



Mary Taylor, CPA
Auditor of State

NORTHRIDGE LOCAL SCHOOL DISTRICT
PERFORMANCE AUDIT

SEPTEMBER 15, 2009



Mary Taylor, CPA

Auditor of State

To the Residents and Board of Education of the Northridge Local School District:

Pursuant to Amended Substitute House Bill 119, a performance audit was initiated for the Northridge Local School District (Northridge LSD) beginning in December 2008 based on the District's October 2008 five-year forecast, which projected a negative ending fund balance of approximately \$5.2 million by fiscal year 2012-13. A revised forecast submitted by the District in February 2009 projected a positive fund balance of nearly \$1.1 million by FY 2012-13. The four functional areas assessed in the performance audit were financial systems, human resources, facilities, and transportation. 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 Northridge LSD'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 Northridge LSD'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 Northridge LSD, 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

September 15, 2009

Executive Summary

Project History

In accordance with House Bill 119, the Auditor of State's Office (AOS) conducted a performance audit of the Northridge Local School District (Northridge LSD 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 December 2008 based on the District's October 2008 five-year forecast, which projected a potential deficit of nearly \$5.2 million by Fiscal Year (FY) 2012-13. During the course of the audit, the Treasurer created a revised forecast based upon updated assumptions and reductions made by the District. This February 2009 forecast projected a positive fund balance of nearly \$1.1 million by FY 2012-13. In addition, the District passed a 5 year emergency levy in May 2009 that is projected to produce \$2.2 million per year.

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

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

Audit work concluded in April 2009. The goal of the performance audit process was to assist the Northridge LSD administration and Board of Education in identifying opportunities for cost savings and improved 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

Northridge LSD encompasses 137 square miles and is located primarily in Licking County, with small portions of the District in Delaware and Knox counties. In FY 2008-09, the District reported providing educational services to 1,469 preschool through grade twelve students.

For FY 2007-08, ODE reported that Northridge LSD received 53.7 percent of its revenue from local sources, 42.0 percent from the State, and 4.4 percent from federal and other sources. ODE also reported that the District's expenditures per pupil were \$8,107, which was below the State

average of \$9,939. For FY 2007-08, Northridge LSD was categorized as an *effective* district having met 26 of 30 academic performance indicators established by ODE; a performance index score of 95.7; and having met its adequate yearly progress goals.

In FY 2008-09, the District employed 130.0 full-time equivalent (FTE) staff, consisting of 6.0 FTE administrative personnel, 90.0 FTE educational personnel, 8.0 FTE teaching aide staff, 7.0 FTE office/clerical staff, and 19.0 FTE operations and other staff. The regular education student-to-teacher ratio was 19.4 to 1. The collective bargaining agreement between the Northridge Local Board of Education and Northridge Education Association (NEA), in effect between July 1, 2007 and June 30, 2009, covers certificated/licensed employees employed by the Board performing any work of the bargaining unit members, such as teachers, guidance counselors, nurses, librarians, speech and hearing therapists, and tutors. The District does not have a classified collective bargaining unit, and it has not implemented an employee handbook or other document that outlines the employment provisions for its classified staff.

Northridge LSD offers medical, dental, and vision insurance to certificated and classified employees. Employees contribute 30 percent of the cost of premiums for all plans offered. However, administrators are excluded from the employee contribution requirement and they also receive a Board-paid pickup of the employee share of their retirement contributions.

Northridge LSD has four school buildings: one primary school (grades k-3), one intermediate school (grades 4-5), one middle school (grades 6-8), and one high school (grades 9-12). The District recently consolidated the elementary schools by closing two of the three elementary sites and dividing the students between its remaining primary school and the intermediate school. The intermediate school is a modular building that has been leased for 3-5 years, until a permanent building can be constructed.

In late 2008, the District was approved to participate in the Ohio School Facilities Commission's (OSFC's) Exceptional Needs Program to construct a new facility to house students in kindergarten through grade 5, demolish the old elementary schools, and discontinue using the modular intermediate building. The estimated cost for the project is over \$17 million and, according to the OSFC, the District's local share would be about \$11.5 million, however it has not yet attempted to pass a levy to fund its required share of construction and maintenance costs.

Northridge LSD has contracted with a private vendor to provide student transportation services since August 1996. In FY 2007-08, the District paid the contractor approximately \$1.2 million. The contractor provides all aspects of transportation operations – including buses, maintenance, drivers, insurance, supervisor, and routing – with the exception of fuel, which remains the responsibility of the District. There are geographical factors that impede the Northridge LSD's ability to transport its students efficiently, including the size and shape of the District – it is essentially J-shaped (see **Map 5-1**) – as well as the location of the primary school at the far

southern end of the District. However, there are also specific measures the District and its Contractor could take to improve efficiency and reduce costs.

A common theme present throughout this performance audit was the District's lack of formal policies and procedures that are up-to-date and accessible by District leadership, staff, and the community. School board policies establish direction for the district, articulate goals, assign authority for specific actions, establish necessary management controls, and serve as the basis for a district's accountability to its community. Without adequate policies and procedures, Northridge LSD struggles to maintain consistency within its operations or provide adequate direction to its staff. Many of the recommendations contained in this audit are at least partially related to the lack of policies and procedures.

In addition, auditors found much of the District's financial and transportation related data unreliable. Significant issues were identified with the District's historical forecast numbers, which made it difficult to target those areas where spending has been above the peer averages, or to make recommendations to improve the District's financial condition. In addition, much of the transportation data that Northridge LSD has reported to ODE was found to be unreliable, which again made peer comparisons and analyses of the District's operations difficult. Without reliable information, it will be exceedingly difficult for District officials to adequately plan for the future, make operational decisions based on past experiences, or, in the area of transportation, to effectively evaluate the performance of its Contractor.

