teacher ratios that are 20 percent above the State minimum requirement. This estimated savings will increase if the reductions occur through retirement or through the voluntary separation of more experienced or higher salaried staff.

R3.3 MFCSD should consider eliminating 2.0 FTE site-based administrative positions to achieve a level more comparable to the peers. A reduction in the number of site-based administrators would reduce expenditures and help the District regain its financial stability. The District should review the funding sources for these positions to ensure their elimination would have a positive impact on the General Fund.

MFCSD should ensure that any staffing reductions it makes comply with the new operating standards under development by ODE (see also *subsequent events* within the executive summary).

Prior to its consolidation into a single campus, the District had a principal for each of its six school buildings and an assistant principal at the high school. The District reduced the number of school buildings to two: an elementary school building and a middle school/high school building. The elementary school has a principal and an assistant principal. The middle school/high school building has two principals and two assistant principals. **Table 3-4** compares the number of site based administrators with the ten district peer average.

Table 3-4: Administrator Comparison (FTEs)

	MFCSD	Peer Average	Variance
Number of Students	1,482	1,879	(397)
Total Site-Based Administrators	6.0	5.1	0.9
Total Central Administrators	4.0	6.3	(2.3)
Total Administrators per 1,000 Students	6.7	6.2	0.5
Site-Based Administrators per School Building	2.0 ¹	1.2	0.8
Site-Based Administrators per 1,000 Students	4.0	2.7	1.3
Central Administrators per 1,000 Students	2.7	3.5	(0.8)
Total Administrators Above Peer Average			0.7

Source: ODE EMIS report for FY 2007-08

¹ MFCSD has only two buildings but includes three schools within these buildings. The District has two site-based administrators for each school.

As illustrated in **Table 3-4**, MFCSD employs one more site-based administrator than the peer average. Though the District now operates with two administrators per school, it only employed one site-based administrator per building, with exception of the high school, prior to its consolidation.

Although **Table 3-4** shows that the District only exceeds the peers by 0.7 FTEs, its financial condition requires a more critical examination of staffing options. MFCSD could consider reducing 2.0 FTE site-based administrators to achieve a building management configuration more comparable to how it operated in prior years, while providing needed relief to the General Fund. A reduction of 2.0 FTE site-based administrators would result in 1.0 principal for each school (elementary, middle, and high) and 1.0 assistant principal for the high school, for a total of 4.0 site-based administrators.

Financial Implication: By eliminating 2.0 FTE site-based administrators, MFCSD could save approximately \$197,000 in salaries and benefits annually, starting in FY 2009-10.

R3.4 MFCSD should consider eliminating 4.0 FTE educational service personnel (ESP), which would allow it to maintain a staffing level 20 percent above State minimums. If MFCSD is unable to implement other cost saving recommendations in the performance audit, it may need to move closer to State minimum requirements for ESP staffing levels as set forth in OAC § 3301-35-05, through a reduction of up to 5.0 FTEs.

MFCSD should ensure that any staffing reductions it makes comply with the new operating standards under development by ODE (see also *subsequent events* within the executive summary).

Table 3-5 shows a comparison of the District's ESP staffing with the peer district average.

Table 3-5: Educational Service Personnel (ESP) (FTEs)

	MFCSD	Peer Average	Difference
ESP Teachers ¹	6.0	7.8	(1.8)
Counselors	3.0	4.1	(1.1)
Librarians / Media Specialists	1.0	1.3	(0.3)
School Nurses	1.0	1.0	0.0
Social Workers	0.0	0.1	(0.1)
Visiting Teachers	0.0	0.0	0.0
Total Educational Service Personnel (FTEs)	11.0	14.3	(3.3)
Regular Student Population	1,138	1,637	(499)
Total ESP per 1,000 Regular Students	9.7	8.7	1.0
ESP Above/(Below) Peer Districts			1.1
<u>Comparison to State Minimum Requirements</u>			<u>FTEs</u>
Total Educational Service Personnel (ESP)			11.0
State Minimum Required ESP			5.7
ESP Above State Minimum Requirement			5.3

Source: ODE EMIS Reports for FY 2007-08 and OAC § 3301-35-05

¹ ESP teachers include K-8 art, music, and physical education teachers.

As illustrated in **Table 3-5**, MFCSD's ESP staffing per 1,000 students is above the peer average by 1.0 FTE and is 5.3 FTEs above the State minimum requirement. In accordance with OAC 3301-35-05, a minimum of 5.0 FTE ESP should be employed for each 1,000 regular students. ESP staff consists of counselors, library media specialists, nurses, visiting teachers, social workers, and elementary art, music, and physical education teachers.

By reducing its number of ESPs, the District will bring the per 1,000 student ratio more in line with the peer average, while providing financial savings to the District. Reductions

to State minimum levels, if needed, would have an impact on the District's programs and, therefore, should be carefully analyzed.

Financial Implication: The elimination of 4.0 ESP FTEs could save the District approximately \$241,100 in salaries and benefits in FY 2009-10, while keeping the District 20 percent above the State minimum requirements. This estimate of savings will increase if the reductions occur through retirement or through the voluntary separation of more experienced or higher salaried staff.

Health Benefits

R3.5 MFCSD should negotiate an increase in the percentage that employees contribute toward monthly medical (including vision and dental) premiums. Increasing the minimum employee share to at least 15 percent would bring the District in line with industry benchmarks. If the District is unable to close the deficit projected in its General Fund for FY 2009-10, it could pursue a higher employee contribution and still be within Kaiser Foundation averages.

The District's certificated and classified collective bargaining agreements require the following employees to contribute 5 percent of the monthly medical premiums: all certificated employees; classified employees hired before 1984 (regardless of hours worked), and classified employees who were hired after 1984 but prior to 2004, and who work at least 35 hours per week. This group comprises 91 percent of the District's employees. All classified employees hired after January 2004 pay 10 percent toward their medical premiums. The District prorates the health premium contributions for the classified employees hired after January 2004 based on the number of weekly hours worked. Thirteen classified employees contribute 15 percent of their monthly medical premium based on the prorated amounts.

Table 3-6 illustrates the District's insurance premiums based on the largest percentage of employees in the District, those who were hired prior to 2004 and pay 5 percent toward medical premium costs.

Table 3-6: MFCSD Monthly Medical Insurance Premiums (FY 2008-09)

	Single	Single % Share	Family	Family % Share
Health Assurance Option				
Employee Contribution	\$30.98	5%	\$77.46	5%
Board Contribution	\$588.51	95%	\$1,471.55	95%
Total Premium Cost	\$619.49	100%	\$1,549.01	100%
Health Plan Option				
Employee Contribution	\$27.22	5%	\$68.06	5%
Board Contribution	\$517.32	95%	\$1,293.31	95%
Total Premium Cost	\$544.54	100%	\$1,361.37	100%
Industry Benchmarks				
Kaiser-HMO Average	\$396	16.0%	\$1,093	26.0%
OEA	\$410	9.0%	\$1,043	10.0%
SERB-HMO Average	\$408	N/A	\$1,050	N/A
SERB-School Districts 1,000-2,499 ADM Average	\$442	9.9%	\$1,093	12.6%
SERB- Southeast Region Average	\$482	9.3%	\$1,223	12.6%

Sources: MFCSD FY 2008-09 premium rates, Kaiser Employer Health Benefits 2008 Annual Survey, OEA Survey of District and Educational Service Center Health Plans (2008), and SERB's 2007 16th Annual Report on the Cost of Health Insurance in Ohio's Public Sector.

