



Mary Taylor, CPA
Auditor of State

MARYSVILLE EXEMPTED VILLAGE
SCHOOL DISTRICT
PERFORMANCE AUDIT

AUGUST 27, 2009



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To the Residents and Board of Education of the Marysville Exempt Village School District:

Pursuant to Amended Substitute House Bill 119, a performance audit was initiated for the Marysville Exempt Village (Marysville EVSD) beginning in August 2008 based on the District's May 2008 five-year forecast, which projected negative ending fund balances beginning in fiscal year 2009-10. The five functional areas assessed in the performance audit were financial systems, human resources, facilities, transportation, and food service. These areas were selected because they are important components of District operations that support its mission of educating children, and because improvements in these areas can assist in improving its financial situation.

The performance audit contains recommendations that identify the potential for cost savings and efficiency improvements. The performance audit also provides an independent assessment of Marysville EVSD's financial situation, and a framework for maintaining fiscal solvency and avoiding fiscal oversight by the State. While the recommendations contained in the audit report are resources intended to assist in managing Marysville EVSD's finances, 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 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 Marysville EVSD, and its contents discussed with the appropriate 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

August 27, 2009

Executive Summary

Project History

In accordance with House Bill 119, the Auditor of State's Office (AOS) conducted a performance audit of the Marysville Exempted Village School District (Marysville EVSD or the District) to identify programs or areas of operation in which it believes greater operational efficiency, effectiveness, or accountability may be achieved. After consulting with the Ohio Department of Education (ODE), AOS initiated the performance audit in August 2008 based on the District's May 2008 five-year forecast, which projected negative ending fund balances beginning in Fiscal Year (FY) 2009-10.

During the course of the audit, the District submitted its October 2008 forecast. This forecast showed a potential deficit of approximately 2.9 million in FY 2009-10, which could increase to \$28.9 by FY 2012-13, even assuming that it was able to renew existing operating levies that would otherwise expire. In November 2008, voters approved the replacement of an existing operating levy, plus a new 4 mill levy. The District subsequently developed a revised five-year forecast in February 2009, which included the revenue from both levies. This updated forecast shows a potential negative ending fund balance of approximately \$2.9 million FY 2010-11 which increases to 21.2 million by FY 2012-13. However, if the District is successfully in its plans to generate additional revenue, the deficit would decrease to approximately \$2.5 million in FY 2011-12 and \$8.1 million by FY 2012-13.

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

- Financial Systems;
- Human Resources;
- Facilities;
- Transportation; and
- Food Service.

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

District Overview

Marysville EVSD encompasses 140 square miles and is located in Union County. In FY 2007-08, the District provided educational services to 5,247 preschool through grade twelve students. That same fiscal year, the District employed 613.7 full-time equivalent (FTE) staff, consisting of 24.0 FTE administrators, 348.4 FTE educational personnel, 41.0 FTE teaching aide staff, 13.0 FTE professional/ technical personnel, 59.7 FTE office/clerical staff, and 127.6 FTE operations and other staff. The regular education student-to-teacher ratio was 19.0 to 1.

For FY 2007-08, ODE reported that the Marysville EVSD received 50.6 percent of its revenues from local sources, 45.0 percent from the State, and 4.5 percent from federal and other sources. ODE also reported that the District spent \$9,695 per pupil, which was below the State average of \$9,939. For FY 2007-08, Marysville EVSD was categorized as an *effective* district, having met 27 of 30 academic performance indicators established by ODE and a performance index score of 97.6. However, the District did not meet its adequate yearly progress goals that year.

District voters approved a bond issue in August 2005 to construct, expand, and renovate school buildings. During FY 2008-09, the District operated eight buildings: five elementary school buildings, one intermediate school, one middle school, and one high school. To reduce its costs, the District closed an elementary school and middle school for FY 2008-09, but planned to reopen them based on expected enrollment growth. Marysville EVSD experienced an average increase in enrollment of approximately 3.6 percent per year from FY 1999-2000 through FY 2007-08. However, the District's enrollment decreased by 0.4 percent in FY 2008-09.

Historically, Marysville EVSD provided transportation service to kindergarten through grade 12 students who lived one mile away from their assigned schools. However, to help address projected deficits, the District reduced transportation service in FY 2008-09 to students who live two miles from their assigned school. Further, high school students are only bused from a limited number of "cluster stops."

Certificated employees such as teachers, counselors, and nurses are represented by the Marysville Education Association. Non-teaching classified employees are not represented by a union, but are governed by an employee handbook. Certain contractual and employment provisions were reviewed and compared with similar districts in the area and State law (see **human resources**).

The District offers employees a choice of three medical plans with below average premiums but varying costs to the Board. It also provides dental and vision insurance at no cost to the employees. Historically, the Board has also paid a portion of its employees' required retirement contributions.

While Marysville EVSD has taken several steps to reduce and avoid projected deficits, Board members, District administrators, and the community will have to make difficult decisions regarding District operations. Some of the recommendations in this performance audit are subject to negotiation, but represent opportunities for significant cost savings. Enhanced local revenue or additional savings not identified by this performance audit would provide the District a greater range of choices to avoid deficits. Conversely, failure to implement cost saving strategies may require Marysville EVSD to make additional reductions in mission critical service areas, such as educational personnel.

Objectives, Scope, and Methodology

Performance audits are defined as engagements that provide assurance or conclusions based on evaluations of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.¹

The performance audit of Marysville EVSD was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). These standards require that AOS plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives.

To complete this report, auditors gathered and assessed data from various sources pertaining to key operations, conducted interviews with District personnel, and assessed requested information from Marysville EVSD and other school districts. AOS developed a composite of ten selected districts which was used for peer comparisons. Those peer districts were specifically selected in order to compare Marysville EVSD's operations and approaches to service delivery with other similar districts with low costs, high academic performance ratings, and similar demographics. **Table 1-1** shows the selected peer districts that were used for comparison purposes throughout the audit.

¹ Government Auditing Standards, July 2007 Revision, United States Government Accountability Office.

Table 1-1: Selected Peer Districts

District Name	Enrollment	Performance Index Score	Expenditures Per Pupil	Percentage of Students with Disability ¹
Marysville EVSD (Union Co).	5,080	96.5	\$9,756	15.1
Peer Districts				
Green LSD (Summit County)	4,033	103.4	\$8,982	11.1
Wadsworth CSD (Medina County)	4,530	102.3	\$7,960	8.9
Highland LSD (Medina County)	3,211	103.6	\$7,834	10.0
Chardon LSD (Geauga County)	3,223	103.2	\$8,321	10.6
Lebanon CSD (Warren County)	5,317	100.2	\$7,182	10.8
Perry LSD (Stark County)	4,796	100.2	\$8,271	13.0
Little Miami LSD (Warren County)	3,592	100.6	\$8,866	10.4
Miamisburg CSD (Montgomery County)	5,455	98.8	\$9,158	12.2
Southwest Licking LSD (Licking County)	3,742	96.5	\$8,199	14.2
Cloverleaf LSD (Medina County)	3,242	98.6	\$7,904	10.9

Source: Ohio Department of Education Data FY 2006-07

¹ Percentage of Students with Disability shows the percentage of public students in a district who have individualized education plans (IEP) due to a handicapping condition and require special assistance.

External organizations and sources were also used to provide comparative information and benchmarks. They included ODE, the Government Finance Officers Association (GFOA), the State Employment Relations Board (SERB), the National State Auditors Association (NSAA), and the United States Government Accountability Office (GAO), and other related best practices. Information used as criteria (benchmarks or leading practices) was not tested for reliability.

The performance audit process involved significant information sharing with Marysville EVSD, 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 impacting selected areas, and to share proposed recommendations to improve or enhance operations. Throughout the audit process, input from the District was solicited and considered when assessing the selected areas and framing recommendations. Finally, Marysville EVSD provided verbal and written comments in response to the various recommendations, which were taken into consideration during the reporting process. Where warranted, the report was modified based on the District's comments.

The Auditor of State and staff express their appreciation to Marysville EVSD for its cooperation and assistance throughout this audit.

Subsequent Events

During the course of this audit, House Bill 1 (HB1) was enacted into law. 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. These requirements may increase MEVSD's costs and should be considered in the District's staffing and financial recovery plan.

According to MEVSD's July, 2009 foundation settlement report from ODE, the District will receive \$454,338 in American Recovery and Reinvestment Act (ARRA) "stimulus" funds. 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 increase revenues and reduce operating expenditures.

Finally, MEVSD has made several cost reductions since the completion of the audit. These cost reductions are outlined in the District's response letter.

Noteworthy Accomplishments

This section of the executive summary highlights specific Marysville EVSD accomplishments identified during the course of the audit.

Maintenance Staffing – Marysville EVSD's maintenance function is highly effective when compared with national benchmarks. This is reflective of a well-run maintenance function and staff who make effective use of existing resources to address identified tasks in an acceptable manner.

Health Care Benefits – Marysville EVSD has formed an insurance committee and contracted with a local firm specializing in employee benefits. Through these two resources, the District has employed a number of innovative approaches in its health insurance plans, including implementation of three high deductible health plans and a voluntary employees' beneficiary association (VEBA), which enables the District to make tax-free contributions into a trust, which can then be used to pay for employees' eligible out-of-pocket health care costs. Through its efforts, Marysville EVSD has achieved expenditure levels in FY 2008-09 that are 22.1 percent lower than the SERB regional average (based on premium amounts and employee contributions) for FY 2007-08. Although the District may be able to generate additional savings through increased employee contributions (see **R3.7**), its innovative approach to providing coverage to its employees should serve as a model for other school districts and governments throughout the State.

Conclusions and Key Recommendations

The following are key recommendations from the performance audit report. As school district issues are often complex, users of this report are encouraged to examine the full findings and recommendations contained in the detailed sections of the report.

In the area of finance and strategic management, Marysville EVSD should:

- Implement the performance audit recommendations contained within this audit, with an emphasis on accomplishing those with financial implications for FY 2009-10. If fully implemented, these recommendations should offset projected deficits through FY 2011-12. However, if projections hold true and the District does not obtain additional revenue, further reductions in educational staff will be necessary beginning in FY 2010-11 in order to avoid a deficit at the end of the five-year forecast period.
- Develop a longer-term strategic plan based on the goals and strategies in its Continuous Improvement Plan (CIP) that links both educational and operational goals to the District's five-year forecast and budgetary decisions.
- Enhance its financial management policies to include elements of GFOA recommended practices. These policies should be tailored specifically to the District and its operations.
- Develop a comprehensive purchasing manual, which incorporates all existing internal controls used during the purchasing process, including a policy requiring timely payments.
- Enhance its payroll policies and develop written procedures to improve its internal controls.

In the area of human resources, Marysville EVSD should:

- Eliminate at least 24 FTE office/clerical positions, 12 FTE regular teacher positions, 6 FTE ESP teacher positions, and 4 school nurse positions to bring staffing levels more in line with the peer average. If it is unable to eliminate the projected deficits in its five-year forecast, Marysville EVSD should consider making further staff reductions beyond the peer averages to reduce its salary costs. Specifically, the District should consider making additional reductions of 9 FTE positions in ESP or regular teachers.
- Limit future negotiated wage increases to 1 percent to bring its compensation in line with similar area districts and reduce its projected deficits.
- Bring its extracurricular activity expenditures more in line with the peer average by reevaluating its supplemental salary schedules and/or reducing the number of supplemental positions.
- Increase the employee contribution rates for its medical insurance plans to bring them in line with industry standards and generate savings to address its projected deficits.

- Seek to decrease its dental insurance premiums and negotiate employee contributions so that its dental insurance costs are more in line with the SERB averages for the Columbus Region. Additionally, the District should negotiate employee contributions of at least 15 percent for vision insurance to also be more consistent with the SERB averages.
- Investigate strategies for reducing special education costs while continuing to provide a high quality education for the District's special needs students. Specifically, the District should consider the reduction of up to 28.0 FTE teacher aides, which will bring its spending on special needs aides and its overall special education spending to a level comparable to the peers.

In the area of facilities, Marysville EVSD should:

- Develop a formal facilities plan that is consistent with leading practices, which will help the District identify and address long-term facilities needs and ensure appropriate funding in relation to its educational programs.
- Develop a handbook for custodial and maintenance operations that contains specific instructions on the performance of routine and non-routine tasks and performance standards to clarify staff expectations and evaluate individual performance.
- Delay the planned reopening of the Marysville Middle School and the East Elementary School until projected deficits are addressed and enrollment trends suggest that the District will need additional space.

In the area of transportation, Marysville EVSD should:

- Increase its transportation operational efficiency through the elimination of at least five buses to bring the District's riders per bus in line with the peer average.²
- Formalize its agreement to purchase fuel from its supplier through a written agreement. Once a formal agreement is in place, the District should periodically evaluate the agreement to determine the cost effectiveness of continuing to purchase its diesel fuel from the selected vendor.
- Develop a formal bus replacement plan, in conjunction with its preventive maintenance plan, to help ensure that bus replacement needs are effectively evaluated and funding needs are communicated to the Board and public.

² District officials have indicated their intent to increase ridership, rather than reduce buses. If successful, such efforts could make the District's transportation operation more efficient, but MEVSD would need to identify financial savings from other areas to offset the decision not to reduce buses.

In the area of food service, Marysville EVSD should:

- Charge all food service related expenses to the Food Service Fund to provide a more accurate financial picture which will, in turn, improve decision-making related to revenue and program adjustments.
- Reduce and reallocate labor hours from its daily food service operations. Specifically, the District should eliminate up to 37 labor hours from the high school and reallocate 3 labor hours from the high school to Edgewood Elementary School.

Issues for Further Study

Auditing standards require the disclosure of significant issues identified during an audit that AOS did not review in depth. These issues may not be directly related to the audit objectives or may be issues that the auditors do not have time or the resources to pursue. AOS has identified the following as an issue that may require further study:

Maintenance Staffing – If Marysville EVSD determines that it should reopen Marysville Middle School and/or East Elementary School, it should evaluate maintenance staffing and the potential need to adjust staffing. The addition of both buildings would necessitate day-to-day maintenance of an additional 219,336 square feet, creating a workload of approximately 234,000 square feet per FTE. If the District was to increase maintenance staffing, it should target maintaining a square footage per FTE comparable to current operations.

Summary of Financial Implications

The following table summarizes the performance audit recommendations that contain financial implications. These recommendations provide a series of ideas or suggestions that Marysville EVSD should consider. Some of the recommendations depend on labor negotiations or collective bargaining agreements. Detailed information concerning the financial implications, including assumptions, is contained within the individual sections of the performance audit.

Summary of Performance Audit Recommendations

	Estimated Annual Savings
Recommendations Not Subject to Negotiation	
R3.1 Eliminate 24.0 FTE office/clerical staff	\$811,000
R3.2 Eliminate 12.0 FTE regular teacher positions	\$761,000
R3.3 Eliminate 10.0 FTE educational service personnel	\$742,000
R3.4 Eliminate 9.0 FTE ESP or regular teachers ¹	\$761,000
R3.6 Reduce extracurricular expenditures	\$198,000
R3.12 Reduce special needs expenditures by 28.0 FTE teacher aide positions ¹	\$829,000
R4.5 Delay planned opening of middle school ¹	\$522,000
R5.1 Eliminate five active buses	\$164,000
R6.1 Allocate all food service related expenditures to the Food Service Fund	\$63,000
R6.2 Reduce food service labor hours at the high school	\$75,000
Cost Savings Not Subject to Negotiation	\$4,926,000
Recommendations Subject to Negotiation	
R3.5 Limit wage increases to 1 percent	\$690,000
R3.7 Increase employee contributions for health insurance	\$89,000
R3.8 Bring dental premium rates in line with SERB averages and negotiate employee contributions of at least 15 percent for dental and vision insurance	\$190,000
Cost Savings Subject to Negotiation	\$969,000
Total Cost Savings from Performance Audit Recommendations ²	\$5,895,000

Source: Performance audit recommendations

¹ Savings would not be realized until FY 2010-11.

² Not all savings impact the General Fund.

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Financial Systems

Background

This section focuses on financial systems (strategic and financial management) in the Marysville Exempted Village School District (Marysville EVSD, or the District). It analyzes strategic planning, historical revenue and expenditures, and the current financial condition of Marysville EVSD for the purpose of developing recommendations to improve financial management and decision making. Plans, procedures and operations were evaluated against leading practices, industry benchmarks, operational standards, and selected peer districts¹. Leading practices and industry standards were drawn from various sources including the Ohio Department of Education (ODE), the Government Finance Officers Association (GFOA), the National State Auditors Association (NSAA), and the United States Government Accountability Office (GAO).

Treasurer's Office Operations

The Treasurer's Office is responsible for budgeting, forecasting, tracking District revenues and expenditures, developing financial statements, managing the District's payroll, accounts payable, and accounts receivable functions, and maintaining records of the District's fixed assets. The Treasurer's Office consists of seven full-time employees, including the Treasurer, a secretary, two employees who establish and monitor budgets, two employees who process and support the District's payroll, and an employee who manages inventory and special projects. The Treasurer has been with the District since 2001 and reports directly to the Board of Education (the Board).

Financial History and Condition

The five-year forecast that the District submitted to ODE in October 2008 projected a potential deficit of over 53 million by FY 2012-13. In November 2008, District residents passed a new 4 mill five-year operating levy and replaced a five mill five-year operating levy that was set to expire. Subsequently, in February 2009, the District submitted a new five-year forecast that showed potential deficits cumulating to approximately \$30.8 million by FY 2012-13. If voters renew a 6.56 mill levy set to expire in FY 2009-10, the cumulative deficit would be reduced to a projected \$21 million.

¹The peers include: Chardon LSD (Geauga County), Cloverleaf LSD (Medina County), Green LSD (Summit County), Highland LSD (Medina County), Lebanon CSD (Warren County), Little Miami LSD (Warren County), Miamisburg CSD (Montgomery County), Perry LSD (Stark County), Southwest Licking LSD (Licking County), and Wadsworth CSD (Medina County).

Prior to Amended Substitute House Bill (HB) 66, which took effect in FY 2005-06, the District relied heavily on revenues from tangible personal property tax (TPPT) for regular operations and construction projects. In FY 2005-06, TPPT represented approximately 25 percent of the five-year forecast revenue compared with about 7.5 percent of projected revenue in FY 2008-09. HB 66 reduces tangible personal property valuations by approximately 25 percent per year until FY 2009-10. However, districts are being reimbursed for a portion of the lost TPPT revenue with State funds generated by the commercial activity tax (CAT) until FY 2009-10, after which a phase out begins which will last through FY 2016-17. Once it is completed, the phase out of TPPT will reduce the District's total assessed valuation by approximately 30 percent. **Table 2-4** compares Marysville EVSD's assessed valuation and local tax collections to the peer average for FY 2007-08. FY 2004-05 data for Marysville EVSD is shown to provide historical perspective.

Table 2-1: Assessed Valuation and Local Tax Collections

	Marysville EVSD FY 2004-05	Marysville EVSD FY 2007-08	Peer Average FY 2007-08	Difference	Percent Difference
Formula ADM	4,780.98	5,102.22	4,057.04	1,045.18	25.76%
Assessed Valuation	\$680,793,974	\$786,080,027	\$693,207,483	\$92,872,543	13.40%
Assessed Valuation Per ADM	\$142,396	\$154,066	\$172,894	(18,828)	(10.89%)
Millage Rate	45.86	45.86	51.12	(5.26)	(10.29%)
Effective Millage					
> Residential (Class I)	29.70	27.91	28.01	(0.10)	(0.36%)
> Business (Class II)	40.39	36.29	28.62	7.68	26.82%
Property / Income Tax Collections	\$25,406,753	\$21,538,939	\$16,285,714	\$5,253,224	32.26%
Collections Per ADM	\$5,314	\$4,221	\$4,081	140.16	3.43%
Dollars Collected Per ADM as a Percent of Assessed Valuation per ADM	3.73%	2.74%	2.38%	0.36%	14.93%
Property / Income Tax Collections Per Effective Millage					
> Residential (Class I)	\$855,446	\$771,728	\$581,940	189,788.59	32.61%
> Business (Class II)	\$629,036	\$593,523	\$574,460	19,063.04	3.32%

Source: Ohio Department of Education

Table 2-1 shows that although the District brings in more money in property/income tax collections, and has a higher assessed valuation than the peer average, it has a greater number of students to support with that money. Marysville EVSD's higher assessed valuation compared to the peer average can be partially associated with the Honda car manufacturing plant and the large amount of commercial property that exists within the District. When comparing the overall dollars collected per ADM as a percent of assessed valuation per ADM, Marysville EVSD is collecting a higher percentage of the assessed valuation in comparison to the peer districts.

Table 2-4 also shows the impact on the assessed valuation variables based on HB 66 and the phase out of TPPT. Although the assessed valuation increased 15.5 percent from FY 2004-05 to FY 2007-08, the dollars collected per ADM as a percent of assessed valuation per ADM has decreased by approximately 26.6 percent. This would suggest that while the assessed valuation has increased, tax collections have not grown at the same rate as the ADM. The District is, therefore, currently operating with fewer dollars on a per ADM basis than in FY 2004-05. The smaller collection rates can be attributed directly to the loss of TPPT, which will only be fully reimbursed by the State until FY 2009-10.

In order to reduce projected deficits, the District has made several reductions in expenditures, which have saved the District approximately \$1.3 million. Those reductions include:

- Employees picking up a larger share of their benefit costs with increases in co-pays, co-insurance, and deductibles;
- Elimination, consolidation and postponed hiring of staff positions;
- An increase in pay-to-participate and travel fees;
- Restrictions on field trips;
- An increase in school lunch costs to cover the increases in food costs;
- Postponement of building improvement and repair projects;
- Elimination of computer and technology purchases;
- Reduction in paper and copier utilization;
- A move to a 2-mile non-transportation zone for high school busing;
- Elimination of scheduled bus purchases;
- Modification of building temperatures; and
- Increase in district facility usage charges.

However, during the course of the audit, the District was required to repay Honda nearly \$524,000 because of TPPT overpayments. The District's five-year forecast, which was updated in February 2009, is shown in **Table 2-2**.