In order to reduce projected deficits, the District has made several reductions in expenditures. In FY 2007-08, the District eliminated 8 educational aide positions. In FY 2008-09, the District eliminated 4 classified employees (2 secretaries and 2 custodians) through reductions in force; tripled "pay to play" fees; and eliminated athletic, extracurricular, and co-curricular activities (although activities were reinstated for Spring 2009 due to a donation from booster groups). While Northridge LSD has taken several steps to avoid and reduce 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.

In March 2000, Northridge LSD was declared by AOS to be in a state of fiscal emergency, due to a projected deficit of \$628,000 for FY 1999-2000. Coinciding with the declaration of fiscal emergency, AOS initiated a performance audit of the District, which was released in October 2000. Like the current performance audit, the 2000 audit examined the areas of financial systems, human resources, facilities, and transportation, with the goal of assisting the District in eliminating its projected deficits by identifying cost savings and areas for improved efficiency. Several of the recommendations from the 2000 audit are repeated in this report, and are discussed in more detail in the relevant sections.

Objectives, Scope and Methodology

Performance audits are defined as engagements that provide assurance or conclusions based on an evaluation 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

AOS conducted the performance audit of Northridge LSD 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 Northridge LSD and other school districts. AOS developed a composite of ten selected districts, which it used for peer comparisons. The selected districts were: Anna LSD (Shelby County), Berlin-Milan LSD (Erie County), Chippewa LSD (Wayne County), Fort Loramie LSD (Shelby County), Keystone LSD (Lorain County), Manchester LSD (Summit County), Miami East LSD (Miami County), New Bremen LSD (Auglaize County), Ross LSD (Butler County), and Wayne LSD (Warren County). These peer districts were specifically selected in order to compare Northridge LSD's operations and approaches to service delivery with similar districts with low costs and high academic performance. **Table 1-1** lists the ten peers, along with enrollment, expenditure, and academic performance data for each district.

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

Table 1-1: Peer District Measures (FY 2007-08 Data)

District	County	Academic Rating	Performance Indicators Met	Performance Index Score	Enrollment Headcount	Expenditures Per Pupil
Northridge Local	Licking	Effective	26	95.7	1,466	\$8,107
Manchester Local	Summit	Excellent with Distinction	28	100.0	1,475	\$8,243
Miami East Local	Miami	Excellent with Distinction	30	100.5	1,230	\$8,733
Chippewa Local	Wayne	Excellent	29	101.9	1,462	\$7,050
Keystone Local	Lorain	Effective	28	98.1	1,801	\$7,196
Wayne Local	Warren	Excellent with Distinction	30	103.4	1,421	\$8,083
New Bremen Local	Auglaize	Excellent	29	105.8	896	\$8,627
Fort Loramie Local	Shelby	Excellent	29	105.1	814	\$8,132
Anna Local	Shelby	Excellent	30	104.6	1,198	\$8,311
Berlin-Milan Local	Erie	Excellent	29	101.2	1,701	\$8,243
Ross Local	Butler	Excellent with Distinction	28	100.8	2,808	\$8,139

Source: ODE

In certain assessments in this report, AOS used different peer groups to provide comparisons that are more relevant. In these cases, the different peers are noted.

AOS also used external organizations and sources 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), 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 Northridge LSD, 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 confirm preliminary findings. Throughout the audit process, input from the District was solicited and considered when assessing the selected areas and framing recommendations. Although Northridge LSD was provided copies of the audit for their review and commentary, no written or verbal comments were provided to the auditors. After a lapse of 75 days, auditors met with the Northridge LSD Board and administration. A formal written response was requested within five business days of the exit conference and auditors contacted the District to reiterate the request after the deadline

for the letter had passed. Ultimately, Northridge LSD provided no comments or response to the audit throughout the review and exit conference periods.

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 NRLSD's costs and should be considered in the District's staffing and financial recovery plan.

According to NRLSD's July, 2009 number two foundation settlement report from ODE, the District will receive \$138,189 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.

Noteworthy Accomplishments

This section of the executive summary highlights specific Northridge LSD accomplishments identified throughout the course of the audit.

Employee Contribution Rates: Northridge LSD offers medical, dental, and vision insurance to certificated and classified employees. Employees contribute 30 percent of insurance premiums for all plans, which exceeds the SERB averages by a range of 9.0 to 16.4 percent for the various insurance plans.

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, Northridge LSD should:

- Develop a clearly written, multi-year strategic plan that provides vision and direction for its Board and employees.

- Update its financial management, credit card, purchasing, and payroll policies to include elements of leading practices. In addition, the District should develop an ethics policy that is consistent with the recommendations of the Ohio Ethics Commission (OEC) and a policy requiring timely vendor payments.
- Implement the recommendations contained in the performance audit to help offset projected deficits. In addition, Northridge LSD should maintain sufficient supporting documentation of its forecast assumptions and update its five-year financial forecast on a regular basis or whenever material changes in assumptions are made or unanticipated events occur.

In the area of human resources, Northridge LSD should:

- Eliminate 2.0 FTE regular teacher positions to reduce personnel expenditures and bring staffing levels more in line with the peers.
- Discontinue the practice of paying any portion of the employee share of retirement contributions (pickup) on behalf of administrators or any other staff.
- Reexamine its certificated collective bargaining agreement and replace or remove contract provisions which reduce management's flexibility in the hiring or placement of staff, specifically the provisions restricting class size beyond State minimum requirements.
- Establish an employee handbook that addresses employment provisions for classified staff.
- Amend the early retirement incentive provision in its certificated collective bargaining agreement to incorporate GFOA-recommended practices.
- Investigate strategies to reduce its special education costs to a level comparable to the peer average, while continuing to provide an appropriate education to special needs students.