N/A= not available

As shown in **Table 3-6**, MFCSD contributes 95.0 percent toward monthly medical premiums for most of its employees. Employees hired after 2004 share in the monthly premium based on the number of weekly work hours. The 5 percent employee contributions are substantially less than the Kaiser and SERB average contributions shown in **Table 3-6**.

In addition, 38 percent of the employees who participate in the vision plan (single) do not pay any premium costs, while the other 62 percent of the employees pay more than 15 percent of vision plan (single and family) premiums—the amount varies based on the year in which they were hired. The SERB average employee contributions for vision are 9 percent for single and 22 percent for family.

Also, 89 percent of employees who participate in the dental plan pay no premium costs, while the other 11 percent pay premium costs based on the number of hours worked and range from \$30 to \$45 per month per employee, out of a total premium cost of \$60 per month. The SERB average employee contribution for dental is 13 percent for single and 19 percent for family.

Although MFCSD has not negotiated typical employee cost sharing in prior rounds of collective bargaining, its financial condition requires consideration of a greater level of employee/employer cost sharing for health insurance and other benefits. Seeking a 15

percent employee contribution for all employees would bring MFCSD in line with the SERB averages.

Financial Implication: If the District increased the minimum employee contribution for medical insurance to 15 percent, it could save approximately \$220,000 annually.³ By requiring those employees who do not currently contribute to vision and dental premiums to contribute 15 percent, the District could achieve total annual cost savings of \$21,900 (\$5,800 vision and \$16,100 dental).⁴

R3.6 During future negotiations, MFCSD should review the design of its benefit plans (e.g., co-pays, deductibles and compare them with plans within and outside its network to ensure that the premium costs and benefit levels remain cost effective. The District may benefit from implementing cost saving plan design elements, which would help it better control the rising cost of health insurance.

The District pays higher premiums for its medical insurance, compared with the Kaiser and SERB averages (see **Table 3-6**). A review of the District's medical insurance plan in **Table 3-7** illustrates some of the causes of the higher premiums.

³ These savings are based on FY 2008-09 premiums and are not prorated to take into account recommended staffing reductions. The financial implication is based on those employees who were employed by the District prior to 2004, since they represent the largest percentage of staff.

⁴ This amount is based on the 38 percent of employees who do not pay any vision premiums and the 89 percent who do not pay any dental premiums. This does not take into account the staffing reductions, which would reduce the potential savings from this recommendation.

Table 3-7: Health Care Benefit Levels

Benefit Levels	MFCSD	Kaiser																		
Co-payments for physician visits	<p>HMO Participating Physician: \$5</p> <p>PPO Participating Physician: \$0</p>	<p>HMO: 6%: \$5 per visit 16%: \$10 per visit 29%: \$15 per visit 30%: \$20 per visit</p> <p>PPO 1%: \$5 per visit 11%: \$10 per visit 22%: \$15 per visit 34%: \$20 per visit</p>																		
Hospital/Outpatient Care	<p>Hospitalization</p> <p>HMO Participating Physician: \$0</p> <p>PPO Participating Co-insurance Physician: 100%</p> <p>Outpatient Surgery</p> <p>HMO Participating Physician: \$0</p> <p>PPO Participating Physician: Co-insurance 100%</p>	<p>Hospitalization</p> <p>HMO 3%: Deductible 43%: Co-payment Only 12%: Co-insurance Only</p> <p>PPO 3%: Deductible 17% Co-payment Only 48%: Co-insurance Only</p> <p>Outpatient Surgery</p> <p>HMO 4%: Deductible 43%: Co-payment Only 15%: Co-insurance Only</p> <p>PPO 1%: Deductible 13%: Co-payment Only 53%: Co-insurance Only</p>																		
Multi-tier drug plan co-payments	<p>HMO PPO Generic: \$5/\$5 Brand: \$5/\$10</p>	<p>\$10 generic \$26 preferred \$46 non-preferred \$75 fourth-tier</p>																		
Average Annual Deductible	<table> <thead> <tr> <th></th> <th><u>Single</u></th> <th><u>Family</u></th> </tr> </thead> <tbody> <tr> <td>HMO</td> <td>\$0</td> <td>\$0</td> </tr> <tr> <td>PPO</td> <td>\$0</td> <td>\$0</td> </tr> </tbody> </table>		<u>Single</u>	<u>Family</u>	HMO	\$0	\$0	PPO	\$0	\$0	<table> <thead> <tr> <th></th> <th><u>Single</u></th> <th><u>Family</u></th> </tr> </thead> <tbody> <tr> <td>HMO</td> <td>\$503</td> <td>\$1,053</td> </tr> <tr> <td>PPO</td> <td>\$560</td> <td>\$1,344</td> </tr> </tbody> </table>		<u>Single</u>	<u>Family</u>	HMO	\$503	\$1,053	PPO	\$560	\$1,344
	<u>Single</u>	<u>Family</u>																		
HMO	\$0	\$0																		
PPO	\$0	\$0																		
	<u>Single</u>	<u>Family</u>																		
HMO	\$503	\$1,053																		
PPO	\$560	\$1,344																		

Source: MFCSD and Kaiser Foundation Survey

As shown in **Table 3-7**, the benefit levels for the District's medical plans are generous and exceed the industry standards in the following areas:

- **Co-payments:** The District's PPO plan does not require a co-payment, whereas Kaiser's reported average is at least \$5 per visit. Most Kaiser survey respondents pay a co-payment of \$20.
- **Hospital/Outpatient Care:** Neither of the District's plans require co-payment. Kaiser's reported average is at least 3 percent for hospitalization, and 1 percent to 4 percent for outpatient surgery. The majority of survey respondents required some form of co-payment.
- **Prescription:** The District requires a \$5 co-pay for generic prescriptions. Kaiser's reported average is \$10 for generic prescriptions, \$26 for preferred drugs, and \$46 for non-preferred or non-formulary prescriptions.
- **Average Annual Deductible:** The District does not require deductibles for either of its plans. Kaiser reported average deductibles for HMO plans of \$503 for single coverage and \$1,053 for family coverage, with higher averages for PPO plans.

Health Care Cost Containment (Government Finance Officers Association (GFOA), 2004) offers several recommendations for limiting the costs of medical insurance. GFOA notes that organizations can reduce the costs of health insurance by making incremental changes that include adjusting co-payment and co-insurance levels to influence individual behavior with respect to network/out-of-network services, brand/generic prescriptions and over-the-counter medication, inpatient/outpatient services, and other decisions. GFOA recommends periodic re-bidding of the health care plan, setting appropriate compensation for insurance brokers, and ensuring that provider interests are aligned with the organization. Organizations should consider available quality measures for the effectiveness of treatment outcomes and costs.