Table 2-2: Marysville EVSD 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
Revenue:								
General Property Tax	\$14,388	\$15,647	\$15,632	\$17,862	\$18,025	\$17,525	\$18,275	\$19,188
Tangible Personal Property Tax	\$10,622	\$8,269	\$5,907	\$3,533	\$1,620	\$1,504	\$1,504	\$1,504
Unrestricted Grants-in-Aid	\$13,456	\$13,975	\$15,057	\$15,465	\$17,428	\$18,151	\$18,976	\$19,235
Restricted Grants-in-Aid	\$187	\$244	\$239	\$233	\$242	\$247	\$251	\$250
Property Tax Allocation	\$1,918	\$4,579	\$5,277	\$7,921	\$7,360	\$6,311	\$3,134	\$2,835
All Other Revenues	\$1,510	\$1,485	\$1,548	\$1,519	\$1,375	\$1,544	\$1,621	\$1,702
Total Revenues	\$42,081	\$44,198	\$43,660	\$46,533	\$46,051	\$45,282	\$43,761	\$44,714
Total Other Financing Sources	\$848	\$918	\$868	\$601	\$433	\$514	\$595	\$545
Total Revenues and Other Financing Sources	\$42,928	\$45,116	\$44,528	\$47,134	\$46,484	\$45,796	\$44,356	\$45,259
Expenditures:								
Personal Services	\$26,194	\$28,011	\$29,350	\$28,676	\$30,500	\$31,967	\$34,044	\$35,927
Employees' Retirement / Insurance Benefits	\$9,562	\$10,510	\$10,786	\$10,478	\$11,367	\$12,080	\$12,959	\$13,816
Purchased Services	\$3,394	\$3,192	\$3,633	\$3,975	\$4,116	\$4,421	\$4,590	\$4,764
Supplies and Materials	\$1,069	\$1,160	\$1,175	\$1,514	\$1,839	\$1,964	\$1,993	\$2,052
Capital Outlay	\$180	\$61	\$51	\$233	\$60	\$61	\$63	\$65
Intergovernmental	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Debt Service	\$1,022	\$963	\$923	\$862	\$807	\$757	\$706	\$667
Other Objects	\$659	\$710	\$681	\$737	\$766	\$797	\$829	\$862
Total Expenditures	\$42,080	\$44,606	\$46,600	\$46,475	\$49,454	\$52,047	\$55,183	\$58,153
Other Financing Uses								
Operating Transfers- Out	\$1	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Advances- Out	\$32	\$100	\$109	\$50	\$50	\$50	\$50	\$50
All Other Financing Uses	\$0	\$1	\$0	\$0	\$0	\$0	\$0	\$0
Total Other Financing Uses	\$33	\$101	\$109	\$50	\$50	\$50	\$50	\$50
Total Expenditures and Other Financing Uses	\$42,113	\$44,707	\$46,710	\$46,525	\$49,504	\$52,097	\$55,233	\$58,203
Result of Operations (Net)	\$815	\$409	(\$2,182)	\$609	(\$3,021)	(\$6,301)	(\$10,877)	(\$12,944)
Balance July 1	\$2,686	\$3,501	\$3,910	\$1,728	\$2,337	(\$684)	(\$6,984)	(\$17,861)
Cash Balance June 30	\$3,501	\$3,910	\$1,728	\$2,337	(\$684)	(\$6,984)	(\$17,861)	(\$30,805)
Estimated Encumbrances June 30	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reservation of Fund Balance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unreserved Fund Balance June 30	\$3,501	\$3,910	\$1,728	\$2,337	(\$684)	(\$6,984)	(\$17,861)	(\$30,805)
Replacement / Renewal Levies								
Property Tax – Renewal or Replacement	\$0	\$0	\$0	\$0	\$1,352	\$2,640	\$2,732	\$2,857
Cumulative Balance of Replacement / Renewal Levy	\$0	\$0	\$0	\$0	\$1,352	\$3,993	\$6,726	\$9,584
Fund Balance for Certifying Contracts and Other Obligations	\$3,501	\$3,910	\$1,727	\$2,337	\$668	(\$2,990)	(\$11,135)	(\$21,221)
New Levies								
Property Tax – New ¹	\$0	\$0	\$0	\$0	\$1,050	\$3,175	\$4,353	\$4,566
Cumulative Balance of New Levies	\$0	\$0	\$0	\$0	\$1,050	\$4,226	\$8,580	\$13,146
Unreserved Fund Balance June 30	\$3,501	\$3,910	\$1,728	\$2,337	\$1,720	\$1,236	(\$2,554)	(\$8,075)

Source: Marysville Exempted Village School District and ODE

¹This includes two renewals of existing levies.

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. At the time the forecast in **Table 2-2** was developed, the District was projecting a negative unreserved fund balance beginning in FY 2011-12, which would grow to an over \$21 million deficit in FY 2012-13 without new operating revenue.

The performance audit included a review of the assumptions that have a significant impact on the forecast, such as general property tax, unrestricted and restricted grants-in-aid, personal services, employees' retirement and insurance benefits, purchased services, and supplies and materials. AOS analyzed the District's assumptions and methodologies and found that they were sound, well-documented, and appropriate.

Expenditures

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 expenditures by function level should continually be evaluated and prioritized. **Table 2-3** compares Marysville EVSD's FY 2007-08 expenditures on a per pupil basis to the peer average.

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

	Marysville EVSD			Peer Average			Difference Per Student	Percent Difference
	Total \$	\$ Per Student	Percent of Total	Total \$	\$ Per Student	Percent of Total		
Administration	\$5,975,420	\$1,145	11.8%	\$3,801,434	\$944	10.7%	\$201	21.3%
Operations Support	\$8,957,783	\$1,716	17.7%	\$7,329,868	\$1,820	20.6%	(\$104)	(5.7%)
Staff Support	\$1,847,642	\$354	3.7%	\$620,913	\$148	1.7%	\$206	139.7%
Pupil Support	\$6,434,901	\$1,233	12.7%	\$3,843,246	\$946	10.8%	\$286	30.3%
Instruction	\$27,394,389	\$5,248	54.1%	\$19,910,300	\$4,847	56.1%	\$401	8.3%
Total	\$50,610,135	\$9,695	100.0%	\$35,505,761	\$8,705	100%	\$991	11.4%

Source: Ohio Department of Education, Expenditure Flow Model

As **Table 2-3** shows, Marysville EVSD spent 11.4 percent more per pupil than the peer average in FY 2007-08. Implementation of the recommendations in this performance audit would help bring the District's expenditures per pupil closer to with the peer average. The following is a brief explanation of District spending:

- **Administration:** In FY 2007-08, Marysville EVSD spent approximately 21 percent more per pupil than the peers. Aside from salary and benefit expenses, which represent 50.3 percent of Administration expenditures, the majority of these costs were associated with services relating to the Office of the Superintendent, Offices of Building Principals, and Office of the Treasurer, along with costs associated with the Director of Business Services (see **human resources**). These expenditures do not relate directly to the education of students. Instead, they encompass expenses relating to planning, research, information services, staff services, and data processing. By implementing the

recommendation to reduce clerical staff (see **R3.1**), the District could reduce its administration expenditures to approximately \$994 per student, which would be only 5.4 percent above the peer average.

- **Operations Support:** In FY 2007-08, Marysville EVSD's operations support costs were nearly 6 percent per pupil below the peer average. These expenditures are comprised of salaries, wages, and benefits for the direction of maintenance, transportation, and the food service operations (see **facilities, transportation, and food service**). Operations support also includes facilities-related operations at the building and central office levels, as well as any purchasing for the enterprise funds, the largest of which is the lunchroom operation (see **food service**). The District should be commended for spending less than the peer average on operations support.
- **Staff Support:** In FY 2007-08, Marysville EVSD spent nearly 140 percent more per pupil than the peer average. Expenditures in this category are related to staff needs, such as professional development, training, and tuition reimbursement. The majority of the costs in this category were associated with instruction and curriculum development services, instructional staff training services, and classroom support-special education aides.
- **Pupil Support:** In FY 2007-08, Marysville EVSD's pupil support expenditures were approximately 30 percent per pupil above the peer average. These expenditures are related to student needs outside of the classroom, such as guidance counseling, help in the media center or library, guidance counseling, field trips, and psychological testing. The majority of the costs in this category were associated with guidance services, instructional staff- classroom support, and computer-assisted instruction services.
- **Instruction:** In FY 2007-08, Marysville EVSD spent approximately 8 percent more per pupil on instruction than the peer average. This function includes costs for teachers, teacher aides, and paraprofessionals, in addition to costs associated with instructional materials such as computers, books and other supplies and materials that are used in the classroom setting. These expenditures are directly related to the education of students. The majority of these costs can be associated with regular instruction at the various schools (elementary, middle, and high schools) and instruction of handicapped students. The differences in expenditures between Marysville EVSD and the peer average can be partially attributed to spending relating to Marysville EVSD's special education program (see **human resources**).

Table 2-4 compares Marysville EVSD's five-year forecast expenditures to the peer average for FY 2007-08. The five-year forecast includes only the District's general, emergency levy, debt service, and poverty based assistance (PBA) funds, while the EFM (see **Table 2-3**) includes all spending on the education of students including permanent improvement, building, food service,

special trust, and public school support funds, along with funds for several state and federal grant programs.

Table 2-4: Five-Year Forecast Historical Expenditures Comparison

FY 2007-08	Marysville EVSD	Dollars Per Student	Peer District Average	Dollars Per Student	Difference Per Student	Percent Difference
Personnel Services	\$29,350,361	\$5,623	\$20,036,323	\$4,909	\$714	14.5%
Employees' Retirement / Insurance Benefits	\$10,786,414	\$2,066	\$6,976,706	\$1,722	\$344	20.0%
Purchased Services	\$3,633,111	\$696	\$3,771,528	\$930	(\$234)	(25.2%)
Supplies and Materials	\$1,175,268	\$225	\$1,191,511	\$299	(\$74)	(24.8%)
Capital Outlay	\$51,005	\$10	\$287,389	\$68	(\$58)	(85.5%)
Intergovernmental	\$0	\$0	\$0		\$0	0.0%
Debt Service	\$855,000	\$164	\$339,534	\$91	\$72	79.3%
Interest and Fiscal Charges	\$68,030	\$13	\$77,180	\$20	(\$7)	(36.2%)
Other Objects	\$680,967	\$130	\$633,873	\$154	(\$24)	(15.5%)
Total Expenditures	\$46,600,156	\$8,927	\$33,271,111	\$8,181	\$746	9.1%

Source: Ohio Department of Education

As shown in **Table 2-4**, Marysville EVSD spent approximately 9 percent more per pupil than the peer average in total five-year forecast expenditures. The District spent more than the peer average on personnel services, employees' retirement/insurance benefits, and debt service. The majority of the debt service expenditures can be attributed to HB 264 projects. By implementing the staff reductions recommended in **human resources**, the District will be able to bring its expenditures in the personnel services and employees' retirement/insurance benefits categories closer to the peer average.

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:

- Does the District's financial data appear to be valid and reliable?
- What has been the District's recent financial history?
- How do the District's revenue and expenditures per pupil compare with peer districts?
- Does the District have comprehensive financial policies and procedures that meet GFOA recommended practices?
- Do the District's forecasting and budgeting processes meet leading practices?
- What is the likely financial position of the District based on the implementation of the performance audit recommendations?
- Does the District report appropriate financial information to management and the community?
- Has the District developed a strategic plan which links educational and operational plans and meets leading practices?
- Does the District have a comprehensive purchasing policy and corresponding procedures that meet leading practices?
- Does the District effectively manage payroll operations?
- Has the District established inventory controls over consumable supplies and materials that meet leading practices?

AOS reviewed the reliability of data, the financial history, and revenue and expenditures in comparison to peer district for background purposes. Marysville EVSD's processes for budgeting and forecasting, information sharing, and inventory controls were found to be comparable to recommended practices.

Recommendations

Planning

R2.1 Marysville EVSD should develop a longer-term strategic plan based on the goals and strategies in its Continuous Improvement Plan (CIP) that links both educational and operational goals to the District's five-year forecast and budgetary decisions. Once a comprehensive strategic plan is adopted and approved, Marysville EVSD should assess all parts of the plan on an annual basis and amend its priorities, as appropriate, to reflect changes in internal and external conditions.

Marysville EVSD has a Continuous Improvement Plan (CIP) which essentially functions as its strategic plan. The CIP includes the District's vision, mission, beliefs, and goals, along with building level and departmental strategies for achieving those goals. The District's CIP goals include:

1. Improve Student Performance;
2. Enhance Internal and External Communication; and
3. Provide a Safe and Healthy Environment for all.

In the CIP, the District outlines the building level and departmental level action plans for the year for achieving these three goals. The action plans consist of the following elements:

- A SMART Goal: A goal that is Specific, Measurable, Achievable, Realistic, and Time Bound (SMART);
- A spelling out of the steps that have to be followed to reach the SMART goal;
- A clarification of who will be responsible for making sure that each step is successfully completed; and
- A time schedule for when each step must take place and how long it is likely to take to achieve the goal.

According to *Recommended Budget Practices on the Establishment of Strategic Plans* (GFOA, 2005), entities should develop a multi-year strategic plan that provides a long-term perspective for services delivered and budgeting, thus establishing logical links between authorized spending and annual goals based on identified needs, projected enrollment, and revenues. Accordingly, entities should take the following actions when developing strategic plans:

- 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.

North Union Local School District (Union County) and Westerville City School District (Franklin County) are examples of school districts that have successfully developed long-term strategic plans that link budgetary decisions and forecast projections to educational and operational goals.

According to OAC 3301-35-03(A), a strategic plan guides the school district and key stakeholders in the ongoing measurement of performance to assure adequate progress is being made toward strategic goals and objectives. Strategic planning identifies short- and long-range goals and the strategies necessary to achieve them. By maintaining a longer-term strategic plan, Marysville EVSD can gain a better perspective on its future financial needs and develop a more comprehensive approach to balancing its finances with its educational mission. In addition, a strategic plan can serve as a tool to improve communication between the District and community, provide direction for the Board, and align planning and budgeting processes.

Internal Controls

R2.2 Marysville EVSD should enhance its financial management policies to include elements of GFOA recommended practices. These policies should be tailored specifically to the District and its operations. While the District has some financial management policies in place, they lack certain elements of recommended practices. Once the financial management policies are enhanced by adding elements of recommended practices, the District should ensure that its financial and budgetary practices are consistent with these policies.

The District has established financial management policies within its Board Policies, which were developed based on a model provided through the Ohio School Boards Association (OSBA). While the financial management policies are somewhat detailed, they do not include all of the elements of leading practices recommended by the GFOA.² According to GFOA, financial management policies should be an integral part of the development of service, capital, and financial plans and the overall budgeting process. All other adopted budgetary practices should be consistent with these policies. To ensure that

² *Best Practices in Public Budgeting*. Government Finance Officers Association (GFOA, 2000). <http://www.gfoa.org>.

its financial management practices follow recommended guidelines, Marysville EVSD should consider enhancing its current policies to include elements of the following GFOA-recommended practices:

- **Use of One Time Revenue** – A government should adopt a policy limiting the use of one time revenues for ongoing expenditures. The District does not have a policy in place addressing the use of one time revenue. 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. The District does not have a policy in place addressing the use of unpredictable revenues. 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.
- **Balance 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.
- **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. While the District’s administrative guidelines address actions that should be taken when enrollment fluctuates, other unexpected events such as emergencies and natural disasters are not addressed. 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.
- **Stabilization Fund** - A government should develop policies to guide the creation, maintenance, and use of resources for financial stabilization purposes.

By enhancing its current financial management policies to include elements of GFOA-recommended practices, the District could better manage its limited resources and help ensure consistency in financial practices. Such policies can also help the District operate more smoothly, can be used as a tool for financial decision making, and can improve the ability of the District to take timely action when unexpected events occur. In addition,

strong financial policies aid in the overall management of the budget and achievement of the District's long-range goals.

R2.3 Marysville EVSD should consolidate its current ethics policies into one overarching ethics policy which contains all elements of leading practices suggested by the Ohio Ethics Commission (OEC). The policy should require all administrators and staff, including financial staff, to conduct themselves in a manner that avoids favoritism, bias, and the appearance of impropriety. Once adopted, the policy should be distributed and discussed with all administrators and staff. Each staff member should sign a form acknowledging their receipt and understanding of the ethics policy. The policy should also be posted on the District's website so it is readily available.

Marysville EVSD has several ethics-related policies in place which apply to Board members, financial staff, and general personnel. These policies address issues such as conflicts of interest, staff conduct, staff participation in political activities, staff gifts and solicitations, and financial ethics. However, the District's ethics policies lack some of the elements of leading practices recommended by the OEC and District employees are not required to sign an ethics policy acknowledgement form. Although there is not any evidence of unethical behavior among administrators or staff, consolidating the District's ethics-related policies into one comprehensive policy will help ensure that employees are aware of the guidelines for appropriate behavior when acting on behalf of the District.

According to the OEC sample ethics policy³ for local governments, officials and employees must, at all times, abide by the protections to the public embodied in Ohio's ethics laws. These laws are codified in ORC Chapters 102 and 2921, and have been interpreted by OEC and various Ohio courts. A copy of these laws should be provided to employees and their receipt acknowledged, as required in ORC § 102.09(D). OEC recommends the ethics policy prohibit employees from the following:

- Soliciting or accepting employment from anyone doing business with the [district];
- Using his or her public position to obtain benefits for himself/herself or a family member;
- Holding or benefiting from a contract with, authorized by, or approved by, the [district];
- During public service, and for one year after leaving public service, representing any person, in any fashion, before *any* public agency, with respect to a matter in

³ The Ohio Ethics Commission's sample ethics policy for local government officials can be found online at: http://www.ethics.ohio.gov/ModelEthicsPolicy_localagencies.html

which the official or employee personally participated while serving with the [district]; and

- Using, or authorize the use of, his or her title, the name of the [district], or [the district's acronym], or the [district]'s logo in a manner that suggests impropriety, favoritism, or bias by the [district] or the official or employee.

By creating a single, comprehensive ethics policy that meets leading practices, the Marysville EVSD can ensure that all staff members, particularly those entrusted with District funds, are aware that they are to conduct themselves in a manner that avoids favoritism, bias, and the appearance of impropriety. After the Board adopts a revised ethics policy, it should have staff read and sign the policies to acknowledge their understanding of the Board's expectations.

R2.4 Marysville EVSD should develop a comprehensive purchasing manual, which incorporates all existing internal controls used during the purchasing process, including a policy requiring timely payments. Furthermore, the procedures in the manual should periodically be reviewed to determine whether they are being consistently followed and if they are still relevant to the District's operations.

Marysville EVSD has written purchasing policies in place which address issues such as petty cash accounts, bidding, local purchasing, cooperative purchasing, credit card use, payment procedures, and cash in school buildings. In addition, representatives from the Treasurer's Office meet with teachers at the beginning of each year to explain purchasing processes. The Treasurer's Office also trains department heads on how to enter requisitions, which are reviewed by the principals and approved by the Treasurer. However, Marysville EVSD does not have a formal procedures manual in place that documents processes and supports the Treasurer's Office annual training.

In addition, the District also does not have written purchasing policies specifically pertaining to timely payments or taking advantage of vendor discounts. However, checks are written every week and the Receiving Center staff reviews the files on a biweekly basis to make sure everything that needs to be paid is up to date. Furthermore, at the end of the fiscal year, all outstanding purchase orders are reviewed by the Treasurer's Office to ensure that no payments were missed. A test of the District's purchase orders did not reveal any late payments or missed vendor discounts.

While policies establish what an organization requires, procedures describe how policies will be carried out or implemented. According to *Introduction to Public Procurement* (The National Institute of Governmental Purchasing (NIGP, 2009), procedures manuals are written in detail and intended not just to provide guidance but also to set out the forms, process requirements, and steps for each procurement action. A procedures 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. Procedures manuals should be tailored to meet agency requirements and, at a minimum, should include:

- Procurement goals, objectives, and responsibilities;
- Step-by-step outline of the procurement process, including the processing of requisitions, solicitations, bid evaluation and awards, preparation and issuance of purchase orders and contracts, follow-up, and contract administration;
- Guidelines and steps for client departments for preparing procurement requisitions, developing specifications, receiving and inspection, and reporting and documenting vendor performance;
- Step-by-step outline of the property and supply management programs, including inventory control and management and the transfer or disposal of surplus property;
- Other special procedures, such as a description of a cooperative purchasing program, how to process invoices for payment and how to process call-ups against term contracts and blanket purchase orders; and
- Listing of the 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.

According to *Extension of Federal Prompt-Pay Requirements to State and Local Governments* (GFOA, 1989), timely payment of invoices is an important financial management practice that can save governments money. By carefully timing payments so there are neither late nor early payments, a government can take advantage of discounts, avoid penalties, and maximize return on short-term investments. Furthermore, prompt bill paying reduces vendor costs which, in turn reduces government procurement costs.

The purchasing manual should be written for the guidance of both the procurement staff and those people in other departments who are charged with initiating requisitions. It is good practice to make direct reference to, and in some cases include a copy of, the enabling regulation or policy in a procedures manual. Procedures manuals sometimes include process flow charts to graphically portray the flow of forms and information through the procurement process.

Some Ohio school districts have developed procedures manuals to guide staff through the purchasing process and ensure regulations and district policies are adhered to. For example, Miami East Local School District (Miami County) has a requisition and purchase order handbook that includes references to ORC statutes for purchase order authorization; detailed procedures for preparing purchase orders, emergency purchases,

and creating and managing online requisitions; USAS coding definitions; and sample forms. Elyria City School District (Lorain County) has a finance and purchasing manual that includes purchasing procedures; detailed instructions for using purchase orders; records retention policies; basic accounting instructions; a listing of funds; instructions for dealing with petty cash; and a listing of staff responsibilities and contact information.

While some of the items recommended by NIGP are present in existing policies, Marysville EVSD does not have a formal procedures manual in place to guide employees through the requisition and purchasing process. The Board, Treasurer, and Superintendent could clarify the District's official position on purchasing practices and improve both the consistency and the accountability of those practices by developing, approving, and distributing a purchasing manual. Furthermore, by developing written policies and procedures for timely payments and taking advantage of vendor discounts, the District could potentially save money while reducing the risk of incurring late fees and charges. Moreover, including those policies and procedures in its purchasing manual will ensure that employees are aware of the District's expectations for timely payments.

R2.5 Marysville EVSD should update its bidding policies and guidelines to include provisions for monitoring contracts, performance requirements, and detailed information about the request for proposal (RFP) process. By including these provisions in its bidding policies and guidelines, Marysville EVSD can ensure proper internal controls exist over the contracting process and enhance accountability for selected vendors. Furthermore, by including these provisions in its bidding policies and guidelines, the District can ensure that vendors are aware of the bidding process and performance expectations, which should allow any contract-related problems to be quickly identified and resolved. Lastly, the bidding policies and guidelines should be included in the District's purchasing manual (see R2.4).

Marysville EVSD has a bidding policy in place that meets the requirements established by ORC § 3313.46, which requires a competitive bidding process for purchases above \$25,000. In addition, it is the policy of the Marysville EVSD Board of Education that price quotations will be solicited for items not subject to formal bid requirements. While the District's policy incorporates the majority of elements of leading practices suggested by the National State Auditors Association (NSAA), it does not contain provisions for performance requirements, the request for proposal (RFP) process, or contract monitoring.