In the area of facilities, Northridge LSD should:

- Develop a facilities plan that incorporates leading practice elements, such as capital improvement plans, enrollment projections, building capacities, utilization analyses, and preventive maintenance programs.

- Plan and implement periodic comprehensive building audits to identify important maintenance and safety issues, assess the overall condition of facilities and equipment, and to act as a reference for capital improvement and preventive maintenance planning.
- Develop a methodology for projecting enrollment and determining building capacity in order to determine building utilization rates.
- Review the current custodial workload ratios and consider redistributing staff to achieve more equitable staffing at each building. Specifically, the District should consider reassigning a portion of the custodial staff time from the intermediate and primary schools to the high school.
- Develop a formal handbook for custodial and maintenance operations.
- Develop and implement a formal energy management program that incorporates elements of recommended practices.
- Ensure that all food service related expenses for utilities are charged to the Food Service Fund, regardless of any future need to transfer funds from the General Fund to the Food Service Fund.

In the area of transportation, Northridge LSD should:

- Update its transportation policies so that they address all aspects of its transportation operations and articulate the Board's position on the level of transportation service to be provided to District students. In addition, the District should establish administrative guidelines to outline how policies will be implemented and how any exceptions to the levels of transportation service established in the policy will be granted.
- Develop and document procedures for completing, reconciling, and submitting T-forms in accordance with ODE instructions. Moreover, the Superintendent, Treasurer, and Transportation Manager should attend ODE training to ensure that they understand the transportation reporting process.
- Eliminate four regular needs buses in order to improve the efficiency of its transportation operation and reduce costs. Specifically, the District should require its Transportation Contractor to implement electronic routing software and explore the feasibility of other initiatives to improve efficiency, such as staggered bell schedules, multi-tiered routing, and cluster stops.

- Install an electronic fuel management system and require its Contractor to implement a reporting system to better track fuel and improve management controls.
- Purchase its motor vehicle fuel through a consortium or the State fuel contract available through the Ohio Department of Administrative Services (DAS) in order to reduce fuel expenditures. At a minimum, the District should incorporate measures to track its fuel costs against an industry benchmark and periodically solicit bids from multiple suppliers to ensure it is getting the best fuel prices available.
- Take a more proactive role in negotiating a new transportation contract that ensures efficient operations and savings for the District. In addition, Northridge LSD should follow leading practices and establish a sound contract monitoring process.

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 issues that may require further study:

Transportation Contract Rates – Northridge LSD’s transportation contract is scheduled to expire at the end of FY 2008-09. As discussed in **R5.7**, the District should ensure that future contracts clearly define its expectations and that the District’s interests are adequately protected in the contract. District officials should study the fee Northridge LSD pays its Contractor. Although the rates are likely to increase in the next contract based on inflation and increases in the prices of new buses, the District can exercise some control over these rates and align them with its priorities. For example, the current contract outlines a daily rate per school bus used. As a result, the Contractor’s revenue is driven by the number of buses in service. In contrast, it is in the District’s interest to use the fewest buses necessary to safely transport its students. The current rate structure creates no incentive to make the transportation operation more efficient (see **Table 5-3**).

A per-rider fee would pay the Contractor a flat rate based on the number of riders it transports, regardless of the number of buses used. Under this structure, the Contractor could maximize its profits by reducing the number of buses in service. This would align the interests of the District and the Contractor by creating an incentive in the contract to improve efficiency. A per-rider rate could be determined based on a peer average using a methodology similar to the cost comparison detailed in **Table 5-3**, recognizing that capital costs would need to be factored into the rate and fuel costs would need to be factored out. Implementing a per-rider rate would be subject to negotiation between the District and the Contractor. Moreover, the District could create incentives for efficiency by negotiating other types of performance measures into the contract.

In addition, the current contract provides separate rates for Contractor-owned and Board-owned buses, with the only difference being the capital costs of eventually replacing the Contractor’s buses. In other words, because the Contractor is responsible for replacing its buses when they reach the 10-year age limit specified in the contract, the rate for a Contractor-owned bus includes an extra charge intended to recover the replacement value of that bus, spread out over its 10-year lifetime. However, according to the Contractor, buses that have been used in other Districts for several years are often transferred to Northridge LSD, because it has a higher age limit than some other districts. This practice helps explain the fact that the buses in use by the District during FY 2008-09 averaged nearly nine years of age. By receiving older buses into its fleet that have already experienced significant depreciation, Northridge LSD is also receiving buses that have less value, which should be reflected in its contract rates.

Consequently, the District should study its existing rates to determine whether the bus replacement costs provided in the contract correspond with the actual value of the buses in use at the District. Moreover, the District should determine its priorities in this area. Under one option, the Northridge LSD could continue to use an older bus fleet but ensure that the contract rate reflects that decision through lower capital costs. Alternatively, if the District determines that it is paying for the full value of the buses (or if it decides that it wants to do so), it should negotiate a provision into its contract that establishes a maximum average age for the buses in its fleet. Such a provision would help ensure that the District has a significant number of newer buses mixed into its fleet, and that it is getting the value that it pays for.

Ultimately, the priorities of a district with regard to its transportation operation should be reflected in its contract, including the rate structure. By first understanding the factors that determine its rates, Northridge LSD officials can then negotiate a rate structure and provisions that best serve its interests.

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 Northridge LSD should consider. Detailed information concerning the financial implications, including assumptions, is contained within the individual sections of the performance audit.