The District's generous health care coverage, with no deductibles and low co-insurance, as well as minimal co-payments for network-provided services, results in premium rates that are significantly higher than industry benchmarks. This places a financial burden on the District. Moreover, the implementation of vendor management and individual health management techniques, such as wellness programs and disease management programs, would further work to contain health care costs. These were not a component of the District's health insurance coverage at the time of reporting. OAC § 3306-2-03, which took effect in January 2009, requires any employee health care plan offered by a school district to include a wellness or healthy lifestyle program, a disease management program, and access to providers offering superior health care for complex medical conditions.

It is difficult to quantify the cost savings resulting from changes in plan design within the scope of the performance audit. However, the District, with assistance from its health

insurance consultant and its internal labor management committee (R3.7), should develop a plan design that is economical yet provides benefit levels that meet market standards. The District could see savings of approximately \$64,000 per month if it was able to achieve premiums comparable to the Kaiser averages, and savings of approximately \$48,000 per month if it was able to achieve premium rates comparable to the SERB Southeast Region rates.

R3.7 MFCSD should develop and implement an internal labor management committee that would establish guidelines for health care cost containment, including health insurance cost sharing (R3.5) and plan design (R3.6). The committee should include members who represent the administration, as well as certificated and classified bargaining unit employee representatives, to ensure representation of all classifications of District personnel.

MFCSD does not have an internal labor management committee that reviews health insurance benefit levels. According to the Superintendent and Treasurer, in the past, the District attempted to make changes to its insurance benefit levels in order to control rising costs. However, the changes were not approved by the collective bargaining units.

As noted in *Research Report: What Works Now – Employer Strategies and Tactics for Controlling Health Care Costs* (Workforce Management, 2004), companies use a variety of strategies to better manage health care costs, including the use of internal labor/management committees. These committees can help disseminate information to employees about the employer's financial situation and the impact of health care costs. One source of information often used is from a third-party administrator regarding historical costs of health-related services used by employees. This helps to educate employees about what factors drive increases in health insurance premiums. Information sharing can also help persuade employees to accept increased co-pay amounts or other costs, which partially offset the effect of premium increases on the employer.

Instituting an internal labor management committee will help the District communicate to employees and other stakeholders on how it can better control its health insurance costs. Implementing a committee of this kind can also help MFCSD identify strategies that will work best for its personnel and the District in controlling the rising cost of health insurance.

R3.8 The Board should develop a formal personnel succession and recruitment plan to ensure operational continuity and the hiring of the most qualified staff. The recruitment plan should include processes that focus on retirement projections, career development, and recruitment of future employees.

At the time of the audit, several key administrative personnel, including the Superintendent, Treasurer, and EMIS Coordinator, planned to retire from MFCSD within a year. Although the District named a replacement for the Superintendent during the course of this audit, it does not have a formal succession planning or recruitment process. The administrators who will be retiring have extensive knowledge of District processes, based on long institutional histories with the District. Without a formal succession planning or recruitment process for these key administrative positions, the District may experience a difficult transition which could affect operations. Currently, when there is a vacant position, the Superintendent uses an informal process of recruiting from within the community or from an approved list of substitutes.

Meeting the Challenges of Recruitment and Retention (National Education Association, 2003) identifies several ways school districts can improve their recruiting practices. The first step is to develop a comprehensive recruitment plan. This means determining the needs of the District, working to improve any negative perceptions, identifying and appealing to the target audience, involving the surrounding community, and collecting data to assess future needs and evaluate the plan in place. The development of a strong marketing and outreach campaign helps a district establish relationships with teacher education programs and project a positive image. Districts can also increase recruitment by improving the hiring process by placing job openings and applications online. Creating a path for nontraditional routes into the profession is another way to expand recruitment efforts. This could be done by encouraging professionals who may be interested in teaching and paraprofessionals who already work in the schools to pursue licensure.

Succession Planning: Career Development (American Society for Training Development (ASTD), 2000) indicates that succession planning entails identification of employees who possess the skills to meet future organizational challenges. ASTD has identified the following five basic succession planning components, but emphasizes that succession planning should be tailored to the specific organization:

- **Replacement Planning** - This is the primary component of succession planning and at its simplest, is an identification of employees who may potentially be able to fill positions as they become vacant. When conducting replacement planning, follow these suggestions:
 - Create a bottom-up approach whereby managers at lower levels make initial recommendations as to who can be replacements for their direct reports.
 - Have each higher level of management review the recommendations and make revisions. If an interdepartmental movement strategy is being used,

managers should include recommendations from other parts of the organization.

- Identify competencies for all key positions through a formal job analysis process in highly technical, detailed, and stable organizations. Managers, or a panel of managers, can evaluate individuals against these standards.
- Use group meetings in more flexible organizations to discuss replacement skill level, readiness, and potential to get a fairly accurate judgment of a person's capability. Use group consensus about general skills for the future.
- **Human Resource (HR) Audit** - This component focuses on determining whether employees at different levels should stay within their own positions or move to different positions, and distinguishes key development strategies. This component also helps designate the pools of employees qualified for specific position vacancies. During annual employee evaluations, management staff should assess each employee for readiness for advancement, potential to move into a new position, and development required to achieve advancement. Assessing these key characteristics for all employees will help management ensure that all employees are being equally considered as part of the succession plan.
- **Identifying High-Potential Employees** - This component focuses on identification of employees who have the ability to move into key positions within the organization. In identifying these employees, management must look at critical characteristics of potential leaders, including: results driven, people skills, mental ability, lifelong learning, integrated thinking, flexibility, and energy.
- **Employee Input** - This component focuses on linking employee career development goals and desires with organizational succession planning needs. When seeking employee input, managers should consider obtaining employee input through direct discussion, having employees complete career interest forms, entering employee job preferences into a database, and using the intranet to make career opportunity information available to all employees.
- **Development Programs** - This final component is the design and implementation of employee career development programs. Organizations are increasingly using leadership development programs to fast-track high-potential candidates, and many of the more effective programs are using action learning. Further, managers are being asked to coach and mentor throughout these development programs. When devising a development program, several guidelines should be followed, including determining if a skill-based or job-based strategy should be used,

assessing the skills and development needs of high-potential employees, and patterning a plan design to reflect how employees learn.

Developing a succession and recruitment plan will help the District ensure that there is leadership continuity in key positions. Formalized plans will also help it retain and develop intellectual and knowledge capital for the future, and encourage individual advancement among its employees.

R3.9 The Board of Education should ensure annual evaluations of the Superintendent and Treasurer are completed in accordance with its policies. Such performance evaluations are essential to evaluate the effectiveness of key administrators and ensure District goals and objectives are achieved. In addition, the Board should engage in a self-evaluation process as set forth in its operations manual. Self-evaluations would allow the Board to formally evaluate past and future goals and District achievements.

The Board has not evaluated the performance of the Superintendent since 2005. The Treasurer requested a performance evaluation three years ago, but has not received one. MFCS D Board policies state that the performance of the Superintendent and Treasurer should be evaluated annually to ensure they are performing in accordance with Board expectations.