According to *Contracting for Services* (NSAA, 2003), governments should develop policies and procedures for the procurement of contracted services. These policies and procedures should include the following elements:

- **Performance Requirements** - Once the decision to contract has been made, the agency should develop performance requirements that will hold vendors accountable for the delivery of quality services.
- **Request for Proposal Process (RFP)** - The decision to issue a request for proposal commits an agency to a formal process based on fair and open competition and equal access to information.
- **Monitoring** - Contract monitoring is an essential part of the contract process. Monitoring should ensure that contactors comply with contract terms, performance expectations are achieved, and any problems are identified and resolved. Without a sound monitoring process, the contracting agency does not have adequate assurance it will receive what it contracts for.

Policies and procedures surrounding contracted services can be useful to help ensure efficient, effective, and accountable vendors are selected. Furthermore, policies and procedures help ensure consistent application of appropriate internal controls during the procurement process.

R2.6 Marysville EVSD should revise its credit card policy to include all elements of GFOA recommended purchasing card practices. A revised policy will help ensure proper internal controls over credit card use and help promote accountability in the procurement process. The revised credit card policy should be included in the District's purchasing manual (see R2.4) and be communicated to all employees authorized to make credit card purchases on behalf of the District.

Marysville EVSD has 31 bank credit cards which can be used for conferences and online purchases. One card has a \$150,000 credit limit, one has an \$8,000 credit limit, and the remaining 29 cards have \$5,000 credit limits. Only principals and administrators have District-issued credit cards. These individuals must sign an acknowledgement form which identifies permissible uses before using the cards.

The Treasurer's Office has an American Express card which can be used for worker's compensation payments and expenses related to the foreign exchange program. Through use of this card for worker's compensation payments, the District has earned \$3,000 worth of points to use for supplies and materials. The Transportation Department also has a gas card which is only used for long distance trips. Finally, the District has store credit cards which are kept in the Treasurer's Office. Individuals must sign cards out and use the District's tax identification card for any purchases. An individual must have a purchase order to use the store cards and must bring back the card and the receipt. Marysville EVSD's credit card policy incorporates some elements of recommended practices, such as guidelines on appropriate uses, procedures for handling disputes and

unauthorized purchases, and segregation of duties. However, the District's credit card policy does not include all elements of recommended practices.

According to, *Purchasing Card Programs* (GFOA, 2003),⁴ if not properly monitored, the issuance of purchasing cards or credit cards to employees could result in internal control issues or abuse. In order to ensure its credit card policy includes all elements of recommended practices, the District should amend its policy to address the following areas:

- Spending and transaction limits;
- Written requests for higher spending levels;
- Recordkeeping requirements;
- Clear guidelines on the appropriate uses of purchasing cards;
- Guidelines for making purchases by telephone, fax, or Internet; and
- Procedures for card issuances and cancellation, lost or stolen cards, and employee termination.

According to *Best Practices* (AOS, Winter 2004),⁵ appropriate policies and procedures pertaining to credit card use will undoubtedly reduce the risks associated with purchasing programs, and help protect against abuse while promoting employee accountability. Without a comprehensive credit card use policy, the District has an increased risk of misuse and abuse of District funds.

Payroll

R2.7 Marysville EVSD should enhance its payroll policies and develop written procedures to improve its internal controls. Furthermore, the policies and procedures should be updated as payroll processes change and be included in a payroll manual or checklist. Updated procedures for all payroll functions will help ensure the accuracy and efficiency of the payroll process.

The District's payroll processes are governed by its Board Policies. However, the District's payroll policies are general in nature and are not accompanied by detailed procedures that contain all of the elements of internal controls recommended by leading practices.

According to *Recommended Practices- Enhancing Management Involvement with Internal Control* (GFOA, 2004),⁶ government entities should maintain clearly

⁴ <http://www.gfoa.org/>

⁵ www.auditor.state.oh.us

⁶ <http://www.gfoa.org/downloads/caafmanaginternalcontrol.pdf>

documented internal control policies over all program areas, which includes the payroll process. Internal controls should be evaluated periodically to ensure that those procedures are adequately designed to achieve their intended purpose, have actually been implemented, and continue to function as designed. Evaluations should also encompass the effectiveness and timeliness of the entity's response to potential control weaknesses. Furthermore, *Assessing Internal Controls in Performance Audits* (GAO, 1990)⁷ recommends a government entity's system of internal controls be clearly documented and address the following issues:

- Recording of transactions and events;
- Execution of transactions and events;
- Separation of duties;
- Supervision; and
- Access to and accountability for resources.

Although Marysville EVSD has several payroll policies in place, those policies lack detailed procedures pertaining to the appropriate level of instruction and internal controls. Without documented procedures in these areas, the District risks payroll errors and, potentially, misuse or abuse of resources. By maintaining appropriate internal controls over payroll operations, the District can promote accountability within the payroll function, while reducing the risk of possible error.

R2.8 Marysville EVSD should formally document its time and attendance policies and procedures and ensure that appropriate internal controls are in place. The policies and procedures should be included in the District's Board Policies and communicated to all District employees. Written time and attendance policies would strengthen Marysville EVSD's controls over this process, while decreasing the risk of inaccurate reporting and potential leave abuse. These policies should be included in a payroll manual and be reviewed on an annual basis or as processes change.

The Treasurer stated that a computerized system is used to track time and attendance for all non-transportation employees. Transportation employees have limited access to computers during the work day therefore they use a time clock to track their time and attendance. Although the District has time and attendance processes and corresponding internal controls that meet the majority of best practices, these processes are not formally documented in the District's Board Policies.

According to *Maintaining Effective Control over Employee Time and Attendance Reporting* (GAO, 2003), control activities should provide reasonable assurance that (1) time and attendance transactions are properly authorized and approved and (2) time and

⁷ <http://archive.gao.gov/t2pbat9/142503.pdf>.

attendance information is accurately and promptly recorded and retained. Furthermore, government entities should have a well-defined organizational structure and flow of time and attendance information with clearly written and communicated policies and procedures setting forth the responsibilities of employees, timekeepers, supervisors, and others regarding recording, examining, approving, and reporting time and attendance information.

Formal, written policies and procedures can effectively ensure that appropriate internal controls exist over Marysville EVSD's time and attendance processes. These policies and procedures can also help promote accountability and accuracy of employee records, while reducing the risk of possible error or abuse of leave.

Five-Year Forecast

R2.9 Marysville EVSD should implement the performance audit recommendations contained in this audit, with an emphasis on accomplishing those with financial implications for FY 2009-10. If fully implemented, these recommendations should offset projected deficits through FY 2011-12. However, if projections hold true and the District does not obtain additional revenue, further reductions in educational staff will be necessary beginning in FY 2010-11 in order to avoid a deficit at the end of the five-year forecast period (see also R3.4). Finally, Marysville EVSD should update its five-year forecast on a regular basis or whenever material changes in assumptions are made or unanticipated events occur.

By implementing the performance audit recommendations, including those subject to negotiation, Marysville EVSD should be able to maintain a positive fund balance through FY 2012-13. However, without new money or additional savings, significant changes and reductions in education services will be required. **Table 2-5** demonstrates the impact of the recommendations on the five-year forecast ending fund balances, assuming the recommendations are fully implemented and no savings or additional revenue is obtained.

Table 2-5: Five-Year Forecast with Recommendations (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
Revenue:								
General Property Tax (Real Estate)	\$14,388	\$15,647	\$15,632	\$17,861	\$18,025	\$17,525	\$18,274	\$19,188
Tangible Personal Tax	\$10,621	\$8,268	\$5,906	\$3,533	\$1,620	\$1,503	\$1,503	\$1,503
Unrestricted Grants-in-Aid	\$13,456	\$13,974	\$15,057	\$15,464	\$17,427	\$18,150	\$18,976	\$19,234
Restricted Grants-in-Aid	\$186	\$244	\$238	\$232	\$241	\$247	\$250	\$250
Property Tax Allocation	\$1,918	\$4,578	\$5,276	\$7,920	\$7,360	\$6,311	\$3,134	\$2,834
All Other Revenues	\$1,509	\$1,484	\$1,548	\$1,519	\$1,375	\$1,544	\$1,621	\$1,702
Total Revenues	\$42,080	\$44,198	\$43,659	\$46,532	\$46,050	\$45,282	\$43,760	\$44,714
Total Other Financing Sources	\$847	\$917	\$868	\$601	\$433	\$514	\$595	\$545
Total Revenues	\$42,928	\$45,116	\$44,527	\$47,134	\$46,483	\$45,796	\$44,355	\$45,259
Expenditures:								
Personal Services	\$26,194	\$28,010	\$29,350	\$28,676	\$30,499	\$31,967	\$34,043	\$35,926
Employees' Retirement/Insurance Benefits	\$9,561	\$10,510	\$10,786	\$10,477	\$11,367	\$12,079	\$12,958	\$13,815
Purchased Services	\$3,394	\$3,191	\$3,633	\$3,975	\$4,115	\$4,421	\$4,589	\$4,764
Supplies and Materials	\$1,068	\$1,160	\$1,175	\$1,514	\$1,838	\$1,963	\$1,992	\$2,052
Capital Outlay	\$179	\$60	\$51	\$232	\$59	\$61	\$63	\$65
Debt Service:								
Debt Service	\$1,021	\$963	\$923	\$861	\$807	\$756	\$706	\$666
Other Objects	\$659	\$709	\$680	\$736	\$766	\$796	\$828	\$861
Total Expenditures	\$42,080	\$44,606	\$46,600	\$46,475	\$49,454	\$52,046	\$55,182	\$58,153
Other Financing Uses								
Operational Transfers-Out	\$1	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Advances-Out	\$31	\$100	\$109	\$50	\$50	\$50	\$50	\$50
All Other Financing Uses	\$0	\$1	\$0	\$0	\$0	\$0	\$0	\$0
Total Other Financing Uses	\$33	\$100	\$109	\$50	\$50	\$50	\$50	\$50
Performance Audit Recommendations	\$0	\$0	\$0	\$0	\$3,708	\$5,683	\$5,819	\$6,045
Total Expenditures and Other Financing Uses	\$42,113	\$44,706	\$46,709	\$46,525	\$45,795	\$46,413	\$49,413	\$52,157
Result of Operations (Net)	\$815	\$409	(\$2,181)	\$609	\$688	(\$617)	(\$5,058)	(\$6,898)
Balance July 1	\$2,685	\$3,500	\$3,909	\$1,727	\$2,337	\$3,025	\$2,407	(\$2,650)
Cash Balance June 30	\$3,500	\$3,909	\$1,727	\$2,337	\$3,025	\$2,407	(\$2,650)	(\$9,548)
Fund Balance June 30 for Certification of Appropriations	\$3,500	\$3,909	\$1,727	\$2,337	\$3,025	\$2,407	(\$2,650)	(\$9,548)
Property Tax - Renewal or Replacement	\$0	\$0	\$0	\$0	\$1,352	\$2,640	\$2,732	\$2,857
Cumulative Balance of Replacement/Renewal Levies	\$0	\$0	\$0	\$0	\$1,352	\$3,993	\$6,726	\$9,584
Fund Balance June 30 for Cert. of Contracts, Salary, Other Obligations	\$3,500	\$3,909	\$1,727	\$2,337	\$4,377	\$6,401	\$4,075	\$35
Unreserved Fund Balance June 30	\$3,500	\$3,909	\$1,727	\$2,337	\$4,377	\$6,401	\$4,075	\$35

Source: AOS and Marysville EVSD

Note: Numbers will vary due to rounding

Table 2-5 shows that by implementing all the recommendations in the performance audit, it would be possible for Marysville EVSD to avoid a deficit during the entire five-year forecast period. **Table 2-6** summarizes the cost savings associated with the recommendations contained within the performance audit. Some recommendations and the associated savings are dependent on the outcome of collective bargaining negotiations. Some recommendations are necessary to avoid the projected deficit and would place Marysville EVSD with fewer staff than other high performing, low cost districts.

Table 2-6: Summary of Financial Implications

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Not Subject to Negotiations				
Human Resources				
R3.1 Eliminate 24 FTE office/clerical staff	\$811,000	\$833,000	\$857,000	\$880,000
R3.2 Eliminate 12 FTE regular teacher positions	\$761,000	\$782,000	\$804,000	\$826,000
R3.3 Eliminate 10 FTE education service personnel teachers	\$742,000	\$763,000	\$784,000	\$806,000
R3.4 Eliminate an additional 9 ESP or regular teachers	\$0	\$761,000	\$783,000	\$804,000
R3.6 Reduce extracurricular expenditures	\$198,000	\$198,000	\$198,000	\$198,000
R3.12 Eliminate 28 FTE teacher aide positions	\$0	\$829,000	\$852,000	\$876,000
Facilities				
R4.5 Delay planned opening of middle school	\$0	\$522,000	\$508,000	\$524,000
Transportation				
R5.1 Reduce five buses	\$164,000	\$166,000	\$167,000	\$169,000
Food Service				
R6.1 Allocate all food service related expenditures to the Food Service Fund	\$63,000	\$65,000	\$68,000	\$71,000
Cost Savings Not Subject to Negotiation	\$2,739,000	\$4,919,000	\$5,021,000	\$5,154,000
Subject to Negotiation				
Human Resources				
R3.5 Limit future wage increases to 1 percent	\$690,000	\$485,000	\$519,000	\$612,000
R3.7 Increase employee health insurance contribution rates to 15 percent	\$89,000	\$89,000	\$89,000	\$89,000
R3.8 Reduce dental insurance premium rates to SERB average and increase employee contributions to 15 percent	\$175,000	\$175,000	\$175,000	\$175,000
R3.8 Increase employee vision insurance contribution rates to 15 percent	\$15,000	\$15,000	\$15,000	\$15,000
Cost Savings Subject to Negotiation	\$969,000	\$764,000	\$798,000	\$891,000
Total Cost Savings from Performance Audit Recommendations	\$3,708,000	\$5,683,000	\$5,819,000	\$6,045,000

Source: Performance audit recommendations

Note Savings are rounded to the nearest thousand. Total savings reported in the revised forecast may vary due to rounding.

Note See the **food service** section for information regarding the financial impact of the performance audit recommendations on the Food Service Fund.

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Human Resources

Background

This section of the performance audit focuses on certain human resource (HR) functions in the Marysville Exempted Village School District (Marysville EVSD or the District), including staffing levels, salary and benefit costs, negotiated agreements, human resource management, board operations, retirement incentives, special education costs, and student achievement programs. The purpose of this section is to analyze how the District performs HR functions and, where opportunities exist, develop recommendations to improve efficiency and business practices. The District's HR functions were evaluated against leading practices, industry standards, the Ohio Revised Code (ORC), the Ohio Administrative Code (OAC), and selected peer districts.¹ Leading practices and industry standards were drawn from various sources including the Ohio Department of Education (ODE), the Society for Human Resource Management (SHRM), the National Education Association (NEA), the Government Finance Officers Association (GFOA), and the State Employment Relations Board (SERB).

Organizational Structure

Marysville EVSD human resources functions are overseen by several administrators, including the Superintendent, Treasurer, Interim Assistant Superintendent, and HR Specialist. In the past, many HR functions were overseen by the Assistant Superintendent, who retired. Rather than replacing this person, the District chose to economize by redistributing the duties among existing administrators, with many duties apportioned between the Treasurer's Office and a building principal who is also serving as Interim Assistant Superintendent. The District also replaced an HR position with an experienced HR Specialist who took on more of the HR functions.

The Superintendent negotiates union contracts and maintains personnel files. The Treasurer's Office is responsible for maintaining salary and benefit information for each employee, processing payroll, and administering health insurance benefits. The Interim Assistant Superintendent and HR Specialist are responsible for the employee recruitment and hiring process for certificated and classified employees, respectively, with all final interviews done by the Superintendent.

¹ The peers include: Chardon LSD (Geauga County), Cloverleaf LSD (Medina County), Green LSD (Summit County), Highland LSD (Medina County), Lebanon CSD (Warren County), Little Miami LSD (Warren County), Miamisburg CSD (Montgomery County), Perry LSD (Stark County), Southwest Licking LSD (Licking County), and Wadsworth CSD (Medina County).

Staffing

Table 3-1 compares Marysville EVSD's FY 2008-09 staffing levels with the peers on a FTE and a per-1,000 student basis. The per-1,000 student comparison mitigates differences in staffing levels caused by differences in the sizes of the peers.

Table 3-1: Staffing Comparison Summary

Classification	FTEs			FTEs per 1,000 Students		
	Marysville EVSD	Peer Average	Difference	Marysville EVSD	Peer Average	Difference
Administrative Personnel ¹	24.0	21.3	2.7	4.8	5.4	(0.6)
Office/Clerical ²	59.7	27.6	32.1	11.9	7.0	4.9
Classroom Teachers ³	230.1	179.3	50.8	45.8	45.0	0.8
Special Education Teachers	57.0	34.0	23.0	11.3	8.5	2.8
Education Service Personnel ⁴	46.3	28.4	17.9	9.2	7.2	2.0
Other Certificated Staff ⁵	15.0	20.7	(5.7)	3.0	5.6	(2.6)
Teacher Aides	41.0	29.0	12.0	8.2	7.1	1.1
Other Technical/Professional Staff ⁶	13.0	7.0	6.0	2.6	1.7	0.9
Other Student Services ⁷	22.8	14.1	8.7	4.5	3.5	1.0
Operations	104.8	107.4	(2.6)	20.9	27.3	(6.4)
Total Staffing	613.7	468.8	144.9	122.2	118.4	3.8

Source: Marysville EVSD payroll information as of January 2009 and peer 2008 EMIS staffing reports.

¹ Administrative Personnel includes district administrators and professional staff with District-wide responsibilities such as legal, public relations, personnel, and planning.

² Office/Clerical includes all office and clerical staff including school building and Treasurer's Office personnel; plus any professional or technical staff performing clerical functions.

³ Classroom teachers include regular and vocational teachers and permanent substitutes.

⁴ Education service personnel include ESP teachers, counselors, librarians, registered nurses, social workers, and visiting teachers.

⁵ Other certificated staff includes curriculum specialists, remedial specialists, tutor/small group instructors, and other professionals.

⁶ Other technical/professional staff includes library aides, computer support staff, and other professional staff.

⁷ Other student services include student services staff less counselors, registered nurses, social work staff, and visiting teachers.

Table 3-1 shows that Marysville EVSD has above-average staffing levels in the following categories: *office/clerical* (see **R3.1**), *classroom teachers* (see **R3.2**), *special education teachers* (see **Table 3-2**), *education service personnel* (**R3.3**), *teacher aides* (see **R3.11**), *other technical/professional staff*, and *other student services*. The *other technical/professional staff* and *other student services* classifications represent only 1.6 percent and 3.6 percent of total District salaries, respectively. Consequently, the opportunity for savings in these areas is limited, and their staffing levels will not be assessed in detail. Moreover, *other student services* are more likely than other categories to include privately contracted services, services shared with other

districts, or services obtained through an educational service center. Thus, staffing levels may not provide accurate comparisons among districts as to the level of personnel actually working in this category. Operations staffing levels are assessed separately in the **transportation, facilities, and food service** sections.

Compensation

District employees receive compensation through salaries and wages, as well as through the Board picking up a portion of their retirement contributions. Marysville EVSD contributes 4.75 percent of each employee's salary toward their required retirement contribution. In FY 2005-06, the Treasurer conducted a cost-benefit analysis which compared the impact of providing all employees with an additional 2.75 percent in retirement pickup or an equivalent increase in salary. The analysis showed that increasing the retirement pickup resulted in only a 2.61 percent increase in net cost to the District, because it would not affect Medicare and workers' compensation payments. This approach enabled the District to minimize its liability costs while increasing the employees' net pay. Therefore, in FY 2006-07, the District increased the retirement pickup from 2.00 to 4.75 percent for steps 0 through 19. Additionally, the District added a step increase of 2.5 percent to the salary schedule at 27 years of experience, enabling these employees to earn higher salaries for the purpose of calculating their pensions (pension payments are based on the retiree's three highest annual salaries). To offset the salary increase at 27 years, the District reduced the retirement pickup back to 2.0 percent for the remainder of the schedule. In FY 2008-09, the District was not able to provide any negotiated wage increases due to budget constraints.

Table 3-2 shows average salaries and salary cost per student for selected categories of personnel. For the purposes of this performance audit, Marysville EVSD's average salaries shown in **Table 3-2** were adjusted to include the retirement pickup. Retirement pick up is not reported in EMIS because it is not included in the District's base salaries.

Salary cost per student reflects the total amount spent on salaries and therefore, takes into account both the average salaries and the number of staff. For example, a category may have lower average salaries but a higher salary cost per student, indicating that the District has more staff in that category relative to the peers.

Table 3-2: Average Salaries and Salaries per Student Comparison

Classification	Average Salaries			Salaries per Student		
	Marysville EVSD	Peer Average	Percent Difference	Marysville EVSD	Peer Average	Percent Difference
Administrative Personnel ¹	\$82,435	\$77,349	6.6%	\$394	\$413	(4.6%)
Office/Clerical ²	\$27,051	\$28,852	(6.2%)	\$321	\$203	58.1%
Classroom Teachers ³	\$54,387	\$54,162	0.4%	\$2,491	\$2,437	2.2%
Special Education Teachers	\$54,083	\$52,144	3.7%	\$614	\$435	41.1%
Education Service Personnel ⁴	\$57,311	\$59,186	(3.2%)	\$528	\$424	24.5%
Other Certificated Staff ⁵	\$59,339	\$42,484	39.7%	\$177	\$193	(8.3%)
Teacher Aides	\$21,074	\$17,846	18.1%	\$172	\$129	33.3%
Other Technical/Professional Staff ⁶	\$40,014	\$27,705	44.4%	\$104	\$41	153.7%
Other Student Services ⁷	\$43,186	\$43,834	(1.5%)	\$196	\$127	54.3%
Operations	\$26,039	\$20,493	27.1%	\$543	\$540	0.6%

Source: Marysville EVSD payroll information as of January 2009, 2008 EMIS staffing and student enrollment reports.

¹ Administrative Personnel includes district administrators and professional staff with District-wide responsibilities such as legal, public relations, personnel, and planning.

² Office/Clerical includes all office and clerical staff including school building and treasurer office personnel; plus any professional or technical staff performing clerical functions.

³ Classroom teachers include regular and vocational teachers and permanent substitutes.

⁴ Education service personnel include ESP teachers, counselors, librarians, registered nurses, social workers, and visiting teachers.

⁵ Other certificated staff includes curriculum specialists, remedial specialists, tutor/small group instructors, and other professionals.

⁶ Other technical/professional staff includes library aides, computer support staff, and other professional staff.

⁷ Other student services include student services staff less counselors, registered nurses, social work staff, and visiting teachers.

As shown in **Table 3-2**, Marysville EVSD has above average salary costs per student in the following classifications: *office/clerical* (see **R3.1**), *classroom teachers* (**R3.2**), *special education teachers*, *education service personnel* (see **R3.3**), *teacher aides* (**R3.11**), *other technical/professional staff*, and *other student services*. An additional analysis was conducted to compare special education teacher salary costs per student with the peers on a per special education basis. Marysville EVSD's salary cost per special education student of \$3,967 was below the peer average of \$4,007.