Summary of Performance Audit Recommendations for the General Fund

Recommendation	Estimated Annual Cost Savings ¹	One-Time Costs
R3.2 Reduce 2.0 FTE regular teachers	\$76,000	
R3.3 Eliminate retirement pickup for administrators ²	\$32,000	
R3.3 Require administrative personnel to pay 30 percent contributions toward medical, dental, and vision insurance consistent with other staff	\$18,000	
R4.6 Implement a formal energy management program	\$7,000	
R4.7 Allocate all food service related expenses to the Food Service Fund ³	\$14,000	
R5.4 Reduce 4 school buses	\$212,000	
R5.5 Purchase an electronic fuel monitoring system		\$10,000
R5.6 Purchase fuel through the State contract	\$12,000	
Total Cost Savings from Recommendations	\$371,000	\$10,000

Source: Performance audit recommendations

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

¹ Savings based on implementation in FY 2009-10.

² Implementation is subject to negotiation.

³ Allocating costs to the Food Service Fund will lead to identical costs to the Food Service Fund.

Financial Systems

Background

This section focuses on the strategic and financial management systems in the Northridge Local School District (Northridge LSD or the District). It analyzes strategic planning, historical revenue and expenditures, and the current financial condition of Northridge LSD 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 districts.¹ 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 and tracking District revenues and expenditures; developing financial statements; managing the District's payroll, insurance, accounts payable, and accounts receivable functions; and maintaining records of the District's fixed assets. There is some overlap between the duties of the Treasurer's Office and the District's human resources function. The Treasurer's Office consists of three full-time employees, including the Treasurer and two assistants to the Treasurer. The Treasurer has been with the District for nearly two years and reports directly to the Board of Education (the Board).

2000 Performance Audit

As discussed in the **executive summary**, a previous performance audit of Northridge LSD was released in 2000. As part of that audit, the District's financial systems were assessed, and recommendations were made to improve the District's efficiency and effectiveness and to reduce costs. The performance audit conducted in 2000 included a recommendation to include more detailed assumptions in the five-year forecast to better support the District's projections. That recommendation has not been implemented and is repeated in this audit (see **R2.5**).

¹The peers include Anna LSD (Shelby County), Berlin-Milan LSD (Erie County), Chippewa LSD (Wayne County), Fort Loramie LSD (Shelby County), Keystone LSD (Lorain County), Manchester LSD (Summit County), Miami East LSD (Miami County), New Bremen LSD (Auglaize County), Ross LSD (Butler County), and Wayne LSD (Warren County).

Financial History and Condition

Table 2-1 compares Northridge LSD's assessed valuation, millage, and local revenue with the peer averages for Fiscal Year (FY) 2007-08.

Table 2-1: Assessed Valuation and Millage Comparison

	Northridge LSD FY 2007-08	Peer Average FY 2007-08	Difference	Percent Difference
Formula ADM	1,434.29	1,404.76	29.53	2.1%
Assessed Valuation	\$212,582,636	\$195,610,797	\$16,971,839	8.7%
Assessed Valuation Per ADM	\$148,215	\$137,868	\$10,346	7.5%
Millage Rate	34.60	47.38	(12.78)	(27.0%)
Effective Millage				
> Residential (Class I)	20.00	21.46	(1.46)	(6.8%)
> Business (Class II)	20.03	25.07	(5.04)	(20.1%)
Property / Income Tax Collections	\$5,995,629	\$5,673,433	\$322,196	5.7%
Collections Per ADM	\$4,180	\$4,077	\$103	2.5%
Ratio of Assessed Valuation to Collections	35.46	33.81	1.64	4.9%
Property / Income Tax Collections Per Effective Millage				
> Residential (Class I)	\$299,781	\$260,634	\$39,148	15.0%
> Business (Class II)	\$299,332	\$229,872	\$69,461	30.2%

Source: Ohio Department of Education

Table 2-1 shows that although the District's assessed valuation per average daily membership (ADM) is 7.5 percent higher than the peer average, its property/income tax collections are only 2.5 percent higher. This results in a higher ratio of assessed valuation to local collections than the peer districts (35.46 compared to 33.81). In other words, while the District has more property wealth per student than the peer average, it collects a smaller percentage from this wealth.

The five-year forecast that the District submitted to ODE in October 2008 projected a potential deficit of about \$5.2 million by FY 2012-13, assuming its income tax levy is renewed. The Treasurer provided AOS with a revised forecast in February 2009 based upon updated assumptions and reductions made by the District. The February 2009 forecast projected a positive fund balance of nearly \$1.1 million by FY 2012-13. The District's February 2009 forecast is shown in **Table 2-2**.