ORC § 3319.01 and § 3313.22 require school boards to establish procedures for the evaluation of their superintendents and treasurers, respectively. *Becoming a Better Board Member* (National School Boards Association, 2006) explains that the evaluation of the superintendent's performance should focus on what the board wants to accomplish for the district, what the law says the District must do, what the superintendent's jobs and responsibilities to the district are, and how well the superintendent does the job. Accordingly, three items are vital to the process:

- A statement of goals and priorities;
- The superintendent's job description; and
- A written evaluation procedure.

NSBA also states that the board members need to engage in regular self-evaluations to make sure they continue to exercise the most effective leadership possible. The self-evaluations should include elements and desired outcomes such as:

- An evaluation should be constructive;
- Board members should develop the standards for self-evaluation;
- Evaluation should be based on board goals, not on district goals;

- The evaluation process should include establishment of goals and strategies for improving performance;
- The board should not limit itself to those items that appear on the evaluation form;
- Formal evaluations should occur on a fixed annual schedule;
- A composite picture of board strengths and weaknesses is best; and
- The board should be evaluated as a whole, not as individuals.

Conducting annual evaluations would enable the District to identify weaknesses, and would provide timely feedback to remedy potential issues. Additionally, the District can use routine evaluations to clearly communicate goals and expectations for District staff.

Financial Implications Summary

The following table represents a summary of estimated annual cost savings identified in this section of the report. The financial implications are divided into two groups: those that are subject to negotiation, and those that are not. Implementation of those recommendations subject to negotiation requires agreement from the District's bargaining unit.

Summary of Financial Implications for Human Resources

Recommendations Not Subject to Negotiation	
Recommendation	Annual Cost Savings
R3.2 Eliminate 9.0 FTE regular education teachers	\$442,200
R3.3 Eliminate 2.0 FTE site-based administrators	\$197,000
R3.4 Eliminate 4.0 FTE ESP	\$241,100
Total – Recommendations not subject to negotiation	\$880,300
Recommendations Subject to Negotiation	
R3.5 Require employee to pay 15 percent toward health insurance premium costs	\$220,000
R3.5 Require employee to pay 15 percent toward vision and dental insurance premium costs	\$21,900
Total – Recommendations subject to negotiation	\$241,900
Total Estimated Savings	\$1,122,200

Source: AOS Recommendations

Note: The financial implications summarized are presented on an individual basis. The magnitude of cost savings associated with individual recommendations could be affected or offset by the implementation of other interrelated recommendations. Therefore, the actual cost savings, when compared with estimated cost savings, could vary depending on the implementation of the various recommendations.

Facilities

Background

This section of the performance audit assesses custodial and maintenance staffing, operations, expenditures, and building utilization in Martins Ferry City School District (MFCSD or the District). MFCSD's maintenance and operations department (M&O Department) functions were compared with leading practices and operational standards identified by the American School and University Magazine (AS&U), the National Center for Education Statistics (NCES), and the United States Department of Energy (DOE). Comparisons were made for the purpose of developing recommendations to improve operational efficiency and business practices.

Summary of Operations

In fiscal year (FY) 2008-09, MFCSD had a single campus comprising two educational buildings, Ayres Elementary School (grades pre-K through 4) and the Middle/High School (grades 5 through 12). The District has been operating at its single campus location since January 2008. Prior to moving to the new campus, the District operated with six educational buildings, including three elementary schools, one middle school, one junior high school, and one high school. MFCSD also maintains several ancillary facilities throughout the District, including a stadium, field house, stadium home and visitor locker rooms, central office, bus office, and bus garage.

The construction of the District's single-campus configuration was completed through the Ohio School Facilities Commission (OSFC) at a cost of about \$35 million. 76 percent of the funding was provided by the State, and the local portion was 24 percent. The local portion was financed through a bond retirement levy of 5.59 mills passed by the District's voters in November 2004. The District was able to use 0.5 mills of an existing permanent improvement (PI) levy to meet its OSFC maintenance fund requirements.

OSFC Planning

As part of the OSFC construction planning process the District received a *Facilities Assessment Report* in 2001. This report contained a detailed assessment of all building components, including structural and equipment. MFCSD's *Master Facility Plan* (2004) included projected enrollment as well as planning information for maintaining the new facilities. As the facility construction phase was completed, the OSFC's architect developed detailed facility management information, which included cost and labor hour estimates for all preventive, unplanned, and

planned maintenance; equipment description, warranty, and projected lifespan information; and preventive maintenance schedules. This plan has not been implemented.

Building Utilization

The OSFC uses a square footage per student figure to calculate the design capacity for its construction projects. Using the OSFC's design capacity and FY 2008-09 October headcount, it appears that the District is close to design capacity at both Ayres Elementary School and the Middle/High School. However, capacity based on total square footage is typically lower than functional capacity, which is based on actual classrooms and teaching stations. As a result, the District may be at the OSFC design capacity, but it does not need to add instructional square footage (i.e., modular units) to accommodate its students. MFCSD is also at a ten-year peak in enrollment, although this is only 170 students higher than the ten-year low point. Relatively stable year-to-year enrollment indicates that the District is not likely to need additional classroom space or have an opportunity to reduce facility square footage through building closures in the near future. However, because the District is near to identified capacity thresholds, it should continue to monitor these trends and incorporate them into long-term planning.

M&O Department Staffing

MFCSD's M&O Department is directly overseen by the Buildings and Grounds Director (B&G Director) who, in turn, reports directly to the Superintendent. The maintenance staff is responsible for most building maintenance as well as the majority of groundskeeping and all snow removal at the District, including clearing the District roadways and snow removal around the buildings. The custodians assigned to the educational buildings are responsible only for tasks inside the buildings and some light snow removal at the buildings' immediate entrances. The custodian assigned to the stadium complex (including the stadium, Field House, and two locker rooms) is responsible for all care of the stadium complex as well as a significant amount of summer groundskeeping at the District's main campus.

Table 4-1 shows MFCSD's M&O Department staffing by position and full-time equivalent (FTE) employee. Because the B&G Director spends 50 percent of his time performing maintenance duties, 0.5 FTE of his time is included in the staffing analysis.

Table 4-1: M&O Staffing

Classification	FTEs
Maintenance	2.0
Other ¹	1.0
Total Maintenance	3.0
A.M. Custodians ²	6.5
P.M. Custodians	3.0
Total Custodians	9.5
Total M&O Staffing	12.5

Source: MFCSD FY 2008-09 M&O Department staffing

Note: MFCSD's a.m. custodians charge a total of approximately 120 hours per two-week payroll to the Food Service Fund. This allocation of time to the Food Service Fund is equivalent to approximately 1.5 FTE custodians.

¹ Includes 0.5 FTE B&G Director, and 0.5 FTE for a custodian assigned to maintain the stadium.

² Includes 6.0 full-time custodians plus 0.5 FTE for the custodian assigned to the stadium.

Table 4-1 represents the total number of M&O FTEs which perform facilities maintenance, custodial, and groundskeeping duties. See **R4.5** for additional information on the M&O workload relative to District staffing levels.

Financial Data

Table 4-2 shows MFCSD's FY 2007-08 M&O Department operating expenditures for all funds, as compared with the peer averages and the *27th Annual Maintenance and Operations Cost Study* (AS&U, 2008).