In addition, AOS compared salary schedules for Marysville EVSD with those of similar school districts in the same geographical area in order to account for market forces within the region that may influence compensation levels. In general, Marysville EVSD's salary schedules provided higher levels of compensation than the similar districts in the area. However, District officials believe that Marysville EVSD competes for staff against a different group of area

districts located around Columbus, which are considered wealthier and consequently able to pay higher salaries than the similar districts identified by AOS. A more comprehensive discussion of these comparisons and a recommendation on compensation levels are contained in **R3.5**.

Benefits

Reducing its medical insurance costs has been an area of focus for Marysville EVSD, which in FY 2008-09 constituted 83.9 percent of its overall insurance costs. With assistance from a local firm specializing in employee benefits and medical management practices, the Treasurer was able to propose and implement a VEBA plan. A VEBA is a voluntary employees' beneficiary association authorized by § 501(c)(9) of the Internal Revenue Code, and is a special type of tax-exempt trust vehicle which provides employee benefits. The VEBA acts as a health reimbursement arrangement (HRA) that enables the District to make tax-free contributions into a trust, which can then be used to pay or reimburse eligible out-of-pocket health care costs and premiums. This approach has enabled the District to offer three high-deductible medical insurance plans, with each plan providing varying levels of coverage and out-of-pocket maximums. By implementing high-deductible medical insurance plans and continually exploring opportunities for savings, the District has managed to achieve insurance expenditure levels in FY 2008-09 that are 22.1 percent lower than the amount it would spend if its premium rates and employee contributions were at the averages compiled by SERB for the Columbus region² for FY 2007-08.

Table 3-3 shows the comparison between the premiums paid for Marysville's three health plans and the SERB average premiums for the Columbus region.

Table 3-3: Medical Insurance Premium Comparison

	Single	Family
MEVSD Plan A	\$425.18	\$1,070.28
MEVSD Plan B	\$360.37	\$944.39
MEVSD Plan C	\$324.71	\$834.37
SERB Average for the Columbus Region¹	\$465.22	\$1,244.01

Source: Marysville EVSD FY 2008-09 premiums and the SERB 2007 Health Insurance Report.

¹ SERB 2007 premium rates were increased 6.5 percent for 2008.

Based on FY 2008-09 medical insurance premiums and contribution rates, the District spent approximately \$3.9 million on medical insurance benefits. If the District operated with premium and contribution rates in line with the SERB averages for the Columbus region, the District would have spent approximately \$4.8 million. Innovative approaches, such as consulting with an

² SERB includes the following counties in the Columbus region: Crawford County, Delaware County, Fairfield County, Fayette County, Franklin County, Knox County, Licking County, Madison County, Marion County, Morrow County, Pickaway County, Pike County, Richland County, Ross County, Scioto County, Union County, and Wyandot County.

outside specialist and implementing tools such as a VEBA plan, have allowed the District to save \$872,000 annually compared with the SERB benchmarks. The District also offers incentives for employees who decline District-sponsored medical insurance for themselves and/or their spouses. However, it may be possible for the District to realize additional savings (see **R3.6**) through increased cost sharing.

Marysville EVSD also provides dental and vision insurance for its employees. The District could experience additional savings by seeking lower cost dental premiums and implementing employee cost sharing for dental and vision insurance (see **R3.7**).

Collective Bargaining

Marysville EVSD's certificated employees are covered under the collective bargaining agreement between the Marysville Education Association (MEA) and the Marysville Exempted Village School District Board of Education, effective July 1, 2007 through December 31, 2008 (the District extended the contract after its expiration date). MEA represents certificated/licensed employees such as teachers, guidance counselors, nurses, Title I teachers, etc. The classified employees are not represented by a union and are governed under the District's classified employee handbook. As part of the performance audit, certain contractual and employment issues were reviewed and compared with similar districts in the area and State minimums. Areas of analysis included common contractual provisions such as maximum sick leave accrual and severance payout, number of vacation days, and number of paid holidays (see **R3.8**).

Human Resource Management

Although the District does not maintain formal documentation for major components of human resource management, such as staffing and employee recruitment plans (see **R3.9**), it has effectively solicited employee and community feedback and has developed job descriptions that meet leading practices.

The District has developed specific and detailed job descriptions. The detailed job descriptions were developed as part of the District's transitional work program. The Director of Business Services stated that, in order to help injured employees return to work, the District enhanced employee job descriptions to include essential job tasks, which include actions performed and the postures, frequency, and duration of the actions, physical job demands, and suggested work and non-work capabilities. This enables an injured employee's physician to review the physical demands of the job and select or recommendation tasks the employee may complete while recovering.

Board Operations

The operations of the Marysville Exempted Village Board of Education were reviewed to ensure that Board members receive training and that the Board's policies are relevant, clearly define the roles and responsibilities of the Board, and are adhered to. Specifically, the Board has adopted policies defining its role, the manner in which it communicates with District staff and the community, and the frequency and criteria by which the Superintendent and Treasurer are evaluated. Marysville EVSD officials and Board members attribute much of the District's success in passing its recent levies to its open communication with the community. Several Board members commented on a board's need to inspire a level of confidence with its community, and they asserted that communication was vital for achieving that goal. The Board should conduct periodic self-evaluations, as described in its policies, but based on individual interviews and documented evidence provided by the District, it was determined that the Board generally implemented the practices recommended by the Ohio School Boards Association

Student Achievement

Marysville EVSD prides itself on its efforts to improve student performance through its strategic planning and process improvement efforts, which include two programs: Quality Circle and Quality Learning Systems. Although AOS did not attempt to assess the actual impact of these programs, the District attributes much of its academic success to the efforts of these initiatives. In FY 2007-08, the District met 27 out of 30 state indicators, which surpassed the State average of 18.

With the assistance of a consultant from a major local employer, the District has implemented the Quality Circle approach to system improvement. Throughout the year, the consultant works in each building in the District to provide additional training on how to use these quality tools. The programs have enabled the District to set goals and timelines, and to measure the outcomes for student achievement.

The Quality Circle process is team-based and leads a group of staff members who are attempting to address a common issue through eleven specific steps. These steps help the team develop process elements that facilitate the collection and analysis of data, and ultimately, a recommendation to the Board for improvements to District operations.

The Quality Learning System requires the development of a District-wide plan that encourages students to take responsibility for their own learning. In this program, goals are established at the student, classroom, building, and District levels. By developing these goals and ensuring that they are aligned at each level to achieve a common mission (student academic achievement), the District is able to enhance its Continuous Improvement Plan goals to improve student performance and communication, and to provide a safe and healthy environment.

Audit Objectives for the Human Resources Section

The following is a list of the questions used to evaluate the Marysville EVSD Human Resources functions:

- How do staffing levels compare with the selected peer districts?
- 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 peers and best practices?
- Does the District effectively address human resource management and has it created a working environment that enhances its workforce?
- Do the District's retirement incentive and buyout planning processes meet best practices?
- 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?
- What are the programs the District uses to optimize student achievement and how do they work?

Auditors determined that Marysville EVSD's Board operations and student achievement programs met or surpassed industry standards. Consequently, no recommendations were made in these areas.

Recommendations

Staffing

R3.1 Marysville EVSD should consider eliminating at least 24.0 FTE office/clerical positions to bring staffing in this category more in line with the peer average. Taking such action would reduce salary and benefit expenditures and bring the District's office/clerical salary cost per student to a level comparable to the peer district average.

Table 3-4 compares the District's office/clerical staffing level with the peer average.

Table 3-4: Office/Clerical Staffing Comparison

	Marysville EVSD	Peer Average	Difference
Clerical Staff (FTE)	26.9	21.0	5.9
Admin. Assistants/Interns (FTE)	0.0	0.1	(0.1)
All Other Office Staff (FTE)	32.8	6.5	26.3
Total FTE Office/Clerical Staff	59.7	27.6	32.1
Students Educated (FTE)	5,024.0	3,986.7	1,037.3
Clerical Staff per 1,000 Students	5.4	5.3	0.1
Admin. Assistants/Interns per 1,000 Students	0.0	0.0	0.0
All Other Office Staff per 1,000 Students	6.5	1.7	4.8
Total Office/Clerical Staff per 1,000 Students	11.9	7.0	4.9
Total FTE Office/Clerical Staff Adjustment Needed to Equal Peer Average			(24.6)

Source: Marysville EVSD payroll information as of January 2009, 2008 EMIS staffing and student enrollment reports.

As shown in **Table 3-4**, the District has 4.9 FTE office/clerical staff per 1,000 students more than the peer average, which equates to a total of 24.6 FTE office/clerical positions. Specifically, Marysville EVSD reported 32.8 FTE positions, or 54.9 percent of the total office/clerical staff reported, in the all other office staff EMIS classification. Based upon discussions with the District, staff reported in this classification are primarily clerical aides at the school building level, serving in such capacities as attendance officers and office secretaries. Moreover, as shown in **Table 3-2**, the District's salary cost per student for office/clerical staff is 58.1 percent higher than the peer average because of the high number of FTEs in this classification. A reduction of this level would also bring its salary cost per student from \$321 to \$186, which would be 8.4 percent below the peer average.

Financial Implication: By eliminating at least 24.0 FTE office/clerical positions, the District would bring its staffing levels in line with the peer average and save about \$811,000 in salaries and benefit costs starting in FY 2009-10.

R3.2 Marysville EVSD should consider eliminating at least 12.0 FTE regular teacher positions to bring its staffing level in this category more in line with the peer average. Taking such action would reduce salary and benefit expenditures and bring the District's regular teacher salary cost per student to a level comparable to the peer district average.

Staffing requirements outlined in HB 1, enacted after the conclusion of the audit, and planned revisions to Ohio Department of Education operating standards may affect MEVSD's ability to implement this recommendation.

Table 3-5 compares the District's regular student to regular teacher ratio with the peer average.

Table 3-5: Regular Student to Regular Teacher Ratio Comparison

	Marysville EVSD	Peer Average	Difference
Regular Teachers (FTE)	222.1	173.5	41.0
Regular Student Population ¹	4,210.7	3,472.6	738.1
Regular Student to Regular Teacher Ratio	19.0	20.1	(1.1)
Recommended Regular Teacher FTEs to Equal Peer Ratio			209.5
Total FTE Regular Teacher Adjustment Needed to Equal Peer Ratio			(12.6)

Source: Marysville EVSD payroll information as of January 2009 and peer 2008 EMIS staffing reports.

¹ Regular student population as defined by Ohio Revised Code § 3317.023(A)(4).

As illustrated in **Table 3-5**, Marysville EVSD reports a regular student to regular teacher ratio of 19.0 compared with the peer average of 20.1. To raise its student to teacher ratio to the peer average, the District could eliminate 12.6 FTE regular teaching positions. Doing so would also bring its salary cost per student for the classroom teacher classification (see **Table 3-2**) to about 3 percent below the peer district average.

Given the future deficits projected in the District's five-year forecast (see **Table 2-5** in **financial systems**), if it fails to identify new operating revenue or additional reductions in non-instructional areas, the District may need to consider reducing its level of regular teachers below the peer average and closer to the State minimum requirement (see **R3.4**).

Financial Implication: By eliminating 12.0 FTE regular teaching positions, the District could save about \$761,000 in salaries and benefits starting in FY 2009-10.

R3.3 Marysville EVSD should eliminate at least 6.0 FTE educational service personnel (ESP) teaching positions and 4.0 FTE school nurses, to bring its total ESP staffing level more in line with the peer average and reduce salary costs in this category.

Staffing requirements outlined in HB 1, enacted after the conclusion of the audit, and planned revisions to Ohio Department of Education operating standards may affect MEVSD's ability to implement this recommendation.

Table 3-6 compares the District's ESP staff with the peer average.

Table 3-6: Educational Service Personnel Staffing Comparison

	Marysville EVSD	Peer Average	Difference
ESP Teachers (FTE)	26.3	15.9	10.4
Counselors (FTE)	11.0	7.9	3.1
Librarians/Media Specialists (FTE)	2.0	2.6	(0.6)
School Nurses (FTE)	6.0	1.6	4.4
Social Workers (FTE)	1.0	0.5	0.5
Visiting Teachers (FTE)	0.0	0.0	0.0
Total Educational Services Personnel (FTE)	46.3	28.5	17.8
Students Educated (FTE)	5,024.0	3,986.7	1,037.3
ESP Teachers per 1,000 Students	5.2	4.0	1.2
Counselors per 1,000 Students	2.2	2.0	0.2
Librarians/Media Specialists per 1,000 Students	0.4	0.7	(0.3)
School Nurses per 1,000 Students	1.2	0.4	0.8
Social Workers per 1,000 Students	0.2	0.1	0.1
Visiting Teachers per 1,000 Students	0.0	0.0	0.0
Total ESP per 1,000 Students	9.2	7.2	2.0
Total FTE Education Service Personnel Staff Adjustment Needed to Equal Peer Average			(10.0)

Source: Marysville EVSD payroll information as of January 2009, 2008 EMIS staffing and student enrollment reports.

As illustrated in **Table 3-6**, the District has 46.3 FTE ESP staff, or 9.2 FTEs per 1,000 students. The peer districts average 7.2 FTE ESP staff per 1,000 students. To operate at the peer average on a per 1,000 student basis, the District would need to reduce a total of 10.0 FTE ESP positions. As detailed in **Table 3-6**, when reviewing the per 1,000 student comparisons for each ESP category, most of the overstaffing exists in the ESP teacher and school nurse positions, which are 1.2 and 0.8 FTEs per 1,000 students above the peer averages, respectively. The ESP teacher position includes art, music, and physical education teachers that instruct grades K-8, and the school nurse position includes registered nurses only. In order to bring both its staffing and salary cost per student levels for ESPs more in line with the peers, the District would need to reduce 6.0 FTE ESP teachers and 4.0 FTE school nurses. In some cases, a district's number of school nurses

may be linked to the Individualized Education Programs of its special needs students, which could affect its ability to reduce staff to the peer average.

Given the future deficits projected in the District's five-year forecast (see **Table 2-5 in financial systems**), if it fails to identify new operating revenue or make reductions in other non-instructional areas, the District may need to consider reducing its level of ESP personnel below the peer average and closer to the State minimum requirement (see **R3.4**).

Financial Implication: By eliminating 10.0 FTE ESP positions (6.0 FTE ESP teachers and 4.0 FTE nurses), the District could save about \$742,000 in salaries and benefits starting in FY 2009-10.

R3.4 If it is unable to identify additional savings or generate additional revenue to eliminate the projected deficits in its five-year forecast, Marysville EVSD should consider making further staff reductions beyond the peer averages to reduce its personnel costs. Specifically, the District should consider making additional reductions of 9 FTE positions in ESP or regular teachers.

MEVSD should ensure that any staffing reductions it makes are sustainable under the provisions of HB 1 and ODE's revised operating standards.³

In **R3.1, R3.2, and R3.3**, AOS recommends Marysville EVSD reduce costs by bringing its staffing levels in specific areas more in line with peer averages. Additional savings are identified in several other recommendations made throughout this performance audit. However, based on existing approved revenue sources, even when all recommendation are fully implemented, the District is still projected to have a deficit of over \$4.9 million by FY 2012-13. Consequently, if the District is unable to secure additional revenue in the future, further staffing reductions will be necessary in order to eliminate its deficits.

OAC § 3301-35-05(A)(3) states that a school district must have at least one regular teacher for every 25 regular students. Additionally, OAC § 3301-35-05 requires all districts to have at least 5.0 FTE locally funded ESP staff for every 1,000 regular students. Moreover, ESP personnel must be assigned to at least five of the eight following areas: counselor, library media specialist, school nurse, visiting teacher, social worker, elementary art, elementary music, and elementary physical education.

Table 3-7 shows Marysville EVSD's FY 2008-09 staffing levels for classroom teachers and ESP personnel, compared with the requirements mandated by Ohio law.

³ According to ODE, revisions to the operating standards are planned during FY 2009-10 with an estimated completion date of July 1, 2010.

Table 3-7: Comparisons with State Minimum Requirements

	Marysville EVSD Staffing Level	State Minimum Requirement	Difference
Regular Teachers	222.1	168.4	53.7
ESP Personnel	46.3	21.1	25.2

Sources: Marysville EVSD payroll information as of January 2009, OAC § 3301-35-05 (regular teacher minimum requirement), and OAC § 3301-35-05 (ESP personnel minimum requirement).

Based on Marysville EVSD's FY 2007-08 regular student population, it is required to have at least 168.4 locally funded regular teacher positions. At 222.1 FTE regular teachers, the District employs 53.7 FTEs above the State minimum requirement. Even after reducing 12.0 FTE regular teachers (see **R3.2**) the District would still have 41.7 FTEs more than the State minimum requirement. Furthermore, Marysville EVSD is required to have an ESP staffing level of at least 21.1 FTEs. Therefore, the District is operating with 25.2 FTEs more than the State minimum, and a reduction of 10.0 FTEs (see **R3.3**) would leave the District 15.2 FTEs higher than the State minimum requirement.

Financial Implication: By eliminating an additional 9 FTE ESP or regular teacher positions, the District would save about \$761,000 in salaries and benefits starting in FY 2010-11.

Compensation

R3.5 Marysville EVSD should limit its future negotiated wage increases to bring compensation in line with similar area districts and reduce its projected deficits. Specifically, the District should attempt to limit increases to 1 percent in FY 2009-10 and the remaining years of the forecast period.

In order to evaluate compensation levels, AOS compared several salary schedules for Marysville EVSD to those of similar school districts in the same geographical area. This methodology recognizes that different geographical areas may have different market forces that influence a district's compensation levels.

While geography is important, it is also important to select comparison districts that are demographically similar to the client. One resource for categorizing school districts is a set of broad typologies established by ODE, which are based on a number of factors, including student population, population density, median income, poverty levels, etc. For example, Marysville EVSD is categorized by ODE as a rural/small town district with moderate to high income. For each school district in the State, ODE also identifies the 20 most similar districts based on 11 different variables. In the case of Marysville EVSD, 75

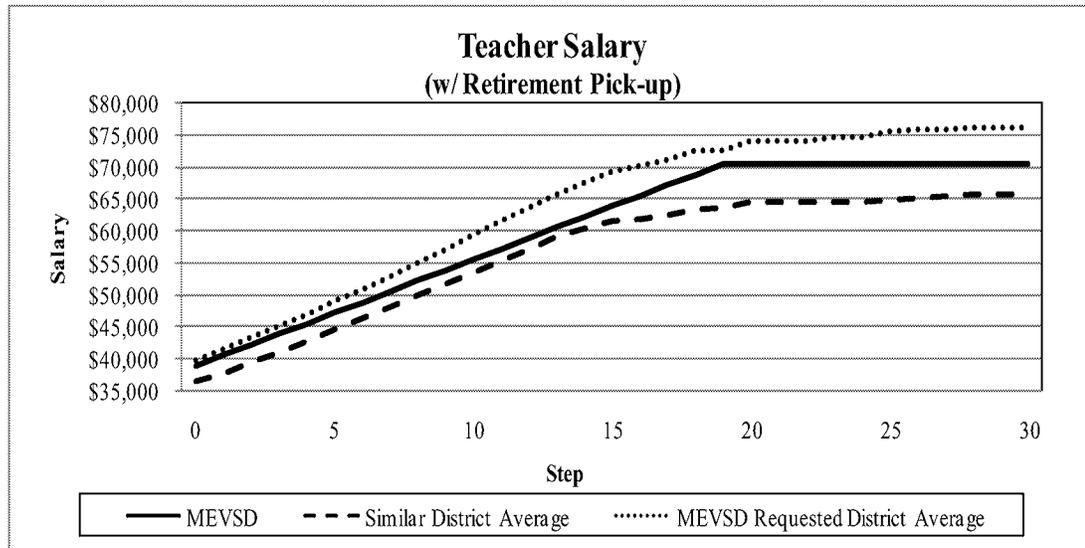
percent of the districts ODE considers most similar are actually from a different typology – urban/suburban districts with high median incomes.

AOS developed a group of similar districts that were located in either Union County or an adjacent county and were included in either of the two typologies which ODE considers similar to Marysville EVSD – either rural/small town districts with moderate to high income or urban/suburban districts with high median incomes. The AOS group includes the following districts: Fairbanks LSD (Union County), North Union LSD (Union County), Delaware CSD (Delaware County), London CSD (Madison County), and Canal Winchester CSD (Franklin County).

However, District officials notified auditors that they believed Marysville EVSD should be compared to a different group of area districts, against whom they benchmark salaries and feel they compete for staff. While still including Fairbanks LSD and North Union LSD, the districts against which Marysville EVSD benchmarks itself also include Olentangy LSD (Delaware County), Dublin CSD (Franklin County), Hilliard CSD (Franklin County), Worthington CSD (Franklin County), and South-Western CSD (Franklin County). Of the districts located outside of Union County, all but South-Western CSD are considered urban/suburban districts with very high median income and very low poverty. In essence, Marysville EVSD has chosen to compare itself against school districts that are considered wealthier than it is, and therefore more likely to afford higher salaries.

The practical impact of this decision is that the average salaries of districts that are considered similar to Marysville EVSD based on ODE criteria will be significantly lower than the average salaries of the wealthier districts against which Marysville EVSD compares itself. This distinction is reflected in **Chart 1**, which illustrates the average teacher salary schedules for Marysville EVSD, the similar districts in the area selected by AOS, and the districts chosen by Marysville EVSD. For the purposes of the chart, retirement pickup is included in the salary schedule to show the actual level of compensation (see **background** for an explanation of retirement pickup). The chart shows that throughout the life of the salary schedule, Marysville EVSD's salaries are slightly higher than similar districts in the area but slight lower than the Marysville EVSD benchmark districts.

Chart 1: Teacher’s Base Salary Comparison (Master’s Degree)



AOS also compared salary schedules for several groups of classified employees and found that Marysville EVSD’s food service workers, custodians, maintenance staff, and bus drivers all receive higher levels of compensation than the average of similar districts in the area over the life of their salary schedules.

The results of **Chart 1** and the similar comparisons for classified employees indicate that Marysville EVSD has made a choice about the level of compensation it provides to its employees which, when applied to the five-year forecast, has a substantial fiscal impact for the District. The decision to compete against higher wealth districts for staff requires the Marysville EVSD to pay higher salaries than are required to compete against similar districts in the area. Consequently, the District’s financial condition requires that it either reduce its levels of compensation or convince taxpayers to provide the financial support to continue competing with wealthier districts.

Financial Implication: By limiting wage increases to 1 percent, the District can save \$690,000 in FY 2009-10 and \$2.3 million over the forecast period to help address projected deficits.

R3.6 Marysville EVSD should bring its extracurricular activity expenditures more in line with the peer average. This could be achieved by reevaluating supplemental salary schedules to ensure levels of compensation comparable to the peers and/or reducing the number of supplemental positions.