Table 2-2: Northridge LSD 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	\$3,618	\$3,428	\$3,506	\$3,578	\$3,625	\$3,657	\$3,738	\$3,815
Tangible Personal Property Tax	\$57	\$413	\$405	\$382	\$398	\$398	\$398	\$398
Income Tax	\$1,842	\$2,040	\$2,085	\$1,809	\$1,737	\$1,580	\$182	(\$326)
Unrestricted Grants-in-Aid	\$4,446	\$4,688	\$4,704	\$4,673	\$4,673	\$4,742	\$5,031	\$5,363
Restricted Grants-in-Aid	\$47	\$50	\$42	\$34	\$30	\$32	\$33	\$35
Property Tax Allocation	\$462	\$495	\$557	\$577	\$616	\$562	\$562	\$566
All Other Revenues	\$592	\$635	\$692	\$759	\$815	\$822	\$830	\$841
Total Revenues	\$11,063	\$11,749	\$11,990	\$11,813	\$11,895	\$11,794	\$10,774	\$10,693
Total Other Financing Sources	\$7	\$87	\$1,415	\$1,643	\$1,675	\$45	\$45	\$45
Total Revenues and Other Financing Sources	\$11,069	\$11,835	\$13,405	\$13,456	\$13,570	\$11,839	\$10,819	\$10,738
Expenditures:								
Personal Services	\$5,916	\$5,786	\$5,649	\$5,717	\$5,259	\$5,496	\$5,743	\$6,001
Employees' Retirement / Insurance Benefits	\$1,699	\$1,772	\$1,737	\$1,664	\$1,509	\$1,595	\$1,687	\$1,784
Purchased Services	\$1,867	\$2,876	\$2,663	\$2,797	\$2,902	\$3,037	\$3,180	\$3,332
Supplies and Materials	\$469	\$503	\$501	\$491	\$501	\$516	\$532	\$548
Capital Outlay	\$193	\$18	\$107	\$545	\$126	\$130	\$240	\$141
Intergovernmental	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Debt Service	\$135	\$203	\$894	\$910	\$927	\$95	\$96	\$100
Other Objects	\$854	\$708	\$821	\$694	\$715	\$736	\$758	\$781
Total Expenditures	\$11,133	\$11,866	\$12,372	\$12,817	\$11,940	\$11,606	\$12,237	\$12,688
Other Financing Uses								
Operating Transfers- Out	\$94	\$76	\$836	\$883	\$890	\$63	\$65	\$67
Advances- Out	\$0	\$10	\$7	\$0	\$0	\$0	\$0	\$0
All Other Financing Uses	\$0	\$10	\$101	\$0	\$0	\$0	\$0	\$0
Total Other Financing Uses	\$94	\$96	\$945	\$883	\$890	\$63	\$65	\$67
Total Expenditures and Other Financing Uses	\$11,227	\$11,962	\$13,317	\$13,700	\$12,830	\$11,669	\$12,302	\$12,754
Result of Operations (Net)	(\$158)	(\$127)	\$88	(\$244)	\$740	\$170	(\$1,483)	(\$2,017)
Balance July 1	\$446	\$289	\$162	\$250	\$6	\$746	\$916	(\$566)
Cash Balance June 30	\$289	\$162	\$250	\$6	\$746	\$916	(\$566)	(\$2,583)
Estimated Encumbrances June 30	\$139	\$32	\$59	\$75	\$75	\$75	\$75	\$75
Reservation of Fund Balance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Unreserved Fund Balance June 30	\$150	\$130	\$191	(\$69)	\$671	\$841	(\$641)	(\$2,658)
Cumulative Balance of Replacement / Renewal Levy	\$0	\$0	\$0	\$0	\$0	\$122	\$1,659	\$3,756
Fund Balance for Certifying Contracts and Other Obligations	\$150	\$130	\$191	(\$69)	\$671	\$963	\$1,018	\$1,098
Cumulative Balance of New Levies	\$0	\$0	\$0	\$0	\$1,208	\$3,408	\$5,608	\$7,808
Unreserved Fund Balance June 30	\$150	\$130	\$191	(\$69)	\$1,879	\$4,371	\$6,626	\$8,906

Source: Northridge Local School District

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 for FY 2008-09. However, serious data reliability issues with the District's historical forecast numbers were identified during the course of the audit and the accuracy of these figures could not be established.

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 adjusted the forecast projections as necessary. While AOS recommends adjustments to the forecast projections for various line items (see **R2.5**), the unreliability of the historical figures make it difficult to assess the reasonable of these projections. Without reliable historical financial information, the District is unable to adequately plan for the future or make operational decisions based on past experiences.

In order to reduce projected deficits, the District has made several reductions in expenditures. In FY 2007-08, the District eliminated 8 educational aide positions. In FY 2008-09, the District eliminated 4 classified employees (2 secretaries and 2 custodians) through reductions in force and eliminated athletic, extracurricular, and co-curricular activities. These activities were reinstated for Spring 2009 due to a donation of approximately \$25,000 from booster groups and a tripling of "pay to play" fees.

During the course of the audit, the District passed a 5-year emergency levy on May 5, 2009 that is projected to produce \$2.2 million per year. Prior to that levy, District voters had rejected three consecutive operating levies since May 2007.

Expenditures

The allocation of resources between the various functions of a school district is one of the most important aspects of the budgeting process. **Table 2-3** compares Northridge LSD's FY 2007-08 expenditures on a per pupil basis with the peers using data obtained from ODE's Expenditure Flow Model report.²

² ODE publishes an Expenditure Flow Model Handbook, which is an excellent resource for learning more about the Expenditure Flow Model report. The handbook can be accessed by visiting ODE's website: <http://ode.state.oh.us>.

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

	Northridge LSD			Peer Average			Difference Per Student	Percent Difference
	Total \$	\$ Per Student	Total Exp. % of Total	Total \$	\$ Per Student	Total Exp. % of Total		
Administration	\$1,655,409	\$1,129	13.9%	\$1,421,744	\$982	12.0%	\$147	15.0%
Operations Support	\$2,990,806	\$2,040	25.2%	\$2,286,680	\$1,544	19.2%	\$496	32.1%
Staff Support	\$333,636	\$228	2.8%	\$221,796	\$141	1.9%	\$87	61.8%
Pupil Support	\$835,806	\$570	7.0%	\$1,189,826	\$813	10.0%	(\$243)	(29.9%)
Instruction	\$6,070,458	\$4,141	51.1%	\$6,764,175	\$4,596	56.9%	(\$455)	(9.9%)
Total	\$11,886,115	\$8,108	100.0%	\$11,884,221	\$8,076	100%	\$32	0.4%

Source: Ohio Department of Education

The following is a brief explanation of each spending categories in which the District was above the peer average:

- **Administration:** In FY 2007-08, Northridge LSD spent approximately 15 percent more per pupil than the peer average on administration expenditures. Aside from salary and benefit expenses, these costs were associated with the board of education, special education administrators and supervisors, fiscal services, management information services, data processing services, and building principals (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.
- **Operations Support:** In FY 2007-08, Northridge LSD's operations support costs were 32 percent per pupil above the peer average. These expenditures are comprised of salaries and vendor contracts for the direction of the maintenance, transportation, and food service operations (see **facilities** and **transportation**). 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.
- **Staff Support:** In FY 2007-08, Northridge LSD spent nearly 62 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 specific areas where Northridge LSD spent significantly more than the peer average were in instruction and curriculum development services and special education attendant services (see **R3.7**).