Table 4-2: M&O Expenditures Comparison (Per Square Foot)

Object Code	MFCSD	Peer Avg.	% Difference	AS&U	% Difference
District Square Feet	247,734	308,240	(19.6%)	N/A	N/A
Personal Services & ERIB ¹	\$2.64	\$2.73	(3.5%)	\$2.05	28.7%
Purchased Services (Excluding Utilities)	\$0.77	\$0.59	29.7%	\$0.21	264.4%
Utilities	\$1.67	\$1.40	19.7%	\$1.52	10.1%
• Electricity	\$0.55	\$0.64	(12.8%)	N/A	N/A
• Water & Sewage	\$0.26	\$0.12	110.8%	N/A	N/A
• Gas	\$0.86	\$0.63	37.1%	N/A	N/A
• Oil	\$0.00	\$0.01	(100.0%)	N/A	N/A
Supplies & Materials	\$0.53	\$0.34	53.5%	\$0.38	38.2%
Miscellaneous	\$0.00	\$0.04	(100.0%)	\$0.40	(100.0%)
Total Department Operating Expenses	\$5.61	\$5.11	9.8%	\$4.56	23.0%
Capital Outlay	\$0.08	\$0.26	(67.6%)	N/A	N/A

Source: MFCSD, peer district, and AS&U maintenance and operations expenditures for FY 2007-08

Note: Totals and percentages may vary due to rounding.

N/A=Not applicable

¹ Employee Retirement and Insurance Benefits (ERIB).

As shown in **Table 4-2**, MFCSD's FY 2007-08 M&O Department expenditures, as a whole, were higher than the peer average and significantly higher than the AS&U national median. The following are explanations of the areas in which the District's expenditures exceeded the peers and AS&U:

Personal Services and ERIB – MFCSD was comparable to the peer average but significantly higher than the AS&U national median. Auditors found that the District's M&O Department staffing was high when compared with industry standards (see **R4.5**). See also **human resources** for an additional analysis of ERIB.

Purchased Services (Excluding Utilities) – Within purchased services, the District's expenditures were higher for professional and technical services, property insurance, rentals, and other property service. An explanation of these categories is as follows:

- **Other Professional and Technical Services** represents the cost for a school resource officer, which was about \$35,000 in FY 2007-08.
- **Property Insurance** was higher in FY 2007-08 because of the transition to the single campus facilities. This cost is projected to decrease to near the peer average in FY 2008-09 as the District disposes of its excess property.
- **Rentals** is also related to MFCSD's transition to its new buildings and the cost in this category is related to moving expenses. In FY 2007-08, the District spent approximately \$17,000, while the peer average was approximately \$2,000. The District's expenditures were for a one-time moving expense into its new school facilities, and no funds were budgeted for this category for FY 2008-09.

Other Property Services – In FY 2007-08, the District spent about three times the amount of the peers, but these costs were related to its transition to the new campus, and included surveying, land appraisal, and auction expenses. Other costs incurred were for building-level security service. At the time of reporting, the District's fiscal year-to-date expenditures were approximately \$7,000 for FY 2008-09, which were more comparable to the peers.

Utilities – MFCSD was significantly higher than both the peer average and the AS&U national median in FY 2007-08. The District has not implemented recommended energy conservation practices (see **R4.7**).

Supplies & Materials – The District was significantly higher than both the peer average and the AS&U national median. In FY 2007-08, approximately \$108,000 (or 83.4 percent of the expenditures) were for supplies and materials for the operation, maintenance, and repair of buildings. Purchases attributed to the new buildings and obtaining new equipment for the M&O Department were responsible for a significant spike in expenditures. However, the District's

purchasing practices could also contribute to the high expenditures. For example, MFCSD purchases its M&O Department supplies and materials from local vendors rather than through consortiums. According to the Superintendent, it is the Board's decision to favor local purchasing.¹ See **financial systems** for further assessments of purchasing.

¹ The District's Board policy on local purchasing states that local purchasing is preferable, but with the qualification that the Board's intention is to purchase materials and supplies of quality at the lowest possible cost through widespread competition. All other things being equal, local purchasing is preferred.

Audit Objectives for the Facilities Section

The following is a list of the questions used to evaluate the facilities functions at MFCSD:

- Does the M&O Department use appropriate performance and cost-efficiency measures and interpretive benchmarks to evaluate each function, and does it use these in management decision-making?
- Has the District established procedures and staff performance standards to ensure efficient operations?
- Is the District's custodial and maintenance staffing comparable to best practices?
- Does the District provide a staff development program that includes appropriate training for maintenance and operations staff to enhance worker job satisfaction, efficiency, and safety?
- Are District energy management practices comparable to best practices?

Auditors determined that workload equity, overtime usage, and energy procurement were found to be comparable to industry standards and recommended practices.

Recommendations

R4.1 MFCSD should identify and monitor key operational benchmarks and expenditure levels using M&O Department expenditures. Benchmarks should include facility statistics (square footage and acreage) compared with staffing, expenditures, and utility consumption. The District should use industry standards, benchmarks, other area districts, and internal data to evaluate Departmental performance. Continually evaluating M&O Department performance based on its expenditures will help the District pinpoint inefficiencies and implement more efficient and effective practices.

The District does not use any benchmarks to evaluate M&O Department operations, staffing, or expenditures. According to the Superintendent, the District had previously looked at other area districts for guidance in the M&O Department administrative structure. This resulted in MFCSD hiring the B&G Director to manage the functions of the Department.

In several areas, MFCSD's performance indicates opportunities to improve efficiency (see **R4.5** and **R4.7**). Many of the increases in costs and missed opportunities to evaluate the M&O Department's performance relative to benchmarks have been attributed to the District's move to new facilities, some problems associated with the move and opening the new buildings, and subsequent lack of facility expenditure baseline data for its new buildings. Furthermore, the District was not able to completely dispose of all of its unused buildings until after the start of FY 2008-09, although it did not incur significant expenditures related to the retention of unused facilities.

The *Planning Guide for Maintaining School Facilities* (NCES, 2003) defined benchmarking as the act of charting and comparing activities, standards, levels of performance, and other factors against historical, peer, or independent (industry standard) data. NCES provides industry standard custodial staffing benchmarks. In addition, the *37th Annual Maintenance and Operations Cost Study* (AS&U, 2008) provides benchmarks for M&O expenditures in the form of a national median, as well as industry standard staffing benchmarks.

Without assessing its M&O performance as related to benchmarks or performance in similar districts, MFCSD will be unable to determine if its operations are being managed in the most efficient and effective manner. Implementing benchmarks will help the District identify areas of inefficiency and apply leading practices to resolve areas of poor performance.

R4.2 MFCSD should develop a formal handbook for custodial and maintenance operations. The handbook should address topics such as the Department’s mission statement, personnel policies, purchasing regulations, accountability measures, safety procedures, repair standards, vehicle use guidelines, security standards, and work order procedures. The manual should detail time standards and processes for accomplishing tasks. It should also contain specific instructions on the performance of routine and non-routine tasks and directions for operating any equipment to be used in completing the tasks. Finally, the District should review the manual annually and update the procedures as necessary.