Table 3-8 compares the District's extracurricular activities expenditures with the peer average.

Table 3-8: FY 2007-08 Extracurricular Activities Expenditures Comparison

	Marysville EVSD		Peer average		Difference	
	Total \$	\$ per ADM	Total \$	\$ per ADM	Total \$	\$ per ADM
Academic & Subject Activities	\$144,151	\$29	\$80,788	\$20	\$63,363	\$9
Occupation Oriented Activities	\$0	\$0	\$3,013	\$1	(\$3,013)	(\$1)
Sports Activities	\$676,312	\$135	\$459,986	\$120	\$216,327	\$14
Co-Curricular Activities	\$117,135	\$23	\$21,780	\$6	\$95,355	\$17
Total Extracurricular Expenditures	\$937,598	\$187	\$565,566	\$147	\$372,032	\$39
Students Educated	5,024		3,987		1,037	

Source: Marysville EVSD FY 2007-08 Expenditure Flow Model Inclusion Report and peer FY 2007-08 unaudited year-end financial reports.

As shown in **Table 3-8**, the District spent nearly \$938,000, or \$187 per student, in extracurricular activity expenditures, compared with the peer average of \$147 per student. Based on the cost per student educated, Marysville EVSD spent more than the peer average on every extracurricular activity except for occupation oriented activities. The most notable percentage difference is in co-curricular activities, where Marysville EVSD's \$23 per student is 283 percent above the peer average of \$6 per student. Co-curricular activity expenditures include salaries paid for supplemental positions such as class advisors, yearbook, newspaper, technology club, and building level teams.

The District's relatively high extracurricular activity expenditures suggest that it either has higher supplemental salary schedules compared with the peers, or a larger number of supplemental contracts. By continually monitoring supplemental salary schedules and adjusting the number of supplemental positions, Marysville EVSD can minimize these costs and bring its cost per student more in line with the peer average.

Financial Implication: By reducing its extracurricular expenditures from the General Fund to the peer average of \$147 per student, Marysville EVSD could save approximately \$198,000 per year.

Benefits

R3.7 Marysville EVSD should increase the employee contribution rates for its medical insurance plans to bring them in line with industry standards and generate savings to address its projected deficits. At a minimum, the District should seek to maintain a District-wide average employee contribution of at least 15 percent, but could also consider increasing the contribution rates to at least 15 percent for all of its plans to generate additional savings.

As discussed in the **background**, Marysville EVSD has taken an innovative approach to providing health insurance coverage to its employees. Through this approach – which includes three different high deductible plans which offer different levels of coverage and out-of-pocket maximums, as well as the use of a VEBA health reimbursement arrangement – the District has achieved significant savings compared with the SERB averages for the Columbus region.

Table 3-9 shows costs to the District and to the employee for each of Marysville EVSD’s three health plans.

Table 3-9: Health Plan Cost Comparison¹

		Single	Family
Plan A	Employee Contribution	\$76.70	\$201.56
	Cost to District	\$348.48	\$868.72
	Total Cost ²	\$425.18	\$1,070.28
Plan B	Employee Contribution	\$36.04	\$94.44
	Cost to District	\$324.33	\$849.95
	Total Cost	\$360.37	\$944.39
Plan C	Employee Contribution	\$0.00	\$0.00
	Cost to District	\$324.71	\$834.37
	Total Cost	\$324.71	\$834.37

Source: Marysville EVSD

¹ Health plan costs include the premium amounts and the VEBA amounts contributed by the District.

² Plan A also includes the amount appropriated for a limited self-insurance plan available for this plan only, through which the District may pay a portion of the employee’s deductible. This self-insurance plan is not factored into the calculation of the employee contribution for Plan A.

As shown in **Table 3-9**, the three plans offered by Marysville EVSD require different levels of employee contributions. Plan A requires a 20 percent contribution, Plan B 10 percent, and Plan C requires no employee contribution. Overall, based on the number of

employees participating in each plan, employees pay 12.7 percent of the District's health care costs. The average employee contribution rates for the Columbus region, as calculated by SERB, are 13.6 percent for single plans and 15.7 percent for family plans. By increasing its District-wide employee contributions to an average of 15.0 percent, even if it maintains different rates for its three plans, Marysville EVSD would save approximately \$89,000 per year in its General Fund.

However, given its financial condition, the District may want to consider negotiating additional cost sharing. For example, by keeping employee contributions for Plan A at 20 percent and increasing the contributions for its other two plans to at least 15 percent, the District could save approximately \$173,000 per year in its General Fund. District officials have expressed concern that increasing employee contributions as described here could cause more employees to participate in Plan A, which provides less savings for the District. To address this concern, the District could consider incentives for employees to participate in Plans B and C, including a corresponding employee contribution increase for Plan A (e.g., to 25 or 30 percent), or elimination of Plan A altogether.

Marysville EVSD has an insurance committee and also contracts with an outside consultant to help it develop its health plans and implement innovative practices to reduce costs. The District should work with these groups to design an employee contribution rate structure that generates additional savings to help it address its projected deficits.

Marysville EVSD has already made great strides in reducing its health insurance expenditures, and its innovative approach to providing coverage to its employees should serve as a model to other school districts and governments throughout the State. However, the District's financial condition requires that it seek to identify savings wherever possible, even in areas that are already efficient. Bringing its employee contribution rates in line with the industry averages could yield needed financial relief.

Financial Implication: By implementing an overall (or average) contribution rate of 15.0 percent, the District can save approximately \$89,000 per year per year in its General Fund.⁴

⁴ Savings assume 86.8 percent of employees are paid from the General Fund.

R3.8 Marysville EVSD should seek to decrease its dental insurance premiums and negotiate employee contributions so that dental insurance costs are more in line with the SERB averages for the Columbus Region. Additionally, the District should negotiate employee contributions of at least 15 percent for vision insurance to also be more consistent with the SERB averages.

Marysville EVSD offers dental and vision insurance to all of its employees. **Table 3-10** compares the District's dental insurance premium and employee contribution rates with the SERB averages for the Columbus Region.

Table 3-10: FY 2008-09 Dental Insurance Comparison

	Dental Premiums		Employee Contributions	
	Single	Family	Single	Family
Marysville EVSD	\$41.41	\$103.53	0.0%	0.0%
SERB Columbus Region Average	\$46.38	\$80.60	15.5%	21.0%

Source: Marysville EVSD dental insurance rates and the SERB 2007 Health Insurance Report.

Although Marysville EVSD's premium rate for single coverage is below the SERB average, its family coverage premium of \$103.52 is 22.1 percent above the average. In addition, the District pays 100 percent of the premium costs for those employees electing to receive dental benefits. The District spends approximately \$200,000 more on dental insurance than it would if it achieved the SERB average premiums and adopted employee contribution rates of 15 percent. To achieve lower premium rates, the District should consider establishing annual deductibles for single and family coverage and reducing lifetime maximums.

Marysville EVSD's vision insurance premiums are below the SERB averages, but just as with dental insurance, the District pays 100 percent of the cost of providing vision coverage to its employees. In contrast, the SERB average employee contributions are 14.0 percent for single and 32.1 percent for family coverage. By negotiating an employee contribution rate of at least 15 percent in order to become more in line with SERB averages, the District would experience an annual reduction of nearly \$17,000 in its vision insurance costs.

Financial Implication: By bringing its dental insurance costs more in line with the SERB averages, the District would experience savings to its General Fund of approximately \$175,000, and by negotiating employee contributions of at least 15 percent for vision insurance, the District could achieve annual General Fund savings of approximately \$15,000.⁵

⁵ Savings assume 86.8 percent of employees are paid from the General Fund.

*Collective Bargaining***R3.9 Marysville EVSD should renegotiate provisions in its certificated collective bargaining agreement and modify the provisions in its classified employee handbook to limit or remove those that were determined to exceed the averages of similar area districts or State minimum requirements.**

As part of the performance audit, certain contractual and employment issues were reviewed and compared with similar districts in the area and State law. The following provisions exceeded the averages of similar districts in the area or State minimum requirements:

- **Severance payout:** Certificated and classified employees can receive payment for up to 64 days in FY 2008-09 (25 percent of the employee's total accrued but unused sick leave), which exceeds the averages of the similar districts in the area of 58 and 53 days, respectively, and the State minimum of 30 days (ORC § 124.39). Providing payments for days that exceeded the average of the similar districts in the area resulted in the District paying an additional \$62,000 in severance payout between FY 2006-07 and FY 2008-09.
- **Holidays:** Classified employees who work 12 months receive 10 paid holidays, up to a maximum of 12, depending on what day of the week the holiday occurs. The maximum of 12 holidays exceeds the State minimum requirement of 7 paid holidays (ORC § 3319.087) and the average of the similar districts in the area of 10 paid holidays. In FY 2007-08, because Christmas occurred on a Tuesday, the District provided 2 bonus holidays (Monday and Wednesday), which means that it paid nearly \$70,000 in salary and benefit costs for time that was not spent working.

Providing benefits in excess of State minimum requirements may create additional financial burdens for the District. However, benefits that are comparable to the similar districts in the area may be necessary to remain competitive. Therefore, at a minimum, the District should attempt to negotiate benefits that are more in line with the averages of similar districts in the area.

Human Resource Management

R3.10 Marysville EVSD should develop a formal staffing plan to identify current and future personnel needs. In addition, it should develop a formal comprehensive recruitment plan to address all District staffing needs as identified by the staffing plan. The development and design of a recruitment plan should align with leading practices.

The District does not have a formal staffing plan or a comprehensive recruitment plan. Instead of a formal staffing plan, the District determines future staffing needs based on student enrollment projections. The District's enrollment projections did not include any supporting documentation or explanation regarding the assumptions or methodology. Although the Treasurer uses the enrollment projections to assist in projecting future staffing-related costs, developing a formal staffing plan that meets leading practices would enable the District to more accurately project future staffing levels.

The District's informal recruiting process is managed by the Interim Assistant Superintendent and Director of Operations. The Interim Assistant Superintendent is responsible for recruiting and hiring the certificated staff. The Director of Operations is responsible for posting available positions and conducting interviews for the classified staff. To recruit certificated and classified staff, the District advertises available positions on professional organization and employment websites, its own District website, and in local newspapers. Building principals also attend job fairs to aid in recruiting certificated staff.

Strategic Staffing Plans (SHRM, June 2002) notes that high performing organizations use plans and a system 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) maintains that the most important question for any organization is what type of workforce it will need in order to successfully implement its business strategy. Once this question is answered, the organization must focus on recruiting, developing, motivating, and retaining the number and mix of employees that will be required at each point in time.

School districts like Lakota Local School District in Butler County and the Tulsa, Oklahoma Public Schools have established staffing plans which incorporate staffing allocation factors that include state and federal regulations, workload measures, and leading practices. In general, staffing benchmarks in these plans are based on General Fund revenue, which help ensure a balanced budget. Staffing plans are not only used as guides for determining staffing levels on an annual basis, but aid in determining mid-year staffing levels should changes be necessary.

Similarly, the Cincinnati City School District (CCSD) has developed a staffing plan that incorporates State requirements, contractual agreements, available resources, and educational goals. In addition, CCSD includes central and site-based administrators and personnel in the process of developing its staffing plan. The plan employs a staffing template that mirrors the Tulsa template and serves as a planning tool for the district's leadership teams.

Meeting the Challenges of Recruitment and Retention (NEA, 2003) recommends that school districts develop comprehensive recruiting plans to address staffing needs. A district should first gather a recruitment team to evaluate the district's needs, identify resources, and recommend a list of desired changes in policies and practices. The recruitment team should include administrators, teachers, union members, parents, representatives from higher learning institutions, and community leaders. The recruitment plan should then:

- Assess the needs of the district to determine the number of teaching staff needed as well as the curriculum areas;
- Examine the culture within the district to ensure that a positive working environment exists;
- Clarify the academic mission and how that impacts what new teaching staff should be able to provide; and
- Identify the population of potential teachers and how to appeal to their interests as well as how to attract them to the community.

Once the plan is developed, the District should determine which recruitment methods are effective, ineffective, or require alterations, and should ensure that it maintains accurate staffing data throughout the recruiting process. Implementing formal staffing and recruitment plans will help the District ensure that its staffing practices are in line with its priorities, and makes these practices and priorities more transparent to District staff and the community.

Retirement Incentive

R3.11 Marysville EVSD should attempt to remove the retirement buyout provision from its certificated collective bargaining agreement. Additionally, the District should follow GFOA recommendations and carefully evaluate any new retirement incentive. Specifically, before offering a retirement incentive, Marysville EVSD should establish goals for the incentive, perform a thorough cost analysis, estimate the budget impact, and develop an implementation plan.

The certificated employee bargaining agreement provides for an early retirement incentive (ERI), through which the Board is to conduct an annual cost analysis of

offering one year of service credit to participating employees and allowing employees to purchase up to an additional two years of credit. However, if the District determines that the ERI would not generate any savings, the agreement requires the District to provide a retirement buyout of \$15,000 to employees who retire when first eligible and \$7,500 to employees who retire the second year eligible. Although the District has not routinely reviewed the feasibility of the retirement incentive, the Treasurer has tracked the replacement of retired employees to ensure savings are being generated from the retirement buyout.

Evaluating the Use of Early Retirement Incentives (GFOA, 2004) recommends that governments exercise caution if considering ERIs. A government should take several actions prior to the decision to offer an ERI, in terms of goal setting, cost/benefit analysis, and budgetary analysis. A government should also develop an implementation plan. The following is a brief description of what each of these actions should include:

- **Goal setting:** Governments should be explicit in setting documented goals for ERIs. Goals can be financial in nature, such as realizing permanent efficiencies in staffing or achieving budgetary objectives. ERIs can also be designed to achieve human resource goals, such as creating vacancies that allow for additional promotion opportunities and allowing management to bring in new staff. Any ERI goals should not conflict with other retirement plan goals (e.g., features increase retention).
- **Cost/benefit analysis:** In judging whether ERIs should be offered, governments should assess the potential costs and benefits of the proposals, and the cost/benefit analysis should be linked to the goals of the ERIs. For example, if a government sets a financial goal of obtaining long-term staffing efficiencies, then an independent cost/benefit analysis should determine whether the ERI will actually bring about such staffing efficiencies.
- **Budgetary considerations:** In order to develop accurate budgetary estimates for the ERI, it is necessary to estimate the incremental cost of the ERI, which will vary according to the level of employee participation. Any budgetary analysis should project multiple scenarios for employee participation levels.
- **Implementation plan:** Governments should consider communication plans to help employees understand the ERIs in the context of overall retirement planning. It may be necessary to gain input from collective bargaining units. Governments should consider the impact upon service delivery after employees retire, with identification of critical personnel whose services must be maintained. The duration of the window should take into account the ability of retirement staff to

manage retirement application workloads, among other factors. Lastly, performance measures should be used to ensure ERI goals are met.

An example of a properly developed early retirement incentive exists in the Worthington CSD (Franklin County) certificated agreement. To ensure adequate savings, Worthington CSD determined the required number of staff and levels of experience that would need to be met in order for the incentive to be beneficial to the district. The agreement stipulates service requirements that employees must meet in order to be eligible for the incentive. It also reserves the right to provide the incentive only if enough employees apply for the incentive. By including these stipulations in its certificated agreement, Worthington CSD is able provide the incentive only when it yields savings to the District.

The ERI provision in Marysville EVSD's negotiated agreement provides for the level of planning recommended by GFOA and incorporated by Worthington CSD. However, the District has not historically conducted the analysis required in the contract or recommended by GFOA. By performing the actions and analysis recommended by GFOA, the District could evaluate the costs and benefits and determine the appropriateness of offering the retirement incentive.

In addition, the retirement buyout provision in the negotiated agreement commits the District to providing a buyout to eligible employees without any planning and regardless of the financial impact to the District. To reduce the potential of providing a buyout that has a negative impact on its financial condition, Marysville EVSD should attempt to negotiate the buyout provision out of the certificated bargaining agreement and instead, should focus its efforts on using the ERI provision effectively.

Special Education

R3.12 Marysville EVSD should investigate strategies for reducing special education costs while continuing to provide a high quality education for the District's special needs students. Specifically, the District should consider the reduction of up to 28.0 FTE teacher aides, which will bring its spending on special needs aides and its overall special education spending to a level comparable to the peers. Other strategies for reducing costs could include routinely assessing staffing needs, evaluating services, and analyzing the potential benefits of partnering with other agencies. Additionally, the District should strive to achieve a higher percentage of special education students mainstreamed into regular classrooms.

Marysville EVSD focuses on the quality of its special education program, providing its own special education programs and employing all of the personnel necessary to provide services. The Director of Special Education (the Director) indicated that the District has chosen to provide all special education programs in-house because of its desire to ensure

the high quality of services provided to its special education students. The Director stated that when the District had contracted with an Educational Service Center (ESC) for services, it was not satisfied with the quality of service it received. The Director also indicated that the District does not have any cooperative agreements and does not pool resources with other districts for special education services because of problems it has experienced in the past with parental involvement from parents located outside the District. By providing all of its own special education services, the District has consciously chosen to sacrifice some cost savings in order to provide a level of service that it considers more appropriate for its student population. Because of the manner in which it has structured its program, it has decided to forego recommended cost containment practices.

Table 3-11 illustrates Marysville EVSD's FY 2007-08 special education expenditures compared with the peers.

Table 3-11: Special Education Expenditure Comparison

	MEVSD	Peer Average	Variance
SPECIAL EDUCATION POPULATION			
Special Education Students	666	424	242
Special Education Students as % of Total Students	12.8%	10.3%	2.4%
Percentage of Special Education Students Mainstreamed into Regular Classrooms	65.8%	78.6%	(12.8%)
SPECIAL EDUCATION EXPENDITURES PER SPECIAL EDUCATION STUDENT			
Direct Special Education Costs Per Special Education Student	\$9,402	\$7,943	\$1,459
Other Support Service Costs Per Special Education Student	\$3,032	\$2,920	\$112
Regular Instruction Portion Per Special Education Student	\$2,893	\$3,247	(\$354)
TOTAL EXPENDITURES			
Special Education Costs Per Special Education Student	\$15,327	\$14,110	\$1,217

Source: 2008 Special Education Accountability Report (ODE).

Table 3-11 shows that Marysville EVSD spends over \$1,200 per student more on special education than the peer average. If the District could reduce its spending to the level of the peers, it could save approximately \$810,000 per year.

As illustrated in **Table 3-11**, the District reports mainstreaming 65.8 percent of its special education students into regular classrooms, which is below the peer average of 78.6 percent. The Director stated that the District has made a conscious effort to increase the number of students mainstreamed into regular classrooms. Although mainstreaming special education students is subject to the type and severity of disability for each student, increasing this percentage may enable the District to reduce its special education costs.

Table 3-11 also shows that, in the direct special education category, Marysville EVSD spent 18.4 percent more than the peer average. Within direct special education, the

District spent \$1,961 per special education student for special education aides, which is over 13 times more than the peer average of \$146. The District employs 41.0 FTE teacher aides all of whom are assigned to special education. If the District was to spend at the level of the peers on special education aides, it would employ no more than 4.0 FTEs.

Comparing school districts in the area of special education is difficult, because the services required often vary among districts based on the types and severity of the students' disabilities. The level of service may be dictated under an Individualized Education Program (IEP). However, given the deficits projected in the District's five-year forecast (see **Table 2-5** in **financial systems**), if it fails to identify new operating revenue or make reductions in other areas, special education represents an area for potential savings given that the level of expenditures are significantly above the peers. Moreover, special education aides are the major driver behind the District's excess costs. Reducing 28.0 FTE teacher aides would bring its special education spending in line with the peers and still leave the District with 13.0 FTE teacher aides. At this level, the District's spending on special needs aides would be approximately \$749 per special needs student, which is still five times higher than the peer average.

Should the District determine that it cannot serve its special needs students with a teacher aide staffing level of 13.0 FTEs, it could choose to retain more aides and offset the projected savings by mainstreaming more students into regular classrooms or making other changes to the services it provides. Finally, an ongoing review of IEPs, with a particular focus on the need for aides, could help Marysville EVSD reduce its costs in this area.

*Financial Implication:*⁶ Reducing 28.0 FTE teacher aides or making other equivalent reductions in its special education spending to reduce its expenditures to a level in line with the peer average could save Marysville EVSD approximately \$829,000 annually, starting in FY 2010-11.

⁶ When savings from the other recommendations of this performance are included, Marysville EVSD is shown as solvent until FY 2010-11 (see **Table 2-5** in **financial systems**). Moreover, the District has discussed seeking a renewal/replacement levy prior to that time, which if passed, would make the proposed reductions in special education spending optional. Consequently, the proposed special education reductions are not included in the forecast until FY 2010-11 (see **Table 2-5** in **financial systems**). This would provide the District with a full academic year during which it could work to modify its special education services and reduce its cost per student.

Financial Implications Summary

The following table summarizes estimated annual cost savings associated with the implementation of recommendations in this section of the performance audit.

Summary of Financial Implications for Human Resources

Recommendation	Estimated Annual Cost Savings
R3.1 Eliminate 24.0 FTE office/clerical staff	\$811,000
R3.2 Eliminate 12.0 FTE regular teacher positions	\$761,000
R3.3 Eliminate 10.0 FTE education service personnel	\$742,000
R3.4 Eliminate 9.0 FTE ESP or regular teachers ¹	\$761,000
R3.5 Limit wage increases to 1 percent	\$690,000
R3.6 Reduce extracurricular expenditures	\$198,000
R3.7 Increase employee contributions for health insurance	\$89,000
R3.8 Bring dental premium rates in line with SERB averages and negotiate employee contributions of at least 15 percent for dental and vision insurance.	\$190,000
R3.12 Reduce special needs expenditures by 28.0 FTE teacher aide positions ¹	\$829,000
Total	\$5,071,000

Source: AOS recommendations

¹ Savings would not be realized until FY 2010-11.

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Facilities

Background

This section focuses on the maintenance and operations (M&O) of facilities in the Marysville Exempted Village School District (Marysville EVSD or the District), including assessments of staffing levels, planning efforts, expenditures, policies, and operating procedures. The District's operations were evaluated against leading practices and operational standards derived from the American School and University Magazine (AS&U), the National Center for Education Statistics (NCES), the International Sanitary Supply Association (ISSA), the Minnesota Office of the Legislative Auditor, DeJong and Associates, Inc., and the United States Department of Energy (DOE).

Facilities Composition

Marysville EVSD has historically been heavily reliant on tangible personal property taxes (TPPT). For example, in its FY 2005-06 five-year forecast, TPPT was projected to be over 25 percent of the District's revenue. However, with the passage and enactment of House Bill 66 (HB 66) in FY 2005-06, tangible personal property valuations were slated to be phased out by approximately 25 percent annually until FY 2009-10 (see **financial systems** for further discussion of TPPT).