Given the limited resources available, Northridge LSD's operational expenditures by function level should continually be evaluated and prioritized. However, while **Table 2-3** shows that the District spent more than the peer averages on administration, operations support, and staff support, this assessment is of indeterminate reliability due to reliability issues with the District's

financial data. Auditors were unable to ascertain whether the District spent more than the peers in these areas, or whether the reported differences were due to data collection or coding issues. The potential confusion caused by the poor data is illustrated by the fact that despite overall spending that is in line with the peer average, spending within each category is significantly higher or lower than the peers.

Without reliable data, it will be difficult for Northridge LSD's leadership to identify those areas where spending has been above average, or to make the decisions necessary to improve and maintain the District's financial condition. In certain areas, AOS was able to identify opportunities for improved efficiency and potential savings, and these recommendations are discussed in **human resources, facilities, and transportation**. However, AOS was not able to use the financial data to target more specific areas where spending exceeded the peer averages. Therefore, the District should exercise caution in making decisions that will have lasting financial impact, until such time as its financial data has been improved and is more useful.

Table 2-4 compares the FY 2007-08 five-year forecast expenditures with the peer averages. The five-year forecast historical data include 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 Expenditures By Object Comparison

Line #	FY 2007-08	Northridge LSD	Dollars Per Student	Peer District Average	Dollars Per Student	Difference Per Student	% Difference
3.010	Personal Services	\$5,649,093	\$3,853	\$6,673,310	\$4,539	(\$685)	(15.1%)
3.020	Employees' Retirement / Insurance Benefits	\$1,737,496	\$1,185	\$2,329,583	\$1,597	(\$411)	(25.8%)
3.030	Purchased Services	\$2,663,463	\$1,817	\$1,311,236	\$906	\$911	100.5%
3.040	Supplies and Materials	\$500,941	\$342	\$460,944	\$304	\$37	12.3%
3.050	Capital Outlay	\$106,691	\$73	\$192,578	\$115	(\$42)	(36.8%)
3.060	Intergovernmental	\$0	\$0	\$40,769		\$0	0.0%
4.010 / 4.050	Debt Service	\$840,251	\$573	\$4,779	\$5	\$568	10817.5%
4.060	Interest and Fiscal Charges	\$53,342	\$36	\$93,265	\$2	\$35	1862.8%
4.300	Other Objects	\$707,628	\$483	\$229,917	\$147	\$336	228.5%
4.500	Total Expenditures	\$12,258,905	\$8,362	\$11,247,860	\$7,641	\$721	9.4%

Source: Northridge LSD and peer districts' five-year forecasts, as submitted to ODE

As shown in **Table 2-4**, Northridge LSD spent approximately 9 percent more per pupil than the peer average in total five-year forecast expenditures in FY 2007-08. The District spent more than the peer averages on purchased services, supplies and materials, debt service, interest and fiscal charges, and other objects. By implementing the recommendations found in this performance audit, the District should be able to bring its expenditures in these categories closer to the peer average. The difference between Northridge LSD's expenditures and the peer average in purchased services can be largely attributed to the contracted transportation services, while the differences in debt service can be attributed to the District's practice of borrowing against current revenue, and the differences in other objects can be attributed to costs relating to the educational service center (ESC) contract.

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 policies and procedures that meet recommended practices?
- Does the District's five-year forecast reasonably and logically project the District's future financial situation?
- 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 comprehensive strategic plan which links educational and operational plans and meets recommended practices?
- Does the District effectively manage payroll operations?

The District has developed a list of standardized financial reports for Board members, which met leading practices. Northridge LSD has limited payroll runs, which allows ample time for reconciliation while minimizing time spent on payroll and allowing staff to perform other functional duties.

Recommendations

Planning

R2.1 Northridge LSD should develop a clearly written, multi-year strategic plan that provides vision and direction for its Board and employees. The plan should incorporate the Comprehensive Continuous Improvement Plan (CCIP)³ and any other educational and operational plans. In developing the strategic plan, the Board should identify and formally adopt a limited number of District priorities to guide its strategies and major financial and capital needs, as well as program decisions.

The strategic plan should clearly delineate the following: the District's goals and objectives, and the strategies for achieving them; the priorities the Board assigns to its goals, objectives, and strategies; the performance measures and standards the District will use to judge progress toward meeting its goals; and the persons or departments responsible for implementing the strategies. Once a comprehensive strategy is adopted and approved, Northridge LSD should assess all parts of the strategic plan on an annual basis and, as appropriate, amend its priorities to reflect changes in internal and external conditions.

The District has not developed a strategic plan. The Board of Education held a retreat in 2008 to discuss District goals, but the discussion has not led to any formal or sustained planning.

According to Ohio Administrative Code (OAC) § 3301-35-03(A), a strategic plan guides school districts 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. *Recommended Budget Practices on the Establishment of Strategic Plans* (GFOA, 2005) directs entities to develop multi-year strategic plans that provide a long-term perspective for services delivered and budgeting. For Northridge LSD, this would help establish logical links between authorized spending and annual goals based on identified needs, projected enrollment, and revenues. Accordingly, the District should take the following recommended actions when developing its strategic plan:

- Initiate the strategic planning process;
- Prepare a mission statement;

³ The Comprehensive Continuous Improvement Plan (CCIP) is a unified grants application and verification system that consists of two parts: the Planning Tool and the Funding Application. The Planning Tool contains the goals, strategies, action steps and district goal amounts for all grants in the CCIP. The Funding Application contains the budget, budget details, nonpublic services and other related information.