MFCSD does not have a custodial or maintenance staff handbook. The District relies on direct communication from the B&G Director to ensure that custodial and maintenance staff are carrying out their day-to-day activities in a manner consistent with District expectations. Custodial work schedules were developed to provide guidance for the District’s substitute custodians. However, the work schedules are not detailed and provide only a general task and a time-frame for completing the task.

According to the *Planning Guide for Maintaining School Facilities* (NCES, 2003), every maintenance and operations department should have a policies and procedures manual that governs day-to-day operations. The manual should be readily accessible (perhaps through the District’s intranet or Internet sites). NCES recommends that at a minimum, the manual contain departmental:

- Mission statement;
- Personnel policies;
- Purchasing regulations;
- Accountability measures;
- Asbestos procedures;
- Repair standards;
- Vehicle use guidelines;
- Security standards; and
- Work order procedures.

Several Ohio districts, both large and small, have developed M&O Department handbooks. For example, Mansfield CSD (Richland County) has a handbook that includes department staff information (i.e., organizational chart, work rules, and expectations); job descriptions; negotiated agreement and sick leave information; various forms (e.g., sign in sheet, leave forms, and compensatory and overtime forms); basic procedures; and preventive maintenance guidelines. Oregon CSD (Lucas County) has a similar handbook that outlines daily time schedules; daily, weekly, monthly, and annual tasks by area; routine cleaning procedures, and an overall description of what level of cleanliness is expected by the district. Both Mansfield CSD and Oregon CSD have been

able to achieve high levels of efficiency in M&O functions, in part because of the use of standard performance expectations expressed in district handbooks.

Without a formal policies and procedures handbook to guide custodial and maintenance operations, procedures and standards may not be consistently followed. Developing and implementing policy and procedures manuals and standards for all custodial and maintenance staff will help ensure more efficient and effective cleaning and building maintenance. Furthermore, written policies and procedures would help ensure that issues are managed in a consistent manner. Once the District has developed and implemented a manual, it should make this information available to interested parties through its web site and disseminate the information internally through links to the web site or an intranet portal. A policy and procedures manual could be developed by MFCSD at no additional cost using models provided by other Ohio districts.

R4.3 MFCSD should update its M&O Department evaluations to incorporate specific performance measures and expectations as recommended by NCES. In addition, the District should ensure that updated evaluations include supplemental observations based on the established expectations, rather than a simple rating system. Lastly, the District should regularly review and update, if necessary, the evaluation forms to ensure consistency with actual position duties and District expectations.

As the head of the M&O Department, the B&G Director has the responsibility for oversight of the District's maintenance workers and custodians. The building principals also have site-based oversight responsibility for the District's custodians. The B&G Director and the building principals and assistant principals jointly evaluate the custodians, while the B&G Director is solely responsible for maintenance evaluations. The B&G Director uses a building walk-through checklist as an ongoing evaluative tool. However, walk-through inspections do not occur at regular intervals.

The District provided auditors with copies of evaluation forms, which were based on custodian and maintenance staff job descriptions. District officials stated that the job descriptions and evaluation forms were outdated and needed updating, as duties and procedures have changed with the move to the new buildings. The District's evaluations include some recommended performance measures, such as overall cleanliness and attendance, but lack other, more detailed recommended performance measures, such as rooms cleaned or square footage maintained. Through interviews and walk-through inspections, auditors noted a difference in the level of cleanliness in each building.

The Planning Guide for Maintaining School Facilities (NCES, 2003) states that in developing performance standards, management must establish goals, create an evaluation instrument, be as specific and detailed as possible, define the performance scale, be flexible (i.e., acknowledge extraordinary circumstances), convey expectations to

staff, and review the performance standards on a regular basis (e.g., annually). Additionally, NCES recommends that to assess staff productivity, the organization (through its managers and supervisors) must establish performance standards and evaluation criteria. For example, a custodian's performance workload measure should include the amount of floor space or number of rooms assigned, and the cleanliness of those facilities, and his or her attendance history. The immediate supervisor and the principal of the school can usually assess the custodian's work efforts.

Finally, NCES states that performance measures should be a joint endeavor between the individual and his or her supervisor. Although some supervisors may be reluctant to share this authority, joint decision-making with the staff member has two positive features. First, the staff member can communicate atypical features of his or her working conditions that warrant modification of "normal" performance standards. Second, the supervisor will know that the staff member is fully aware of the jointly developed expectations.

Without updated evaluations, the District cannot effectively communicate management expectations as to the quality of work and performance, nor can it ensure optimal efficiency. Using updated evaluations, linked to workload measures and benchmarks (see **R4.1**), and performance expectations outlined in the handbook (see **R4.2**), MFCSD can ensure its M&O staff are aware of expectations and perform their assigned roles in an efficient and effective manner.

R4.4 MFCSD should implement a computerized maintenance management system (CMMS) that integrates already developed equipment life-span and preventive maintenance information from OSFC into an online work order system. Further, the CMMS should include all NCES-recommended elements. Implementing a CMMS would help the District schedule and document the completion of preventive maintenance, carry out and document routine maintenance, and aggregate historical maintenance information. Historical maintenance information can then be used to evaluate the performance of the M&O Department staff, as well as identify and document problems with underperforming equipment systems.

MFCSD does not have an online work order system, but rather uses a paper-based work form. The process for completing a work order consists of multiple steps. The initial request is generated by a building-level staff member and sent to the principal for review and approval. The approved work order is sent to the B&G Director, who informally assigns the work order to a maintenance employee, depending on the area of expertise needed, and informally communicates priority to the employee. MFCSD does not track parts and labor costs by work order, and completed work orders are not retained in a manner that would allow the B&G Director to analyze historical maintenance information.

As a component of the OSFC project, MFCS D received a business maintenance plan (BMP), which includes equipment profiles, cost estimates and preventive maintenance schedules. In paper form, the BMP is very lengthy, detailed, and highly technical in presentation. OSFC has automated the plans on its web site and can arrange for the information to be downloaded into a selection of computer-based maintenance systems. MFCS D has not fully implemented its BMP.

Upon opening its new buildings in January 2008, MFCS D experienced a number of issues with equipment that ranged from the explosion of a water heater at the Middle/High School to continuing problems with the air handling systems in both buildings (although the majority of problems with this system are at the Middle/High School). These problems have been largely resolved, and the Superintendent indicated that there are no ongoing major facilities problems. Both the B&G Director and the Superintendent noted that one of the problems with the system failures was getting contractors to travel to the District and make repairs. To ensure the problems were addressed, the District had to meet with the contractor, OSFC, and the manufacturer, which was time consuming and cumbersome.

The *Planning Guide for Maintaining School Facilities* (NCES, 2003) notes that work order systems help school districts register and acknowledge work requests, assign tasks to staff, confirm that work was done, and track the cost of parts and labor. The *Planning Guide* goes on to indicate that, at a minimum, work order systems should account for:

- The date the request was received;
- The date the request was approved;
- The job tracking number;
- The job status (received, assigned, ongoing, or completed);
- The job priority (emergency, routine, or preventive);
- The job location (where, specifically, is the work to be performed);
- The entry user (the person requesting the work);
- The supervisor and craftsperson assigned to the job;
- The supply and labor costs for the job; and
- The job completion date/time.