In order to take advantage of tangible personal property valuation prior to its phase out, the District proposed and the voters approved a 5.2 mill bond issue in August 2005. According to the Treasurer, the passage of the bond issue allowed the District to bring in an additional \$27 million over the life of the levy. Marysville EVSD was experiencing significant enrollment growth and, in 2005, projected having 8,000 students by the FY 2013-14. The bond revenue was used primarily for the construction of two additional buildings (Northwood Elementary School and Bunsold Middle School) as well as for other District-wide renovations, including an addition to Creekview Intermediate School.

Beginning in 2007 the District identified a slowdown in new housing developments but, with community input, determined it would proceed with the opening of the Northwood Elementary School in FY 2007-08; temporarily expanding the District's operations to six elementary schools. The District also proceeded with the opening of the Bunsold Middle School in FY 2008-09. However, as enrollment had slowed from the original projections, the District also decided to close East Elementary School and Marysville Middle School, though it plans to reopen them in the future (see **R4.5**).

For FY 2008-09 Marysville EVSD has 10 total educational buildings, 8 of which were in use and 2 of which are closed. The operational school buildings include: 1 high school (grades 9 to 12), 1 middle school (grades 7 to 8), 1 intermediate school (grades 5 to 6), and 5 elementary schools (grades pre-K to 4). The District's other facilities consist of the two closed school buildings (East Elementary and Marysville Middle School), a central office, a transportation and maintenance garage (this facility includes the M&O Department offices), and an athletic field house (this facility includes the Transportation Department offices).

Staffing and Key Statistics

Marysville EVSD's Director of Business Services is responsible for oversight of the M&O Department. However, day-to-day operations are supervised by the Director of Maintenance, the Operations Manager, and building principals. The Director of Maintenance provides day-to-day direction for the District's maintenance staff and seasonal employees. The building principals and Operations Manager provided direction for the custodial staff. **Table 4-1** shows Marysville EVSD's M&O Department staffing for FY 2008-09 in terms of positions and their full-time equivalents (FTEs) based on working 2,080 hours per year

Table 4-1: M&O Staffing Distribution

Classification	Positions	FTEs
Administrators		
Director of Maintenance ¹	1.0	0.9
Operations Manager ²	1.0	0.3
Maintenance Secretary ³	1.0	0.4
Total Administrators	3.0	1.6
Custodians		
Head Custodian	1.0	1.0
Custodian	28.0	27.8
Total Custodians	29.0	28.8
Maintenance		
Full-Time Maintenance ⁴	5.0	4.6
Seasonal Painters ⁵	3.0	0.5
Total Maintenance Staffing	8.0	5.1
Grounds		
Full-Time Groundskeepers	0.0	0.5
Seasonal Groundskeepers ⁶	11.0	1.9
Total Grounds Staffing	11.0	2.4
Department-wide		
2008 Seasonal Staffing	14.0	2.4
M&O Department Staffing	37.0	35.4
Total Staffing	51.0	37.8

Source: Marysville EVSD FY 2008-09 staffing and payroll information.

Note: Totals may vary due to rounding.

¹ The Director of Maintenance allocates 90 percent of time to administrative duties and 10 percent of time to actual maintenance duties; this equates to 0.9 FTE in administration and 0.1 FTE in maintenance.

² The Operations Manager provides oversight for a number of different functions within the District and estimates that about 25 percent of time is allocated to custodian oversight.

³ The Maintenance Secretary position is defined within the Classified Staff Handbook as 3.75 hours per day, 215 days per year. Based on an FTE calculation of 2,080 hours, the maintenance secretary represents approximately 0.4 FTE.

⁴ Marysville EVSD has one maintenance worker who allocated 50 percent of time to both grounds and maintenance duties. As such 0.5 FTE is removed from this count and allocated to Full-Time Groundskeepers.

⁵ During the summer of 2008, Marysville EVSD employed three seasonal painters who worked hours equal to 0.5 maintenance FTE.

⁶ During the summer of 2008, Marysville EVSD employed 11 seasonal groundskeepers who worked hours equal to approximately 1.9 FTE. The District noted that this level of staffing was not typical and was due to the District opening Bunsold Middle School for the start of the 2008-09 school year.

As shown in the notes to **Table 4-1**, a number of M&O Department staff had a portion of their time allocated to other functions not necessarily defined by their position titles. For example, the Director of Maintenance also performs some actual maintenance work, the Operations Manager also provides oversight for transportation and food service, and one maintenance employee allocates 50 percent of time to groundskeeping duties. While the District uses 14 seasonal

employees, the total FTE positions is only 2.4. Therefore, to gauge the operational efficiency, the M&O Department staffing was evaluated on a workload per FTE basis. **Table 4-2** shows key statistics used to evaluate Marysville EVSD's M&O Department staffing for FY 2008-09.

Table 4-2: M&O Key Statistics and Indicators

Marysville EVSD Statistics	
Buildings¹	13
Square Feet Maintained²	1,214,240
Square Feet Cleaned³	975,734
Acres Maintained⁴	61
Maintenance Comparison to Industry Standards	Square Feet Per FTE
AS&U Cost Survey Median – 5 Year Avg. ⁵	95,000
Marysville EVSD (5.1 FTEs)	193,215
Custodian Comparison to Industry Standards	Square Feet Per FTE
NCES Planning Guide for Maintaining School Facilities ⁶	29,500
Total Square Feet Cleaned per FTE (28.8 FTE)	33,880
• Elementary Schools (10.0 FTE, 330,264 sq. ft.)	33,026
• Middle School (8.0 FTE, 281,054 sq. ft.)	35,132
• High School (10.0 FTE, 353,042 sq. ft.)	35,304

Source: Marysville EVSD, NCES, and AS&U Magazine

¹ Includes five elementary schools, one intermediate school, one middle school, one high school, and five other buildings: the central office, the transportation/maintenance garage, the athletic field house, Marysville Middle School (not in use), and East Elementary School (not in use).

² Square feet maintained reflects total District square footage; however, to evaluate maintenance staffing, Marysville Middle School (165,850 sq. ft.), East Elementary School (53,486 sq. ft.), and an unused portion of Raymond Elementary School (19,170 sq. ft.) were excluded. These areas were excluded because although the maintenance staff are still responsible for their upkeep, day-to-day activities are minimal with unoccupied buildings.

³ Square feet cleaned reflects District-wide square footage excluding Marysville Middle School (165,850 sq. ft.), East Elementary School (53,486 sq. ft.), and an unused portion of Raymond Elementary School (19,170 sq. ft.).

⁴ Acres maintained does not reflect Marysville EVSD's total acreage owned, rather it reflects the Director of Maintenance's estimate of acreage actually maintained.

⁵ The AS&U study is based on a national survey which is released in April each year.

⁶ According to the NCES, 28,000 to 31,000 square feet per FTE custodian is the norm for most school facilities. The level of cleanliness that is achievable with this workload ratio is acceptable to most stakeholders and does not pose any health issues. For benchmarking purposes, AOS used the midpoint of the range (29,500 sq. ft.).

As shown in **Table 4-2**, Marysville EVSD's custodian staffing cleans on average 33,880 square feet per FTE which is slightly more efficient when compared to the benchmark. In addition, Marysville EVSD maintains 193,215 square feet per FTE maintenance worker which is highly efficient when compared to the industry standard. The District carries out its preventive maintenance function through regularly scheduled tasks within the work order system. Furthermore, completion of these tasks is documented both within the work order system and on paper-based check sheets physically attached to equipment within the buildings.

Marysville EVSD's 61 maintained acres would require total groundskeeping staffing of approximately 1.4 FTE based on the AS&U median of 43 acres per FTE. Its total staffing

allocated to this function amount to approximately 2.4 FTE based on full-time and seasonal staff. However, the District believes that seasonal staffing over the summer of 2008 was unusually high due to the need to have some of the seasonal staff help move Marysville Middle School to Bunsold Middle School and that these staffing levels would be lower in the future.

Financial Data

Table 4-3 shows Marysville EVSD's FY 2007-08 maintenance and operations expenditures as compared to the American School and University's (AS&U), *37th Annual Maintenance and Operations Cost Study* (2008) national median.

Table 4-3: M&O Expenditure Comparison

Expenditure Category	Marysville EVSD	AS&U	Difference	Percent Difference
Square Footage	947,041	N/A	N/A	N/A
Salary and Benefits	\$2.25	\$2.05	\$0.20	9.5%
Purchased Services (Excluding Utilities)	\$0.57	\$0.61	(\$0.04)	(6.9%)
Utilities	\$1.48	\$1.52	(\$0.04)	(3.0%)
Supplies & Materials and Capital Outlay	\$0.46	\$0.38	\$0.08	20.9%
M&O Expenditure Total	\$4.75	\$4.56	\$0.19	4.1%

Source: Marysville EVSD FY 2007-08 year-end financial information and building square footage, and the AS&U 37th Annual Cost Study (2008)

Note: Based on the AS&U's methodology, categories of expenditure were combined to ensure the validity of comparisons.

As shown in **Table 4-3**, Marysville EVSD's total expenditures were slightly higher than the AS&U national median. However, its purchased services (excluding utilities) and utilities were slightly lower than the AS&U median. Marysville EVSD's higher salary and benefit costs per square foot are indicative of overall higher compensation for Marysville EVSD's maintenance and operations employees (see **R3.4** in **human resources**). The supplies and materials and capital outlay is a combined category that is most consistent with AS&U methodology. In FY 2007-08 this category consisted of approximately \$305,000 (or \$0.32 per square foot) in supplies and materials expenditures and approximately \$130,000 (or \$0.14 per square foot) in total capital outlay. Although this aggregate expenditure is higher than the AS&U median, Marysville EVSD is required to spend approximately \$721,000 annually to meet its required capital outlay set-aside under Ohio school law. In addition, the District's supplies and materials expenditures were approximately \$48,000 higher in FY 2007-08 than the previous year, primarily due to opening Bunsold Middle School.

Enrollment

Marysville EVSD develops its enrollment projections in-house. According to the Superintendent, the District takes into account local housing information, live birth data, and area preschool enrollment when developing the enrollment projections. Marysville EVSD's latest enrollment projection, dated January 2008, showed a total enrollment of over 5,500 students by FY 2012-13. AOS reviewed Marysville EVSD's enrollment projection and determined that the District's enrollment projection was reasonably accurate when compared to an independent enrollment projection based on a modified cohort survival methodology.

AOS developed an updated enrollment projection based on ODE reported enrollment from FY 1999-00 through FY 2007-08, and the District's reported FY 2008-09 October headcount. **Table 4-4** shows this updated projection.

Table 4-4: Projected Enrollment FY 2009-10 to FY 2013-14

Grade	Actual	Projected				
	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14
K	381	369	362	355	348	341
1	372	399	387	379	372	365
2	445	373	401	388	381	374
3	420	449	377	404	392	385
4	428	424	453	380	408	395
5	416	434	430	460	386	414
6	408	424	443	438	469	393
7	395	419	435	454	450	481
8	423	398	422	439	458	453
9	485	438	412	437	454	474
10	373	478	431	406	431	448
11	309	356	457	412	388	411
12	376	308	355	455	410	386
Total	5,231	5,270	5,365	5,409	5,346	5,320

Source: ODE historical enrollment and Marysville EVSD FY 2008-09 October headcount

The enrollment projection shown in **Table 4-4** shows a FY 2008-09 actual enrollment that was lower than projected by the District in January 2008. Therefore, while enrollment is still expected to peak in FY 2011-12 and marginally decline thereafter, this peak enrollment is less than the District projected.

Audit Objectives for the Facilities Section

The following is a list of the questions used to evaluate the M&O functions at Marysville EVSD:

- Is the District's M&O Department staffing comparable to industry standards and is custodial and maintenance compensation comparable to surrounding districts?
- Does the M&O department have operational procedures, standards, and measures that meet leading practices?
- Does the District have a formal energy conservation policy and program that includes tracking energy usage and cost, using technology (if applicable) to reduce utility costs, and providing an educational program, to train staff and students on energy conservation practices?
- Do enrollment trends and building capacities suggest that the District change how it plans to use its buildings?
- Does the District have a capital improvement plan that contains the essential elements of leading practices?
- Does the District have an effective and equitable system for managing maintenance needs?

AOS found that Marysville EVSD used recommended practices in the areas of maintenance staff overtime, custodial staffing, enrollment projections, and preventive maintenance.

Recommendations

Planning

- R4.1 Marysville EVSD should develop a formal facilities plan that is consistent with leading practices, District-wide priorities as identified in its strategic plan (see R2.1), and the five-year forecast. A formal facilities plan will help the District identify and address long-term facilities needs and ensure appropriate funding in relation to its educational programs. The plan should be reviewed and updated annually to ensure consistency with District program needs and available funding.**

Marysville EVSD does not have a formal facilities plan or a long-term capital plan (e.g., a five-year capital plan). However, it has many of the recommended elements of a facilities plan in place including a preventive maintenance program, an enrollment projection, building capacity information, and a safety program. In addition, there is a year-to-year capital planning process. Annually, the Director of Maintenance and Director of Business Services meet with the building principals and develop a repairs list. The preliminary list is reviewed by the Superintendent and Treasurer and approved projects are assigned funding. Marysville EVSD has a continuing permanent improvement (PI) levy. In FY 2007-08 the PI levy generated approximately \$3.4 million. According to the Treasurer, the PI Fund has been used for supplies and materials, purchased services, capital improvements, and debt service payment.

Creating a Successful Facilities Master Plan (DeJong, 2001) states that school districts should develop long-term facilities plans that contain information on capital improvements and financing, preventative maintenance and work orders, overall safety and condition of buildings, enrollment projections, and capacity analysis. The plans should be developed based on foundations of sound data and community input. If developed properly, a facilities plan has the potential to significantly impact the quality of education in a school district. As a road map, the facilities master plan should specify the projects that have been identified, the timing and sequence of the projects, and their estimated costs. A district-wide facilities plan is typically a 10-year plan that should be updated periodically to incorporate improvements that have been made, changes in demographics, or other educational directions. *Preventative Maintenance for Local Government Buildings* (Minnesota Office of the Legislative Auditor, 2000) describes a capital improvement plan as a schedule of capital improvement projects listed in priority order over a number of years (usually five or more). Capital improvement plans typically include remodeling and new construction as well as major maintenance projects.

Although the District has a year-to-year facility planning process it has not formally projected its facilities needs out over an extended timeframe. By developing a more

comprehensive facility planning process, the District will be better positioned to advance its educational mission through the quality and configuration of its facilities. Incorporating long-term facility planning into its strategic plan will not only assist the District in planning for the use of its facilities, but it will also ensure that facility needs are evaluated and addressed on a regular basis.

Energy Management

R4.2 Marysville EVSD should establish a formal energy conservation policy. The policy should document and reiterate the informal guidelines which the District uses (i.e., heating and cooling settings and removal of personal appliances). Although Marysville EVSD’s utility cost per square foot was comparable to industry standards (see Table 4-3), the District could increase its efficiency in this area through establishing and enforcing a formal policy.

Marysville EVSD does not have a formal energy conservation program or District-wide energy conservation policy. Rather, the District has relied on recommended practices such as consortium purchasing, informal energy use reduction measures, automated temperature controls, and consumption monitoring and analysis to reduce its overall energy costs.

School Operations and Maintenance: Best Practices for Controlling Energy Costs (United States Department of Energy (DOE), 2004) indicates that the single most important energy cost management tool is a well conceived, district-wide energy policy. The policy should include clearly defined energy conservation objectives as well as operational standards. The policy should include a mission statement for the energy conservation program and outline the elements of the program. Finally, the policy should establish broad threshold criteria for energy efficiency expenditures relative to the payback timeframe. DOE notes that including this type of guidance within the policy will help to focus resources toward cost effective improvements.

DOE further notes that there are 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 temperatures setbacks, and establishing district-wide shut down procedures.

Marysville EVSD has already implemented some of the DOE recommended energy management practices. However, the District lacks a formal energy management policy, which if established, would greatly strengthen its efforts to implement an energy awareness program. This, in turn, could lead to greater cost savings and increased efficiency relative to industry standards and current operations.

AOS provided the District with an example of a formal energy conservation policy obtained from Mansfield City School District during its 2007 performance audit.

Procedures and Performance Standards

R4.3 Marysville EVSD should develop a handbook for custodial and maintenance operations. The handbook should include NCES and ISSA recommended elements and should detail time standards and processes for accomplishing tasks. It should 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. Lastly, the District should review the manual annually and update the procedures as necessary.

Marysville EVSD has neither a custodial handbook nor a maintenance handbook. Marysville EVSD's Operations Manager intends to develop this type of resource as part of his effort to improve the consistency and efficiency of the District-wide custodial function. In doing so, the Operations Manager intends to seek out ideas from maintenance and operations officials at other districts and see what they may have in place. The intended result is to glean the best ideas from a variety of sources and then personalize the information to meet Marysville EVSD's needs.

The Operations Manager has proposed convening a District-wide "custodian council" in which a custodian from each building serve as the building representative and discuss with his or her peers what has been effective at their building. By sharing ideas and institutional knowledge between buildings, the Operations Manager believes that the overall performance of the M&O department will improve and processes will become more consistent.

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.

The International Sanitary Supply Association (ISSA) has developed a custodial training program manual designed to help train and guide custodians which the District should find helpful in developing its own manual. The publication details the correct cleaning methods as well as the proper use of custodial equipment and offers guidelines and tips on the following:

- Floor finish application;
- Auto scrubbing;
- Carpet care and maintenance;
- Damp/wet mopping;
- Proper dilution methods;
- Dust mopping;
- Oscillating and multiple brush floor machines;
- Scrubbing/stripping;
- Spray buffing/ high speed burnishing;
- Wall washing;
- Washroom cleaning;
- Wet/dry vacuums; and
- Window cleaning.

Without a formal policies and procedures handbook to guide custodial and maintenance operations, procedures and standards may not be consistently followed. Developing policy and procedures manuals and standards for M&O Department staff will help ensure a more efficient and effective operation. Furthermore, written policies and procedures would help ensure that reoccurring 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 website and disseminate the information

internally. Development of a policy and procedures manual could be implemented with little to no additional cost to the District.

AOS provided the District with examples of M&O Department handbooks obtained from Mansfield City School District during its 2007 performance audit and Oregon City School District during its 2009 performance audit.

R4.4 Marysville EVSD should develop formal performance standards and measures to clarify staff expectations, evaluate individual performance, and assess the overall effectiveness of maintenance and operations activities. By developing formal performance measures, the District can consistently evaluate the efficiency and effectiveness of its M&O Department. Increased efforts to measure and track performance can improve decision-making and resource allocation. Additionally, the District should evaluate the performance of all M&O Department staff annually based on its established performance measures. The performance measures should be based on, and be consistent with, the procedures identified through an operating handbook or written guidelines (see R4.3) to ensure that all staff are properly informed of expectations related to their positions.

Marysville EVSD's Classified Employee Handbook states that "new employees to the District shall be evaluated a minimum of two times under their first contract – at least one time within the 90 day probationary period and again prior to contract renewal. Employees under a two-year contract will be evaluated at least one time the first year of the contract, and two times the second year of the contract prior to being recommended for a continuing contract. Classified employees on a continuing contract will be evaluated a minimum of one time each year."

Within the M&O Department, oversight of the custodians and maintenance staff is treated as two separate administrative functions. The Director of Maintenance is responsible for maintenance employee evaluations while the building principals are responsible for custodial evaluations. The District's Operations Manager also has the opportunity to review and provide input on the custodian evaluations, but does not actually administer the evaluations.

All classified employees are evaluated using a standardized evaluation form. The evaluation form does not directly address performance standards but rather asks the evaluator to assess (using a rating systems of one through five) broad areas including: appearance, punctuality and attendance, relationship, ability to accept direction, friendliness toward the public, adherence to Board policies, and active improvement of job performance. The evaluation instrument also includes a comments and recommendations field that the evaluator uses to expand on the ratings.

The *Planning Guide for Maintaining School Facilities* (NCES, 2003) states that to ensure that staff are doing their part to meet an organization's goals and objectives, employee performance must be evaluated on a regular basis. To assess staff productivity, the organization (through its managers and supervisors) must establish performance standards and evaluation criteria. For example, a custodian's performance might be measured by the amount of floor space or number of rooms serviced, the cleanliness of those facilities, and his or her attendance history. The custodian's work likely will be assessed by his or her immediate supervisor and the principal of the school.

The NCES also states that determining performance standards may be best accomplished as 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 staff members has two very positive features: 1) staff members can communicate atypical features of his or her working conditions that warrant modification of "normal" performance standards (e.g., the vinyl tile floor in the work area requires additional time to clean properly); and 2) the supervisor will know that the staff member is fully aware of the jointly developed expectations.

Although Marysville EVSD follows NCES recommended practices by evaluating its maintenance and operations staff on a regular basis, the lack of performance standards and evaluation criteria has an impact on the consistency of cleanliness in its buildings. The absence of measures stems from the District not having a custodial and maintenance handbook with specific performance standards incorporated into it (see **R4.3**). As a result of the District relying on building-level expectations and evaluations, some buildings retain a higher quality of appearance than others.

R4.5 Marysville EVSD should delay the planned re-opening of the Marysville Middle School and the East Elementary School until it addresses projected deficits and enrollment trends suggest that the District will need additional space. Based on the projected enrollment and functional capacity of its buildings, the District's buildings will not be overcrowded in the near future. By not opening these two buildings, the District can avoid the cost associated with the additional buildings and use the savings to reduce its projected deficits. The District should continue to update enrollment projections and capacity analyses to determine when there is a need to open additional buildings in the future.

Marysville EVSD closed Marysville Middle School and East Elementary School in FY 2008-09. The District anticipated the need to reopen the Middle School in FY 2010-11 and the Elementary School after FY 2012-13. However, during the course of the audit, the District moved the anticipated re-opening of Marysville Middle School from FY 2010-11 to FY 2011-12.

Table 4-5 shows Marysville EVSD's functional capacity¹ and FY 2008-09 enrollment by building and the buildings' utilization rates.

Table 4-5: FY 2008-09 Building Utilization

Active Building	Functional Capacity	Students	Utilization Rate
Marysville High School	1,955	1,543	78.9%
Bunsold Middle School	1,105	818	74.0%
Middle / High School Level	3,060	2,361	77.2%
Creekview Intermediate School	950	824	86.7%
Edgewood Elementary School	500	453	90.6%
Mill Valley Elementary School	600	477	79.5%
Navin Elementary School	675	371	55.0%
Northwood Elementary School	550	499	90.7%
Raymond Elementary School	400	251	62.8%
Elementary School Level	3,675	2,875	78.2%

Source: MEVSD FY 2008-09 buildings and student enrollment

Note: Functional capacity at the elementary school serves as an upper boundary for the number of students who may be reasonably educated within the building; optimal capacity may be lower than functional capacity.