- Assess internal and external factors and critical issues affecting the District;
- 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 strategic 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 and adopted model strategic plans.

By developing and implementing a comprehensive strategic plan, Northridge LSD 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, ensure continuity of operations when administrators and staff leave the District, and align planning and budgeting processes. Finally, the process can involve key stakeholders in financial and operational decision-making within the District and help better illustrate some of the trade-offs involved in managing Northridge LSD's operations.

Financial Reporting

R2.2 Northridge LSD should include financial information on its website to inform and educate its residents about the District's operations and financial condition. This information should include, but should not be limited to, budget documents, a PAFR-like document,⁴ the District's five-year financial forecast, and copies of the monthly financial reports provided to the Board.

Northridge LSD's website features the District's five-year forecast, ODE's *How to Read a Five-Year Forecast*, answers to frequently asked questions about the May 2009 levy, a slideshow from the District's financial crisis presentation to the community, and a copy of the District's *Viking View* newsletter, which includes a Treasurer's Report. However, Northridge LSD could include additional financial information on a regular basis to better inform the community of its financial position and strategic decision-making processes..

School districts such as Lakota Local School District (Butler County), Westerville City School District (Franklin County), and Olentangy Local School District (Delaware

⁴ A PAFR (Popular Annual Financial Report) or PAFR-like document provides a clear and thorough overview of a district's finances through an easy-to-read, user-friendly format. The Westerville City School District in Franklin County prepares and publishes a PAFR.

County) provide a wide range of financial information on their websites. This information includes the following:

- **Levy Information** – Levy facts, reappraised home values and school taxes, property tax calendar, income tax calculator, Ohio school district income tax, and a glossary of terms;
- **Expenditures By Object/Function** – Illustrates salaries, benefits, purchased services, capital outlay, maintenance, transportation, and extracurricular expenditures;
- **Budget Appropriations** – Current five-year forecast, tips on understanding the five-year forecast, fiscal year appropriations, fiscal year tax budget, and historical year-end analysis;
- **Taxes/Millage/Valuations** – Tax calculator, presentation of the Governor’s blue ribbon task force on student success, county area effective tax rates (historical information), tax rate history, and Q&A on taxes and millage;
- **Annual Reports** – Historical information, CAFRs, and PAFRs; and
- **Miscellaneous** – Audit findings, school finance terms, State financial designations, ODE local district report cards, reports on enrollment, and finance and audit committee information.

By providing key financial information to the District’s stakeholders on its website, Northridge LSD can increase awareness and understanding of its financial condition. Posting financial information on the District’s website also reduces the time needed for public document requests and eliminates the costs associated with providing the information in paper form. In addition, the electronic format provides users with a computerized tool to find, extract, and analyze data contained in these often lengthy documents.

Although staff time is required to develop, maintain, and update the information on the website, Northridge LSD could use its website to enhance the types of financial reports available to the public at little additional cost to the District. By taking the time to provide financial data in a format that is usable by the public, the District could improve communication, promote accountability, and earn the public’s trust through transparency. This is especially important when the District is relying upon the public for additional financial support.

Internal Controls

R2.3 Northridge LSD should update its financial management, credit card, purchasing, and payroll policies to include elements of leading practices. In addition, the District should develop an ethics policy that is consistent with the recommendations of the Ohio Ethics Commission (OEC) and a policy requiring timely vendor payments. The District's policies should be supplemented with administrative guidelines to assist District officials in implementing and carrying out the policies. All policies should be formally documented as part of the District's fiscal policy and procedure manual and communicated to staff.

Northridge LSD has a fiscal policies and procedures manual in place, but it was last updated in 2002. The District has numerous financial management policies which were developed with the assistance of NEOLA®, and which include credit card, purchasing, and payroll policies. However, those policies have not been updated since 2001. The District has an up-to-date payroll processing checklist, but it has not been adopted as part of the Board policies. It has an informal, undocumented policy to pay all bills on time, particularly because it deals with several local vendors and wants to maintain positive community relations, but there is no written policy that requires timely payments in order to take advantage of vendor discounts. District officials acknowledge the overall lack of formal policies or procedures, and the fact that those that do exist are generally outdated and not used.

According to the National School Boards Association, school board policies establish direction for the district, set goals, assign authority, and establish controls that make school governance and management possible. Policies are the means by which educators are accountable to the public. Northridge LSD struggles to provide consistency in its operations, accountability in its processes, and specific direction to administrators and staff, which is partially due to its outdated and limited policies and procedures.

According to NEOLA®, an organization which provides school board policy services to school districts in several states, effective school district policy manuals are:

- Complete: The manual contains all policies needed for effective operation of the school district;
- Appropriate: Each bylaw and policy reflects sound school governance or management, as well as legal compliance;
- Understandable: Each policy is written so that staff, students, parents, and the community can comprehend the Board's position and philosophy;
- Usable: Information can be located quickly for use when needed; and

- Non-Procedural: Each statement of policy delegates to the Superintendent or his/her designee the responsibility to develop administrative guidelines for proper policy implementation.

The District should update its financial management, credit card, purchasing, and payroll policies, and should incorporate them into an updated fiscal policies and procedures manual. It should then ensure that the updated manual and the policies contained therein are complete, appropriate, understandable, usable, and non-procedural, and should supplement them with administrative guidelines to direct staff in implementing and carrying out the policies. A number of resources exist to assist the District in developing and updating its specific policies and procedures, as discussed below.