However, the *Planning Guide* also indicates that a computerized maintenance management system (CMMS) may be a more efficient approach to managing the work order process. Such systems have become increasingly affordable and easy to use. The *Planning Guide* goes on to indicate that in terms of utility, a good CMMS program will:

- Acknowledge the receipt of a work order;
- Allow the maintenance department to establish work priorities;

- Allow the requesting party to track work order progress through completion;
- Allow the requesting party to provide feedback on the quality and timeliness of the work;
- Allow preventive maintenance work orders to be included; and
- Allow labor and parts costs to be captured on a per-building basis (or, even better, on a per-task basis).

A CMMS would help the District formally document the completion of work orders, track work orders over time to evaluate staff and contractor performance, and carry out preventive maintenance in a manner consistent with OSFC and equipment manufacturer guidelines. The OSFC does not prescribe a certain type of work order system for use with the BMP. However, in order to make the best use of the already available information, the CMMS should be spreadsheet-compatible. Costs for CMMS systems vary and can range from under \$1,000 to over \$10,000 depending on the complexity of the program.

Financial Implication: The District could purchase a CMMS that meets its needs for approximately \$1,000 annually.

R4.5 MFCSD should eliminate 1.0 FTE M&O Department employee to bring overall staffing in line with industry standards. In addition, the District should regularly monitor and evaluate staffing levels to ensure that they are consistent with industry standards.

Table 4-3 shows MFCSD's square footage maintained, square footage cleaned, and acreage maintained in comparison with AS&U and NCES benchmarks.

Table 4-3: M&O Department Staffing Need

MFCSD	
Square Feet Maintained	247,734
Square Feet Maintained per FTE Maintenance (3.0 FTE)	82,578
Square Feet Cleaned ¹	234,548
Square Feet Cleaned per FTE Custodian (9.5 FTE)	24,689
Acreage Maintained ²	46
Maintenance	
AS&U Five-Year Average Sq. Ft. per FTE Maintenance	95,000
Calculated FTE Maintenance Needs	2.6
Custodians	
NCES Average Sq. Ft. per FTE Custodian	29,500
Calculated FTE Custodian Needs	8.0
Groundskeepers	
AS&U Five-Year Average Acres per FTE Groundskeeper	43
Calculated FTE Groundskeeper Needs	1.1
M&O Department	
Total M&O Staffing Needs	11.6
MFCSD Total M&O FTEs	12.5

Sources: MFCSD square footage and estimated acreage maintained

Note: Totals may vary due to rounding.

¹ Square footage cleaned reflects only the square footage of the facilities to which custodial staff are assigned (including the: Middle / High School, Elementary School, and Field House and locker rooms).

² According to the B&G Director, the District's main campus is located on 128 acres, while the stadium, Field House, and associated buildings are located on approximately 6 acres in downtown Martins Ferry. The B&G Director estimates that approximately 40 acres of the main campus are regularly maintained, while the entire stadium grounds are regularly maintained; a total of 46 acres maintained.

As shown in **Table 4-3**, based on square footage and acreage, the District is overstaffed by approximately 1.0 FTE M&O Department employee. Visual inspection by the auditor confirmed that, with the proximity of buildings on campus and the newness of the school buildings, MFCSD should be able to maintain the buildings in a manner consistent with level 3 NCES standards.²

The District does not have a staffing plan (see **human resources**), nor does it benchmark M&O Department performance to ensure consistency with industry standards (see **R4.1**). As a result, the District is employing more M&O Department staff than national standards suggest are needed. This directs scarce resources away from other District priorities, such as classroom instruction.

In order to reach level 3 standards, MFCSD should ensure it uses the most up-to-date cleaning practices and applies chemicals in a manner consistent with manufacturer

² *Planning Guide for Maintaining School Facilities* (NCES, 2003) states that, "Level 3 cleaning is the norm for most school facilities. It is acceptable to most stakeholders and does not pose any health issues. A custodian can clean approximately 28,000 to 31,000 square feet in 8 hours."

recommendations. Consistency can be achieved through the implementation of a handbook as mentioned in **R4.2**. At the time auditors examined the districts, Mansfield CSD and Oregon CSD custodians cleaned 32,000 and 39,000 square feet per custodian, respectively, with no negative impact on building conditions.

Financial Implication: If MFCSD was to reduce 1.0 FTE custodian, it would save approximately \$45,000 in salaries and benefits in FY 2009-10.

R4.6 MFCSD should develop an ongoing training program to ensure that all M&O Department staff understand and can meet the expectations as presented in the formal M&O Department handbook (see R4.2). In addition, the District should provide routine training when cleaning or maintenance standards are changed due to the introduction of new equipment, technology, or procedures. To reduce training costs, the District should, whenever possible, use manufacturer-sponsored training programs to acquaint employees with new processes and equipment. Finally, documenting the completion of training programs will provide evidence that all employees have received training.

MFCSD does not have a formal, ongoing professional development program for its M&O Department staff. However, the District ensures that its M&O staff maintains compliance with the required annual blood-borne pathogen training. In addition, when the District moved to its new facilities, product manufacturers provided equipment training. The District did not maintain records of the training provided, nor does it track ongoing training activities for M&O Department staff.

The *Planning Guide for Maintaining School Facilities* (NCES, 2003) notes that staff training can ensure the safety of staff, teach staff how to deal with changing needs, improve morale and retention rates, and prepare staff for future promotions. In addition, NCES remarks that just because a person has been taught how to perform a specialized task, he or she may not be able to perform the task in the future, especially if the task is not a regular part of his or her routine. While there is a trade-off between the benefits of staff training and the cost of lost work time during training, preparing staff to perform their work properly, efficiently, and safely is generally cost-effective. Documenting training attended or offered would help the District monitor who completed the events and ensure that custodial and maintenance staff complete required training.

MFCSD could help ensure that all staff members have basic knowledge of the latest equipment and procedures by formally implementing and documenting a comprehensive training program based on manufacturer's guidelines and formal District expectations. Regular training will help employees understand how to complete their work in an efficient and effective manner. Properly trained employees will be better able to meet performance standards that result in clean, well-maintained facilities at a reasonable cost.

R4.7 MFCSD should establish formal policies and procedures outlining energy efficient practices to help reduce energy costs. Subsequently, the District should train staff and students on the policies and procedures. Finally, it should ensure that it is tracking and benchmarking utility information in order to determine the effectiveness of its energy conservation efforts.

MFCSD does not have an energy conservation policy or program. As a result, the District experiences inefficiencies in its energy consumption. Auditors noted energy wasters, like small appliances, in the buildings. Because the District has newly constructed facilities, its buildings have more energy saving technologies incorporated into their infrastructure. For example, the B&G Director can control the HVAC systems at the Middle/High School and Ayres Elementary School from the Central Office. Also, the District has automated lighting sensors in its school buildings, including in public areas such as hallways. Although the District has these systems in place, it has been reluctant to actively manage the HVAC systems and relies mostly on the manufacturer's presets. Auditors observed heating temperatures of 70 degrees, which is slightly higher than most energy management policies recommend. Furthermore, the District has allowed some teachers to disable the automated lighting systems in particular rooms. As a result, MFCSD may not be experiencing the full financial benefit of having these systems in place.