As shown in **Table 4-5** the District is not overly crowded at the elementary school or middle/high school level. In addition, the District's enrollment growth has been inconsistent and projections show little net increase in total enrollment over the next five years (see **Table 4-4**). By re-opening these two buildings, the District would incur unnecessary cost, including personal, utilities, and supplies and materials. Continuing to monitor enrollment and capacity will help the District to make informed decisions regarding when to re-occupy the buildings.

Financial Implication: By delaying the opening of Marysville Middle School, the District could potential save approximately \$522,000 in FY 2010-11.

¹ Functional capacity starts with the potential capacity of the District's buildings and then adjusts this figure to reflect the programmatic implications of the actual facility use.

Financial Implications Summary

The following table lists cost savings for recommendations contained in this section of the report.

Summary of Financial Implications for Facilities

Recommendation	Estimated Annual Cost Savings
R4.5 Delay planned re-opening of middle school ¹	\$522,000

Source: AOS facilities recommendations

¹ Savings not assumed until FY 2010-11.

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Transportation

Background

This section of the performance audit focuses on the Marysville Exempted Village School District's (Marysville EVSD or the District) transportation operations. Transportation operations were evaluated against best practices, operational standards, and selected peer school districts.¹ Comparisons were made for the purpose of developing recommendations to improve the efficiency and effectiveness of business practices and, where appropriate, to reduce expenditures. Throughout this section, leading practices and operational standards were drawn from various sources, including the Ohio Department of Education (ODE), the American Association of School Administrators (AASA), the Voinovich Center for Leadership and Public Affairs at Ohio University, and the National Association of State Directors of Pupil Transportation Services (NASDPTS).

Transportation Policy

Ohio Revised Code (ORC) § 3327.01 requires that, at a minimum, school districts provide transportation to and from school to all students in grades kindergarten through eight (K-8) who live more than two miles from their assigned schools. Districts are also required to provide transportation to community school and non-public school students on the same basis as provided to their own students. In addition, districts must provide transportation to disabled students who are unable to walk to school, regardless of the distance. Finally, when required by an individualized education program (IEP), districts must provide specialized, door-to-door transportation to special needs students based on the unique needs of the student.

The Board of Education's (Board) transportation policy focuses on State compliance while maintaining safety, efficiency, and economy. The policy and level of transportation services provided are consistent with State minimum transportation standards set forth in ORC § 3327.01. In addition, the limited transportation service provided to those not required to be transported (i.e., high school, and students living within two miles) is consistent with Marysville EVSD's policy that these services are optional and may be provided at its discretion. Furthermore, Marysville EVSD's Board policies note that the general transportation rule may need to be flexible when taking into account the physical or mental disabilities of the Districts students.

¹ The peers include: Chardon LSD (Geauga County), Cloverleaf LSD (Medina County), Green LSD (Summit County), Highland LSD (Medina County), Lebanon CSD (Warren County), Little Miami LSD (Warren County), Miamisburg CSD (Montgomery County), Perry LSD (Stark County), Southwest Licking LSD (Licking County), and Wadsworth CSD (Medina County). However, to ensure the appropriateness of transportation comparison, Lebanon CSD was excluded from the peers because this district contracts for transportation services.

Operating Environment

Marysville EVSD offers Type I and Type V transportation service,² using Board-owned and operated buses and vans to transport regular and special needs student riders. In addition to providing services to the students at the District's eight school buildings, transportation is provided to special education students who receive educational services both inside and outside of the District. Marysville EVSD's Director of Transportation (Director) oversees the District's transportation operation and reports to the Operations Manager. The Director and Operations Manager are both relatively new, having less than two full years experience in their current position. Marysville EVSD's Transportation Department staff also consists of 2 mechanics, 2 secretaries, 30 bus drivers,³ 6 special needs transportation aides,⁴ and 4 substitutes bus drivers (1 of which is a permanent guaranteed substitute).

Marysville EVSD assigns a special needs transportation aide to each of its four special needs buses and to one of its special needs vans. However, this level of service appears appropriate because the District targets the provision of special needs transportation toward severely disabled students. As a result, these students are more likely to require the services of a transportation aide. Furthermore, Marysville EVSD's use of substitute drivers appears appropriate based on the District's ongoing need to staff three open routes while at the same time avoiding hiring any new employees.

Transportation Department employees are not organized under a collective bargaining unit, and, instead, receive policy guidance through the Classified Employee Handbook. An analysis of the Classified Employee Handbook identified District-wide employee provisions that were in excess of State minimum requirements or observed practices from other districts (see **R3.8** in **human resources**) but did not identify any employee provisions specifically related to transportation employees.

Lastly, Marysville EVSD's Transportation Department (including offices, bus garage, parking area, and fuel tanks) is housed at a single location with recommended security measures including fences, locking systems, lighting, and cameras.

² ODE classifies pupil transportation ridership by the following types: Type I (riders on Board-owned yellow buses), IA (riders on another district(s) buses), II (riders on outsourced/leased, contractor-owned buses), III (riders on public transportation such as taxis), IV (payment in lieu), V (riders on Board-owned vehicles other than buses), VI (riders on privately-owned vehicles), and VII (community school riders).

³ One bus driver serves as a driver for one of the District's two special needs vans.

⁴ One special needs transportation aide serves as a driver for one of the District's two special needs vans, one serves as an aide on the special needs van, the remaining four are assigned to the District's special needs buses.

Operating Statistics

In FY 2007-08 Marysville EVSD provided transportation services to all students, grade K through 12, living more than one mile away from their assigned school.⁵ However, the District failed to pass three levies during FY 2007-08 and, as a result, made reductions to its transportation service level. These reductions included eliminating busing for all students living less than two miles from their assigned school and replacing door-to-door high school transportation with seven cluster stops. After the passage of its November 2008 levies, the District reinstated some additional transportation service at the high school by adding seven more cluster stops.

Table 5-1 shows Marysville EVSD's transportation operating statistics which reflect the operational changes that have occurred from FY 2007-08 to FY 2008-09. During FY 2008-09, the District performed two headcounts, one to report transportation riders and miles in October 2008 and a second in January 2009 to gauge transportation efficiency based on its mid-year operational changes. AOS reviewed the reported information in detail and found that the District's methods for counting, reviewing, and reporting transportation data were designed to ensure accuracy and were consistent with ODE guidelines.

Table 5-1: Transportation Operating Statistics

	FY 2007-08	FY 2008-09 (October)	FY 2008-09 (January)
Yellow Bus Riders (Type 1)			
Public	2,204	1,685	1,672
Non-Public	47	42	27
Community School	1	0	0
Special Needs	72	55	52
Total Yellow Bus Riders	2,324	1,782	1,751
Buses			
Regular Buses	33	31	28
Special Needs Buses	4	4	4
Total Active Buses	37	35	32
Daily Miles Driven	3,162	2,778	2,932
Spare Buses	8	8	11
Riders Per Regular Bus	68.2	55.7	60.7

Source: Marysville EVSD T-1 Reports and January 2009 head count documentation

As shown in **Table 5-1**, the District has significantly modified its transportation operations twice since FY 2007-08, and was able to reduce its active regular buses by 9.7 percent through these modifications. Although Marysville EVSD's total yellow bus riders has continued to decrease, the District has made corresponding changes to its active bus fleet, routing, and service levels.

⁵ Marysville EVSD has identified certain transportation exception areas for which it provides transportation service contrary to the one and two mile service level limitations.

Therefore, although the District's total yellow bus riders dropped by 24.7 percent from FY 2007-08 to January 2009, the District's riders per regular bus only decreased by 11.0 percent. **Table 5-1** shows that the District actively manages its transportation program and, as a result, was able to increase its level of service in January 2009 while at the same time reducing the total number of buses on the road.

Table 5-2 shows Marysville EVSD's riders per bus as compared to various benchmarks as well as the efficiency gap in current operations based on those benchmarks.

Table 5-2: Ridership Comparison to Benchmarks

Entity	Riders Per Bus
Marysville EVSD¹	62.0
ODE Adjusted Target Ridership FY 2008-09	56.5
Peer Average	77.9
Target Utilization at 80% Capacity ²	95.1
Efficiency Gap	
Benchmark	Number of Buses over Benchmark
Peer Average	5
Target Utilization at 80% Capacity	9

Source: Marysville EVSD January 2009 head count, ODE FY 2008-09 efficiency targets, peer district T-1 Reports, and American Association of School Administrators (AASA)

Note: Marysville EVSD is 140 square miles while the peer average is 61.6 square miles.

¹ Marysville EVSD riders per bus excludes ridership for bus number 37 which functions as a shuttle bus and has only one tier. Therefore, the calculation is based on 27 active regular needs buses rather than 28 as shown in **Table 5-1**.

² The AASA suggests a target of 80 percent utilization based on the manufactured capacity of the bus. AOS adjusts this target capacity for high/middle school students to reflect two students per seat rather than three as the manufactured capacity would suggest; AOS does not adjust elementary capacity. For example, a two-tier 72 passenger bus (high/middle school and elementary school) would have a target elementary utilization of 57.6 riders and a target high/middle school utilization of 38.4 riders; a total of 96 riders.

As shown in **Table 5-2**, Marysville EVSD's riders per bus indicates that the District is meeting its ODE's adjusted target ridership but transports fewer riders per bus than the peer average and far fewer riders per bus than the target utilization at 80 percent capacity (see **R5.1**).

Financial Data and Statistical Data

Table 5-3 shows Marysville EVSD's FY 2007-08 transportation expenditures as compared to the peer average on a per yellow bus rider, active bus, and routine mile basis.

Table 5-3: FY 2007-08 Transportation Cost Comparison

	Marysville EVSD	Peer Average	% Difference
Total Yellow Bus Riders	2,324	2,806	(17.2%)
Total Active Buses	37	39	(5.4%)
Total Routine Miles	569,160	509,460	11.7%
Salaries			
• Per Yellow Bus Rider	\$412.26	\$328.66	25.4%
• Per Active Bus	\$25,894	\$23,710	9.2%
• Per Routine Mile	\$1.68	\$1.93	(12.8%)
Benefits			
• Per Yellow Bus Rider	\$267.56	\$168.98	58.3%
• Per Active Bus	\$16,806	\$12,020	39.8%
• Per Routine Mile	\$1.09	\$0.94	16.2%
Maintenance & Repairs			
• Per Yellow Bus Rider	\$99.69	\$95.55	4.3%
• Per Active Bus	\$6,262	\$6,951	(9.9%)
• Per Routine Mile	\$0.41	\$0.58	(29.2%)
Fuel			
• Per Yellow Bus Rider	\$127.09	\$100.71	26.2%
• Per Active Bus	\$7,983	\$7,222	10.5%
• Per Routine Mile	\$0.52	\$0.57	(9.7%)
Bus Insurance			
• Per Yellow Bus Rider	\$9.63	\$12.79	(24.7%)
• Per Active Bus	\$605	\$932	(35.1%)
• Per Routine Mile	\$0.04	\$0.08	(49.6%)
All Other Costs			
• Per Yellow Bus Rider	\$19.26	\$14.12	36.4%
• Per Active Bus	\$1,210	\$1,038	16.6%
• Per Routine Mile	\$0.08	\$0.08	(4.2%)
Total Expenditures			
• Per Yellow Bus Rider	\$935.50	\$720.81	29.8%
• Per Active Bus	\$58,759	\$51,872	13.3%
• Per Routine Mile	\$3.82	\$4.18	(8.7%)

Source: Marysville EVSD and peer district FY 2007-08 T-reports

Note: Percentages may vary due to rounding.

As shown in **Table 5-3**, Marysville EVSD's transportation expenditures by category are generally higher than the peer average when compared on a per yellow bus rider and per active bus basis, and generally lower when compared on a per routine mile basis. However, in all three categories, Marysville EVSD's insurance cost was lower than the peer average. Also, Marysville

EVSD's maintenance and repairs cost per bus and per routine mile was lower than the peer average.

The following provides an additional explanation of the District's transportation expenditures.⁶

- **Salaries and Benefits** – These categories of expenditure are compared on a per active bus basis because each bus requires a driver and incurs some additional cost due to administrative overhead. Given that Marysville EVSD had about 5.4 percent fewer active buses than the peer average, the higher expenditures reflect higher compensation and benefit levels (see **R3.4** and **R3.6** in **human resources**).
- **Maintenance & Repairs and Fuel** – These categories of expenditure are compared on a per routine mile basis because the number of miles run directly correlates to higher or lower expenditures. Although Marysville EVSD had more routine miles than the peer average, **Table 5-3** shows a cost per routine mile significantly lower than the peer average for both fuel and maintenance and repairs indicating of operational efficiency in this area. Marysville EVSD's transportation work order system allows the District mechanics to schedule all school bus preventive maintenance and track preventive, routine, and emergency maintenance by individual bus, this contributes to the efficient management of maintenance and repairs and, by extension, to the lower costs. This is also consistent with recommended practices.

Finally, Marysville EVSD successfully submits and receives reimbursement for its State fuel tax refund. It also was awarded a biodiesel grant from the Ohio Department of Development (DOD). The DOD biodiesel grant allows the District to purchase biodiesel for its bus fleet and claim reimbursement for the cost difference to regular diesel fuel, up to \$25,000 in FY 2008-09.

⁶ All other costs, approximately 2.1 percent of total expenditures, were not reviewed in detail.

Audit Objectives for the Transportation Section

The following is a list of the questions used to evaluate the transportation functions at Marysville EVSD:

- How does the District’s transportation policy and procedures compare with leading practices and how do they impact operations?
- Does the District report and verify its T-1 and T-2 data in accordance with ODE instructions and its own written procedures and guidelines?
- How does the District’s “yellow bus” transportation service compare with peer districts and/or industry standards?
- How can the District improve its operating efficiency?
- How can the District improve the cost effectiveness of transportation operations through improved human resource management?
- Does the District have sufficient controls in place to ensure the security of its buses, equipment, parts, supplies, and fuel?
- How does the District ensure it gets the best value when purchasing transportation related items?
- Is the District effectively and efficiently maintaining and managing its fleet?
- Is the District providing specialized transportation service in an effective and efficient manner?

AOS found that Marysville EVSD met recommended practices in the areas of Board transportation policy, T-1 form reporting, transportation employee provisions within the Classified Employee Handbook, special needs transportation aides, substitute drivers, supplies security, biodiesel grant reimbursement, State fuel tax reimbursement, bus insurance, preventive maintenance, maintenance and repairs cost, and special needs transportation policy.

Recommendations

Operational Efficiency

R5.1 Marysville EVSD should increase its transportation operational efficiency through the elimination of at least five active buses. Doing so would bring the District's riders per bus in line with the peer average. Although the District should ultimately seek to increase its transportation efficiency to meet target utilization of 80 percent capacity (a reduction of nine buses), meeting the peer average would provide for a significant increase in efficiency and a significant decrease in overall transportation expenditures.

As shown in **Table 5-2**, if the District were to eliminate five buses, it could bring its riders per bus in line with the peer average and, if it were to increase bus utilization to the target of 80 percent capacity, it could reduce nine buses. Although both modifications would result in greater efficiency there are tradeoffs which should be considered including increased ride times or adjustments to schedules, as well as requirements for new revenues to sustain lower operating efficiency levels.

Marysville EVSD's seeks to maintain ride times of less than one hour; however, students are actually on the bus for an average of approximately 45 minutes. For example, 5 of the District's runs are 90 minutes or more while 15 of the runs are 30 minutes or less. According to ODE, there is no identified maximum ride time. Each school district's ride times can be different due to numerous factors including traffic, location, and size of the district.

According to the Director of Transportation, Marysville EVSD will make significant changes to its bell schedules and tier system in FY 2009-10. These changes include transporting all students grade K-6 on a single tier and all students in grades 7-12 on a separate tier, and modifying elementary school start times so that they are uniform throughout the District. Implementation of these changes should help the District streamline its transportation program and could help it achieve greater efficiencies without significantly increasing ride times. Any changes to operations or District policy that result in increased efficiency will help offset its projected deficits.

Financial Implication: If Marysville EVSD were to eliminate five active buses the District could save approximately \$164,000 in FY 2009-10.

Fuel Purchasing

R5.2 Marysville EVSD should formalize its agreement to purchase fuel from its supplier through a written agreement. In doing so, the District should document that the vendor was selected based on consistent, fair, and objective selection practices. Once a formal agreement is in place, the District should periodically evaluate the agreement to determine the cost effectiveness of continuing to purchase its diesel fuel from the selected vendor.

The District purchases its diesel fuel through a single supplier but does not have a formal contract with this supplier. Additionally, the fuel vendor retains ownership of the fuel tanks located on District property. According to the Director of Transportation and Operations Manager, the District has had a long relationship with this supplier and has been satisfied with the prices and level of customer service it receives. However, the District has not formally evaluated the competitiveness of purchasing from this particular supplier.

Marysville EVSD's Board policy on purchasing states that the Board intends to purchase competitively without prejudice and to seek maximum educational value for every dollar expended. The acquisition of supplies, equipment and services is centralized in the Business Office, which functions under the supervision of the Purchasing Agent through whose office all purchasing transactions are conducted. Furthermore, the District has a policy on local purchasing stating that it is the intention of the Board to purchase locally if all other considerations (i.e., price and quality) are equal. Finally Marysville EVSD's policy on purchasing procedures states that procedures are designed to ensure the best possible price for the desired products and services. Procedures for purchasing are developed to require that all purchases be made on properly approved purchase orders and that, for items not put up for bid, price quotations be solicited.

The Ohio Department of Administrative Services (DAS), Office of State Purchasing uses a bidding process to enter into a contract through which State agencies, local governments, and school districts may purchase gasoline and diesel fuel. The DAS contract provides a benchmark against which to compare the fuel prices Marysville EVSD has received from its vendor. AOS reviewed selected fuel invoices and found that Marysville EVSD's average price per gallon was comparable to the DAS average price per gallon.

According to the *Contract Management Manual: A Guide to Bidding, Selecting, Contracting, and Monitoring Services* (Voinovich Center for Leadership and Public Affairs at Ohio University, June 2001), a purchasing authority must be able to demonstrate consistent, fair, and objective practices, and not be subject to charges of favoritism or bias in selection, compensation, or evaluation of service providers.

Professionally developed policies and consistently applied contract administration procedures provide these assurances to the community.

Although it appears that Marysville EVSD is receiving a competitive price for its diesel fuel purchases, the manner in which the District contracts for diesel fuel does not appear to be consistent with Board policy. In addition, lack of a formal agreement with its exclusive fuel supplier is inconsistent with recommended practices from the Voinovich Center. Without using standard price comparison techniques and having a formal agreement in place, the District may not be able to demonstrate that its purchasing practice is fair and objective.

Bus Replacement

R5.3 Marysville EVSD should develop a formal bus replacement plan in conjunction with its preventive maintenance plan, to help ensure that bus replacement needs are effectively evaluated and funding needs are communicated to the Board and public. This plan should account for enrollment and ridership trends, industry standard age and mileage replacement criteria, and maintenance costs per bus. Furthermore, this plan should be linked to the District's budget so that bus replacement funds are available when needed.

Marysville EVSD has no formal bus replacement plan. Rather, the mechanics make use of the maintenance tracking component of the transportation work order system and, coupled with their own experience, use the data to determine which buses should be replaced. Marysville EVSD last purchased a bus in FY 2007-08. The decision to replace the bus was based on its overall condition, miles, and cost of repairs needed to keep it fit for service.

In *School Bus Replacement Considerations* (2002), NASDPTS emphasizes that replacement of school buses should be a planned process. NASDPT acknowledges that a district's finances are an important consideration in the replacement of buses, and may be an obstacle to replacing them on the schedule desired by the district. However, even when this is the case, a bus replacement plan is still an important planning tool for the district. The plan should incorporate maintenance and cost data into the decision making process for when to replace a bus. The plan should also allow a district to establish its priorities with regard to safety and emissions features. Ultimately, a bus replacement plan helps a district to communicate to its leadership and to the public about the needs of its bus fleet, its progress in meeting its schedule of replacement, and any risks posed by the current state of the fleet.

Marysville EVSD appears to have effective preventive maintenance function, which contributes to the District's lower maintenance and repair costs as compared to the peer average (see **Table 5-3**). Although the Superintendent noted that the District had been replacing about four buses per year as a general practice, as bus replacement funds became scarce the District was not able to retain this practice. Without a formal replacement plan the District may not be able to effectively communicate its need to replace buses as well as to allocate funding for that purpose.

Financial Implications Summary

The following table lists cost savings for recommendations contained in this section of the report.

Summary of Financial Implications for Transportation

Recommendation	Estimated Annual Cost Savings
R5.1 Eliminate five active buses	\$164,000

Source: AOS transportation recommendations

Food Service

Background

This section focuses on the operational efficiency of the Marysville Exempted Village School District's (Marysville EVSD or the District) food service operations. Management and operational practices of the District's food service program were analyzed for the purpose of developing recommendations to improve its efficiency and financial condition. The program's results and operations were evaluated against leading practices, operational standards, and other Ohio school districts. Recommended practices and standards were drawn from the National Food Service Management Institute (NFSMI), School Foodservice Management for the 21st Century, the United States Department of Agriculture (USDA), and the Government Finance Officers Association (GFOA). Throughout this section, comparisons were made with peer districts¹ as well as similar districts in the area.²

Organizational Structure and Function

The Food Service Department at Marysville EVSD consists of 47 employees, including the Director of Food Service (the Director), 2 clerical employees, 30 food service employees (e.g., cooks and cashiers), 2 substitute employees, and 12 food service support (FSS) staff.³ The Director is responsible for overseeing day-to-day food service operations, working to fulfill nutritional guidelines, overseeing purchasing and budgeting, managing food service personnel, and ensuring that federal regulations are met. The Director of Food Service reports directly to the Director of Business Services.

The Food Service Department staff prepares and serves breakfasts and lunches in each of its eight school buildings. The District has established standardized purchasing to simplify the ordering process. The Director has developed a procedures manual, an order guide for purchasing food and supplies, a Student Wellness Policy, and a Hazard Analysis Critical Control Point (HACCP) food safety plan to prevent food borne illnesses. These manuals serve as references for employees and are designed to supplement annual training.

¹ The peers include: Chardon LSD (Geauga County), Cloverleaf LSD (Medina County), Green LSD (Summit County), Highland LSD (Medina County), Lebanon CSD (Warren County), Little Miami LSD (Warren County), Miamisburg CSD (Montgomery County), Perry LSD (Stark County), Southwest Licking LSD (Licking County), and Wadsworth CSD (Medina County).

² The similar districts in the area include: North Union LSD (Union County), Fairbanks LSD (Union County), Delaware CSD (Delaware County), London CSD (Madison County), and Canal Winchester LSD (Franklin County). These districts were selected because they are similar to Marysville EVSD in size, type (using the ODE typology), and geographic location.

³ The Food Service Support Staff (FSS) are part-time District employees who work as either cooks or cashiers.