In addition, the District has not monitored or benchmarked energy consumption. This is partly due to some initial difficulties it had with its HVAC system and related natural gas usage, but also partly due to the retention of some of the previously occupied facilities into the start of FY 2008-09. However, with the property disposed of and the heating system issues resolved, MFCSD could begin benchmarking its energy consumption.

According to the *Planning Guide for Maintaining School Facilities* (NCES, 2003), the cost of energy is a major item in any school budget. Thus, school planners should embrace ideas that can lead to reduced energy costs. The following guidelines will help a school district to accomplish more efficient energy management:

- Establish an energy policy with specific goals and objectives;
- Assign someone to be responsible for the District's energy management program, and give this energy manager access to top-level administrators;
- Monitor each building's energy use;
- Conduct energy audits in all buildings to identify energy-inefficient units;
- Institute performance contracting when replacing older, energy-inefficient equipment; and
- Reward schools that decrease their energy use.

The United States Department of Energy's *Energy Smart Schools* web site offers many publications on energy conservation practices, including *School Operations and Maintenance: Best Practices for Controlling Energy Costs- A Guidebook for K-12 School System Business Officers and Facilities Managers* (U.S. Department of Energy, 2004). This publication outlines several different types of energy conservation programs.

- Energy tracking and accounting programs are comprehensive and require the collection, recording, and tracking of monthly energy costs in all school district facilities. The data allow staff to compare energy performance in all buildings and identify problems at individual facilities.
- Voluntary energy awareness programs operate on the premise that increasing the general energy awareness of faculty, staff, and students will result in voluntary changes in behavior and reductions in energy consumption. An example of this approach is affixing "Turn the Lights Off" stickers to lighting switch plates.
- Quick-fix and low-cost programs rely on the identification and repair of simple building problems that are moderate in cost and likely have a short energy savings payback. Such programs may include replacing weather stripping on doors and windows, instituting night and weekend temperature setbacks, and establishing district-wide shut down procedures.

The U.S. Department of Energy's *Rebuild America Program* selected the Ohio Energy Project (OEP), a nonprofit organization, to develop Ohio's EnergySmart Schools Program (OESSP). OESSP provides materials and programs to teachers and students for use in improving the learning environment in schools while saving energy and money. OESSP helps reduce school energy consumption and costs by empowering teachers and students to make sustainable energy choices and affecting the attitudes and behaviors of teachers, students, and staff about energy conservation. OEP will work with teachers and administrators to design a program tailored to the district's curricular needs and efficiency improvement plans. AOS provided the District with an example of a formal energy conservation policy obtained from Mansfield City School District during its 2007 performance audit.

Using the abovementioned programs, MFCSO could reduce its energy consumption and realize a cost savings in its utility expenditures. Several of these practices could be implemented at little or no cost to the District, but would reduce energy costs by a significant margin. *School Operations and Maintenance: Best Practices for Controlling Energy Costs* (U.S. Department of Energy, 2004) suggests that energy savings of up to 15 percent are achievable, but require new energy efficient operations and maintenance (O&M) programs. This level of savings would also require the District to actively manage its automated building systems to ensure that the most efficient and effective

operation takes place at all times. Some degree of energy awareness typically generates an immediate 1 to 3 percent operational savings. According to the American Public Power Association, full implementation of stringent energy conservation measures can result in more significant savings. Regardless of the policies ultimately implemented by MFCSD, fully using its automated building controls would result in immediate cost savings.

Financial Implication: MFCSD is projected to spend approximately \$194,000 on electricity and \$109,000 on gas in FY 2008-09, for a total of \$303,000. An immediate savings of 3 percent in FY 2009-10 would be approximately \$9,000. More significant reductions of 15 percent could be realized thereafter through aggressive energy management. These practices could result in savings of \$45,000 in FY 2010-11 through FY 2012-13. Total savings over the forecast period would be approximately \$144,000.

Financial Implications Summary

The following table is a summary of estimated annual costs and savings. For the purpose of this table, only recommendations with quantifiable impact are listed.

Table 4-4: Summary of Financial Implications for Facilities

Recommendation	Annual Savings	Annual Costs
R4.4 Purchase and implement a CMMS		\$1,000
R4.5 Reduce 1.0 FTE custodian	\$45,000	
R4.7 Implement an energy conservation program ¹	\$9,000	
Total	\$54,000	\$1,000

Source: AOS facilities recommendations

¹ Reflected in the AOS revised forecast are savings of \$9,000 estimated for FY 2009-10 and \$45,000 starting in FY 2010-11 through the end of the forecast period.

District Response

The letter that follows is the Martins Ferry City School District (MFCSD or the District) official response to the performance audit. Throughout the audit process, staff met with District officials to ensure substantial agreement on factual information presented in the report.

MARTINS FERRY CITY SCHOOL DISTRICT

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September 2, 2009

Auditor of State Mary Taylor
Lausche Building, 12th Floor
615 West Superior Avenue
Cleveland, OH 44113

Dear Auditor Taylor,

The Martins Ferry City Schools Board of Education has received the results from the recent performance audit conducted by your office. We would like to commend Dawn Bendel, Cooper Martin, and the rest of the audit team for their professionalism and thoroughness during the engagement. The recommendations and issues for further study provide a valuable resource for Martins Ferry City School District to become financially efficient and effective.

In response to the recommendation of cutting staff, the possibility of changes in health care to our employees, and reducing administrative staff, we have three items of concern:

1. House Bill I and the expected criteria for smaller class sizes, grades K thru 3 will impact how and if we can cut staff. We have always kept our enrollment lower in our early grades to build solid foundations for the future of our students.
2. We have a negotiated agreement with both of our bargaining groups. Health care will have to be negotiated.
3. The large size of our buildings, which is well over six hundred students in the elementary and close to five hundred students in the high school and middle school, puts a direct impact of stress on our administrative team. Cutting back our assistant principals, would leave our building principals with the very difficult chore of managing and leading the buildings at the same time. We feel that having administrators in the roles of a principal and an assistant principal, fits well for our current situation.

We understand that we need to develop a strong staffing plan that will lead us into the next five year forecast dependent on educational and fiscal goals.

Mr. Al Skulich, District Treasurer and I are continuing to work hard to balance our budget for this year and we will continue to look for different ways to contain fiscal balance in our district.

Mission Statement:

The mission of Martins Ferry City Schools is to develop critical thinkers and responsible citizens in a positive and safe learning environment.

We are quite pleased with the performance audit outcome for our transportation department, the food service department, and the buildings and grounds department. We have spent a lot of time making sure that they are very efficient and effective.

Thank you for your help and assistance provided by your staff. The Martins Ferry City School District will benefit greatly from this performance audit.

Respectfully,

A handwritten signature in black ink, appearing to read "Nick Stankovich". The signature is fluid and cursive, with a prominent "N" and "S".

Nick Stankovich
Superintendent
Martins Ferry City Schools