The District operates a point-of-sale system which automates cash handling and tracks student accounts, including eligibility for free and reduced priced meals. Marysville EVSD also uses the point-of-sale system to prepare participation reports and submit data to the Ohio Department of Education (ODE).

Key Statistics

Table 6-1 compares the District's participation rates for FY 2007-08, which was the most recent year available at the time of the audit, with the peer averages. One way to measure program success is by examining participation rates, which are calculated by ODE's online reporting system.

Table 6-1: FY 2007-08 Participation Rates

	Total Lunches Served	Average Daily Participation	Percent Free of Total	Percent Reduced Price of Total	Average Daily Participation of Average Daily Attendance	Percent Total Participation
Marysville EVSD	473,963	2,740	23.6%	6.9%	58.3%	70.3%
Peer Average	339,135	1,961	23.3%	7.1%	53.8%	64.5%
Difference from Peer Average	134,828	779	0.3%	(0.1%)	4.4%	5.8%

Source: ODE "MR 60 Reports" for Marysville EVSD and the peer districts (May 2008)

In FY 2007-08, the District achieved a participation rate of over 70 percent, which was approximately 6 percent above the peer average. Marysville EVSD has employed several strategies to keep its food service participation rates high. The District posts menus on its website, promotes the financial and nutritional value of its meals, hosts theme days, and communicates with students in the lunch line regarding the breakfast program.

Table 6-2 compares the District's FY 2008-09 meal prices with the averages of similar districts in the area.

Table 6-2: Meal Price Comparison

	Elementary School		Intermediate School		Middle School		High School	
	Breakfast	Lunch	Breakfast	Lunch	Breakfast	Lunch	Breakfast	Lunch
Marysville EVSD	\$1.75	\$2.60	\$1.75	\$2.85	\$1.75	\$2.85	\$2.00	\$2.85
Similar District Average	\$1.15	\$2.12	\$1.25	\$2.18	\$1.15	\$2.47	\$1.25	\$2.50
Difference	\$0.60	\$0.48	\$0.50	\$0.68	\$0.60	\$0.38	\$0.75	\$0.35

Source: ODE Site Applications for Marysville EVSD and similar districts in the area.

Note: Averages are based on the availability of the numbers.

The District increased its meal prices in January 2008, impacting FY 2007-08, and again in September 2008, impacting FY 2008-09. According to the Director, after the September 2008 increase, the District's participation rates temporarily dropped. As shown in **Table 6-2**, the District's meal prices are significantly above the average of similar districts in the area. Further price increases could negatively impact participation and potentially hinder efforts to maintain a positive fund balance in the Food Service Fund.

Financial Condition

The Food Service Fund is an enterprise fund, which means it is intended to be self-supporting by relying on charges and reimbursements to cover the costs of operations.⁴ **Table 6-3** illustrates Marysville EVSD's Food Service Fund revenue, expenditures, and other financing activities for FY 2005-06 through FY 2007-08.

⁴ ORC § 3313.81 stipulates that food service operations may not be used to make a profit.

Table 6-3: Marysville EVSD Food Service Fund, Three-Year History

	FY 2005-06	FY 2006-07	Percent Change	FY 2007-08	Percent Change
Operating Revenue					
Student Charges	\$1,184,077	\$1,472,012	24.3%	\$1,515,166	2.9%
Non-Operating Revenue					
Miscellaneous	\$0	\$9,002	0.0%	\$2	(99.9%)
Sales and Loss of Assets	\$1,200	\$22,491	1,774.2%	\$400	(98.2%)
Restricted Grants-in-Aid (State Sources)	\$11,609	\$12,803	10.2%	\$15,542	21.4%
Unrestricted Grants-in-Aid (Federal Source)	\$350,553	\$365,405	4.2%	\$530,166	45.0%
Refund of Prior Years Expenditures	\$106	\$115	8.6%	\$237	105.7%
Total Revenue	\$1,547,545	\$1,881,828	21.6%	\$2,061,514	9.5%
Operating Expenditures					
Personal Services - Salaries	\$578,696	\$689,776	19.1%	\$722,571	4.7%
Employees Retirement and Insurance	\$317,532	\$365,188	15.0%	\$348,724	(4.5%)
Purchased Services	\$38,027	\$39,737	4.5%	\$56,037	41.0%
Supplies and Materials	\$650,954	\$827,372	27.1%	\$878,222	6.1%
Capital Outlay	\$10,171	\$77,917	666.0%	\$4,683	(93.9%)
Other Objects	\$1,985	\$2,338	17.8%	\$2,746	17.4%
Non- Operating Expenditures					
Refund of Prior Years Receipts	\$52	\$0	(100.0%)	\$0	0.0%
Total Expenditures	\$1,597,416	\$2,002,327	25.3%	\$2,012,984	0.5%
Revenues Over (Under) Expenses	(\$49,871)	(\$120,499)	141.6%	\$48,530	(140.2%)
Transfers/Advances					
Advances- In	\$25,000	\$100,000	300.0%	\$53,564	(46.4%)
Operating Transfers-Out	\$0	\$0	0.0%	\$0	0.0%
Advances-Out	\$0	\$25,000	100.0%	\$100,000	300.0%
Net Transfers/Advances	\$25,000	\$125,000	400.0%	\$153,564	22.8%
Revenues Over (Under) Expenses (Including Transfers)	(\$24,871)	\$4,501	(118.1%)	\$2,094	(53.4%)
Beginning Fund Balance	\$70,854	\$45,983	(35.1%)	\$484	(98.9%)
Ending Fund Balance	\$45,983	\$484	(98.9%)	\$2,578	432.6%
Reserve for Encumbrances	\$40,660	\$5,408	(86.7%)	\$702	(87.0%)

Source: Marysville EVSD FY 2005-06 through FY 2007-08 year-end financial and federal claim reimbursement reports.

As shown in **Table 6-3**, expenditures exceeded revenue in FY 2005-06 and FY 2006-07, which eroded the \$70,854 balance in the Fund in FY 2005-06. By the end of FY 2006-07, the Fund required transfers from the General Fund to remain solvent. Through the implementation of the performance audit recommendations and recently implemented cost saving strategies and price increases, the Food Service Fund should be able to maintain a positive fund balance in the future. Some of the steps the District has taken to minimize costs and/or improve efficiencies include:

- Establishing an order book for kitchen managers that limits purchases through an approved bid process;
- Assuming four calamity days in the Food Service Department budget to avoid purchasing too much inventory;
- Using teachers to monitor lunchroom activities during their lunch breaks in exchange for worker meals, rather than using paid lunchroom monitors;
- Conducting meal analyses to cost out and analyze meals at each school in order to determine if the District is providing nutritional meals at the lowest possible cost;
- Establishing cost parameters for each meal. Under these parameters, food costs should represent approximately 40 percent of total meal costs, while supply costs should represent approximately 5 percent, and labor/benefits costs should represent 55 percent;
- Maintaining the District's relationship with the Metropolitan Educational Council school consortium;
- Developing standardized purchasing processes;
- Using government commodities; and
- Establishing a pilot program at Northwood Elementary School which features students serving themselves. According to the Director of Business Services, this program has worked well and has helped cut labor costs.

Table 6-4 shows financial data for FY 2007-08, and compares Marysville EVSD's Food Service Fund revenue and expenditures with the peer averages on a per meal equivalent basis.⁵

⁵ Per meal equivalents were based on definitions from the National Food Service Management Institute. The conversion of meal equivalents used is as follows:

- 1 lunch = 1 meal equivalent;
- 3 breakfasts = 2 meal equivalents; and
- A la carte meal equivalents = a la carte sales divided by free lunch reimbursements, plus commodity value per meal.

Table 6-4: Cost Per Meal Comparison, FY 2007-08

	Marysville EVSD	Peer Average	Difference vs. Peer Average
Total Meal Equivalents Served	622,450	450,736	38.1%
Revenue per Meal Equivalent			
Student Charges	\$2.43	\$2.02	20.5%
Reimbursements	\$0.88	\$0.68	28.7%
Total Revenue	\$3.31	\$2.70	22.6%
Expenditures per Meal Equivalent			
Salaries	\$1.16	\$0.98	18.0%
Fringe Benefits	\$0.56	\$0.44	26.5%
Purchased Services	\$0.09	\$0.15	(41.3%)
Supplies and Materials	\$1.41	\$1.08	30.4%
Capital Outlay	\$0.01	\$0.05	(84.6%)
Other	\$0.00	\$0.00	108.0%
Total Expenditures	\$3.23	\$2.71	19.2%
Spending Surplus (Deficit)	\$0.08	(\$0.01)	110.3%

Source: Marysville EVSD and peer districts' year-end financial and management reports.

As shown in **Table 6-4**, Marysville EVSD had higher expenditures per meal than the peer average in FY 2007-08, which was offset by generating more revenue per meal. Both the District's student charges and reimbursement per meal equivalent were higher than the peer average. Student charges primarily include charges for full and reduced price meals, as well as a la carte sales. Reimbursements primarily come from the federal government for participating in the National School Lunch Program and the School Breakfast Program.

The District's expenditures for salaries, fringe benefits, and supplies and materials were above the peer averages. However, the District's expenditures for purchased services and capital outlay were below the peer averages. By reducing labor hours at the high school (see **R6.2**) and implementing performance audit recommendations related to compensation and benefits (see **R3.5**, **R3.7**, and **R3.8** in **human resources**), the District should be able to bring its salary and fringe benefits expenditures per meal more in line with the peer averages. A comparison of salary schedules for cooks and head cooks revealed that Marysville EVSD pays slightly more (less than 5 percent more) than similar districts in the area.

Audit Objectives for the Food Service Section

The following is a list of the audit objectives used to evaluate the District's food service operations:

- What is the financial status of the District's Food Service Fund?
- Do food service staff serve an adequate number of meals per labor hour (MPLH) compared with the peer districts and the national standard?
- Are the District's meal prices in line with area peer districts?
- What can the District do to maximize program participation?
- How do the District's salary schedule and step increases compare with peer districts?

Recommendations

- R6.1 In order to have an accurate understanding of operational costs, Marysville EVSD should charge all food service related expenses to the Food Service Fund, regardless of its ability to maintain a positive fund balance. Allocating all food service expenses to the Fund will provide a more accurate financial picture which will, in turn, improve decision-making related to revenue and program adjustments.**

Marysville EVSD charges the Director of Food Service's salary and benefits to the Food Service Fund. In addition, half of the District's trash removal expenses are charged to the Food Service Fund. However, utility costs such as electricity and natural gas are not allocated to the Food Service Fund, but instead are completely paid from the General Fund.

Measuring the Cost of Government Services (GFOA, 2002), suggests that governments should measure the full costs of their services. According to GFOA, the full cost of a service encompasses all direct and indirect costs related to that service. Direct costs include the salaries, wages, and benefits of employees while they are exclusively working on the delivery of the service, as well as the materials and supplies, and other associated operating costs such as utilities and rent, training, and travel. Shared costs should be apportioned by some systematic and rational allocation methodology, and that methodology should be documented and disclosed. Moreover, Ohio Revised Code (ORC) § 3313.81 requires the Food Service Fund to be kept separate from all other funds, including the General Fund. All receipts and disbursements in connection with the operation of food service are to be paid directly into and disbursed from the Food Service Fund.

Even when the Food Service Fund faces impending deficits, it is still important to account for all costs. Not charging food service expenditures to the Food Service Fund creates an inaccurate depiction of the food service operation. Accurately capturing all costs in the Food Service Fund will allow Marysville EVSD to evaluate the true efficiency and performance of its food service operations and effectively plan for future needs.

Financial Implication: By reallocating food service utility expenditures to the Food Service Fund on a prorated basis, purchased services would increase by approximately \$63,000 in FY 2009-10. The same amount would be saved in the General Fund.

R6.2 As a means of reducing operational costs and increasing efficiencies within the Food Service Department, Marysville EVSD should reduce and reallocate labor hours from its daily food service operations. Specifically, the District should eliminate up to 37 labor hours from the high school and reallocate 3 labor hours from the high school to Edgewood Elementary School. The reduction and reallocation of labor hours would bring the District more in line with the industry benchmark set forth by School Foodservice Management for the 21st Century.

During the course of the audit, MEVSD reduced labor hours at the high school by 15 and increased labor hour at the middle school by 3 and at Edgewood Elementary by 1. The District would still need to reduce labor hours at the high school by 25 and reallocate 2 hours to Edgewood Elementary to achieve recommended workload levels.

Measuring meals per labor hour⁶ (MPLH) provides an indicator of a food service operation's productivity and efficiency. The more meal equivalents served per labor hour, the higher the operation's efficiency. **Table 6-5** displays the District's food service operation efficiency for FY 2007-08 compared with industry standards.

Table 6-5: MPLH Comparison

Building	Meal Equivalents Served/Day	Labor Hours Per Building	Labor Hours Required to meet Industry Benchmark	Labor Hours Over/(Under) Industry Benchmark
Creekview Intermediate School	528	25.0	27.8	(2.8)
Edgewood Elementary School	368	15.0	20.4	(5.4)
Marysville High School	1147	90.0	49.9	40.1
Marysville Middle School	704	29.0	32.0	(3.0)
Mill Valley Elementary School	270	15.8	16.8	(1.1)
Navin Elementary School	200	15.0	14.3	0.7
Northwood Elementary School	245	16.5	16.3	0.2
Raymond Elementary School	137	10.5	10.6	(0.1)
Total	3598	216.8	188.1	28.7

Source: Marysville EVSD, ODE, NFSMI, and School Foodservice for the 21st Century.

¹The national standard is based on a convenience system, high productivity level.

Table 6-5 indicates that three of the elementary schools, the intermediate school, and the middle school each operate with fewer labor hours than the MPLH industry benchmark. As a result, Marysville EVSD is operating five of its eight food service operations at a high level of efficiency.

⁶ The measurement is calculated by dividing the total labor hours worked by the total meal equivalents (breakfast, lunch, and a la carte) served per day at each building.

The high school, however, operates with more staff than suggested by the industry efficiency standards. To bring the high school to a level of comparable efficiency, the District would need to cut 37 labor hours at the high school and reallocate an additional 3 labor hours from the high school to Edgewood Elementary School to balance Edgewood's operations. Taking such action would bring District-wide staffing in line with the industry benchmark. Edgewood Elementary School is operating with 5.4 fewer labor hours than the national standard. An additional 3 labor hours per day would bring Edgewood Elementary in line with the other elementary schools while keeping its labor hours below the industry benchmark. According to the Director, the recent closure of East Elementary School left the food service operation overstaffed. The Director is working to redistribute staff by conducting a meals per labor hour analysis and reviewing staff hours.

Financial Implication: By reducing labor hours, the District could save approximately \$75,000 in FY 2009-10.

Financial Implications Summary

The following table is a summary of estimated annual savings and implementation costs associated with implementation of the recommendations in this section of the performance audit.

Summary of Financial Implications for Food Service

Recommendation	Annual Savings	Annual Implementation Costs
R6.1 Allocate all food service related expenditures to the Food Service Fund	\$0	\$63,000
R6.2 Reduce 37 labor hours from the high school and reallocate 3 labor hours from the high school to Edgewood Elementary School	\$75,000	\$0
Total	\$75,000	\$63,000

Source: AOS recommendations

Note: Savings do not reflect potential impact of **R3.5**, **R3.7**, and **R3.8** from the **human resources** section.

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DISTRICT RESPONSE

District Response

The letter that follows is the Marysville Exempt Village School District's (Marysville EVSD) official response to the performance audit. Throughout the audit process, staff met with District officials to ensure substantial agreement on the factual information presented in the report. When the District disagreed with information contained in the report and provided supporting documentation, revisions were made to the audit report.

Marysville EVSD underwent a State-funded performance audit because of its projected financial condition in May of 2008. The Auditor of State's Office conducts performance audits of districts in financial distress to provide options for cost reductions to help districts address their financial problems. These audits are conducted when financial distress has been identified to help ensure that the district has appropriate assistance to identify means to halt its financial deterioration. Also, the audits help communicate to constituents the opportunities and challenges their district may be facing. Marysville EVSD, like all districts in the State, faces a changing revenue picture and operational challenges. Auditors encourage the District to use the audit to implement cost controls that will carry it through the next several budget cycles.

In its response to the audit, Marysville EVSD officials note several areas where they feel additional research may be needed. Auditors encourage the District to complete such investigations but also note that Marysville EVSD may have limited options for addressing its projected financial condition. As such, the District and community are encouraged to engage in candid discussions about desired service levels in certain areas and the associated cost implications.

Changes in operating standards caused by HB 1 may require Marysville EVSD to reallocate its resources to areas other than clerical staffing and aides. In addition, recommended changes in staffing levels do not represent minimal service levels, though they might require a reexamination of how high caliber services are provided. Readers should note that the peer districts used in the comparisons all achieve *excellent* ratings on the State report cards but spend less than the State average to achieve these outcomes.

Furthermore, the District could examine its service delivery method in special education as the model it has chosen, while providing a high level of service, has correspondingly high costs. District officials note that other districts use educational service centers and this distorts the cost data used in the audit.

This is an inaccurate representation as the cost comparisons include purchased services and factor in those contracted services purchased through educational service centers. Though staffing data would appear differently as noted by Marysville EVSD, the cost comparison data would remain consistent as total costs are included in the analysis. Auditors use the total cost comparison method to mitigate the effects of district provided versus contracted services.

Marysville Exempted Village School District



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August 5, 2009

Auditor of State, Mary Taylor
Columbus Regional Office
88 East Broad Street
Columbus, Ohio 43215

We would like to thank the Performance Audit team for the time and effort that was put into the investigation and evaluation of the financial performance of Marysville Exempted Village School District.

We realize it is a difficult task to compare the workings of different school districts and find truly comparable schools. We appreciate the audit team's recognition of this fact and in an effort to show sufficient comparables, included the districts we requested, for market schools, along side the designated peer districts.

We appreciate the recognition from the Auditors Office of various noteworthy accomplishments of Marysville Schools including the areas of Maintenance Staffing as well as that of Health Care Benefits. As noted, Marysville Schools has implemented a number of innovative approaches in its health insurance plans. With these innovative steps Marysville has achieved expenditure levels that are 22.1 percent lower than the SERB regional average and that these approaches should serve as a model for other school districts and governments throughout the state.

We will be conducting a thorough study to further compare the data provided to us. We have already begun this process and in doing so found that most, if not all, of the peer districts utilize their Education Service Centers for staffing services. The Marysville School totals show in our numbers but the staffing numbers would not show as comparable staffing in the peer districts. Before we look at possible implementation of some of the suggested changes within the Performance Audit, we will delve more deeply into the area of special education cost and how those compare to the costs the peer districts expend through their ESC's. With one district in particular, we found that they expended in excess of \$1M through their ESC. These expenditures would show in a purchased service category rather than in personnel; therefore, this does not allow for a true comparison. With this in mind, we suggest that when the Audit staff looks for peer districts that the ESC usage be considered as part of the comparison criteria, as this one area can significantly skew data.

We understand and appreciate; that this deeper analysis of the peer districts is not possible within the constraints of the Performance Audit team's time and would be an unfair burden to consider this type of detailed study of the peer districts. The audit showed staffing of aides and clerical staff at Marysville in excess of other districts, but without complete analysis into how other districts fund their staff levels a true comparison cannot be made. Districts receiving ESC and city/county agreements do not show their staffing levels and that difference could amount to millions of dollars. Further in-depth study will be required to more fairly determine where Marysville compares to peer districts. It is our intention to delve more deeply into this comparable with the peer districts.

Since one of the audit recommendations is to reduce special education costs, we also plan to look within the special education categories within each peer district. Knowing the student numbers served within each special education category will help us better determine whether reductions can be made. Currently, our special education funding is driven by the Individualized Education Plan which is required by Federal and State law, but the study will help us determine if changes may be made. Just reducing a suggested fiscal amount without knowing the implications would not be prudent.

We have enlisted information from our district families, utilizing two different survey methods, as to what kind of district our community wants at Marysville. We have also enlisted the involvement of many district wide focus groups and committees in determining what types of educational programs they want and do not want. The Standards committee, comprised of a wide range of community members, studied both surveys in depth. This Standards committee provided information to the Board of Education. We have used this information to develop the plan for the district. We believe our programming is representative of what our community has told us they want and what they will support. We believe we need to keep this in mind when making decisions in regards to cuts in programming or increased funding. Marysville Schools is an excellent district and we represent the community we serve and will need their feedback prior to any significant program changes being made.

We understand that the recommendations in this audit are based on a bare bones program, vastly different than provided now. To meet the audit recommendations would require elimination of courses, programs, etc. To do this without further study would not be in the best interest of the Marysville School Community. We understand the audit suggests recommendations but that alternative reductions, deemed appropriate by the district, may achieve the same positive result to the bottom line. We also understand that the recommendation of the Auditors office includes an alternative of increased revenues to enable the district to maintain the high quality of programs offered to our students and district. With this in mind, we have included some updated information below.

As of the date of this letter, Marysville Schools has already made some significant strides in closing the projected deficit in our fund balances. I have listed a few of these, as well as, other variables that will impact our forecast:

1. Positive Balance in Food Service Fund as of June 30, 2009 (\$100,000 chg from FY08)
This will enable us to move food service related expenses to the Food Service Fund.

2. Planned re-opening of East Elementary has been delayed beyond the current forecast.

3. Planned re-opening of Marysville Middle School pushed out one additional year.

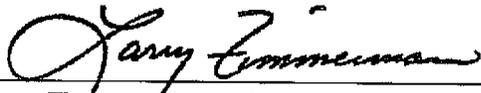
4. With changes made and projected and with the June 30, 2009 year end balance of \$2.5M the projected FY11 deficit balance has been reduced from a projected -\$2.9M to a negative \$633 with no additional levy funds included in this balance. This changes the projected deficit in FY13, noted on the report, from a negative \$21.2 M to a negative \$16.4 M.

5. In the HB66, tangible replacement dollars were set to begin phase out in FY11. HB1 has moved this phase out plan to begin in FY13. There is currently forecasted to be \$2.4 M in FY12 and \$2.5M in FY13. These numbers are based on the forecast prior to changes made in HB1 and can change based on calculations included in HB1 funding model.

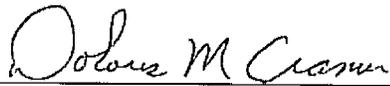
In closing, we would also like to point out that the immediate change in our local funding, as a result of HB66 and the reduction of Tangible Personal Property tax is reminiscent of a steam ship trying to turn on a dime. This large tax shift was not anticipated and not one that could be accomplished over night. We have made constant changes since 2005 and have been making extensive changes to prepare for continued loss in revenue due to the phase out of the TPP replacement dollars. It was this look ahead that prompted us to accept the offer of a performance audit.

The report contains data that is interesting and thought provoking. We will be studying this information in great detail.

Sincerely,



Larry Zimmerman, Superintendent



Dolores M Cramer, CFO/Treasurer



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