According to *Purchasing Card Programs* (GFOA, 2003),⁵ if not properly monitored, the issuance of purchasing cards or credit cards to employees could result in internal control issues or abuse. Controls like spending limits, record keeping requirements, audits of card activity, procedures for unauthorized or disputed purchases and segregation of duties for payment, approvals, and reconciliations are recommended.

According to *Extension of Federal Prompt-Pay Requirements to State and Local Governments* (GFOA, 1989), by carefully timing payments so there are neither late nor early payments, a government can take advantage of discounts, avoid penalties, and maximize investment return on short-term investments. Furthermore, prompt bill paying reduces vendor costs which, in turn, reduces government procurement costs. The District should formally document its policy requiring timely payments in order to take advantage of vendor discounts and avoid late fees and other charges.

As a component of updated policies, Northridge LSD should consider using the OEC sample ethics policy⁶ for local governments, officials and employees. The sample policy stipulates that officials and employees must, at all times, abide by the protections to the public embodied in Ohio's Ethics Laws. A copy of these laws should be provided to employees, and their receipt should be acknowledged, as required by ORC § 102.09(D). The OEC recommends the ethics policy prohibit employees from several actions that could be construed as creating bias or favoritism. The District should use the OEC's sample ethics policy as a guide when developing its own ethics policy.

Finally, Northridge LSD should consider additional formal procedures regarding time and attendance reporting and subsequent payroll processing. According to *Maintaining Effective Control Over Employee Time and Attendance Reporting* (GAO, 2003), control activities should provide reasonable assurance that time and attendance transactions are

⁵ <http://www.gfoa.org/>

⁶ 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

properly authorized and approved, and information is accurately and promptly recorded and retained. Furthermore, government entities should have well-defined organizational structures and flows of time and attendance information with clearly written and communicated policies and procedures setting forth the responsibilities of all parties. Written time and attendance policies would strengthen Northridge LSD's controls over its payroll process, while decreasing the risk of inaccurate reporting and potential leave abuse. The corresponding administrative guidelines should also incorporate the District's payroll processing checklist.

By updating its policies, creating corresponding administrative guidelines, and including those policies and guidelines in an updated fiscal policies and procedures manual, the District could better manage its limited resources and help ensure consistency in financial practices. In addition, strong financial policies aid in the overall management of the budget and achievement of the District's long-range goals.

Payroll

R2.4 Northridge LSD should approach bargaining unit representatives and request a memorandum of understanding requiring mandatory direct deposit for all employees and long-term substitute teachers, regardless of hire date. Furthermore, the District should discontinue the issuance of paper pay stubs and instead, issue electronic pay stubs. Once the mandatory direct deposit and electronic pay stubs are adopted, the District will need to develop formal written procedures to govern their operation.

Northridge LSD offers optional direct deposit of paychecks to its employees. Approximately 86 percent of District employees participate in this program. The District does not offer electronic pay stubs.

According to *Costs and Benefits of Direct Deposit of Salary Checks* (National Federation of Independent Businesses (NFIB), 2004), direct deposit of paychecks provides many benefits to both employers and employees. Benefits to employers include:

- Reduced risk of check fraud and lost or stolen checks;
- Greater control over payroll and payroll expenses;
- Timely payment of salary checks, even when employees are away from the office;
- Reduced time spent on bookkeeping because of immediate payments into employee accounts (no lost checks, delayed check cashing, etc.); and
- Online transaction reports are available immediately.

Benefits to employees include:

- Reduced time required for checks to clear;
- Reduced chance of losing checks or having checks stolen;
- No need to spend time visiting a bank or ATM to deposit paychecks;
- Payments can be divided automatically among designated employee accounts; and
- There is no cost to employees for direct deposit. In fact, many banks offer free checking services to individuals who will be paid via direct deposit.

The Electronic Payment Association states that employers and employees can financially benefit from the use of electronic pay stubs, while simultaneously increasing efficiencies within a payroll department. The employer benefits because electronic pay stubs eliminate the need to print, mail, and distribute pay stubs or reproduce lost pay stubs. At the same time, the employee benefits because he or she can easily access pay information from any computer with a browser and internet connection. Also, a more extensive record of the employee's pay history is available, beginning with the first electronic pay stub. Electronic pay stubs also make it easy for employees to provide pay stub information to third parties, such as accountants, mortgage lenders, and other agencies requiring pay verification.

Although the savings associated with implementing mandatory direct deposit and electronic pay stubs is difficult to quantify, the District could save money from the cost of paper, envelopes, stamps, and associated time of the payroll department to process paper stubs.⁷ Also, the time employees spend printing checks and stuffing envelopes could be allocated to other activities. However, employers must also consider potential costs, such as set-up fees or transaction fees, which are established by the bank.

By expanding the use of these practices, the District could reduce the supplies and materials associated with producing paper paychecks and pay stubs while improving the efficiency of operations in the Treasurer's Office. In addition, the District's employees would benefit from ease of access to and availability of historical pay stub information.

⁷ Computer access for cooks and custodians sometimes creates a logistical problem. However, the District could provide access to a centralized computer for these employees.

Five-Year Forecast

R2.5 Northridge LSD should revise its assumptions and adjust the projections for general property tax, tangible personal property tax, income tax, State funding (unrestricted and restricted grants-in-aid), property tax allocation, other revenue, personal services, purchased services, and supplies and materials in its five-year financial forecast. The revised assumptions and projections will provide the District with a more accurate depiction of its likely future financial condition.

Major line items in Northridge LSD's February 2009 five-year forecast were evaluated to determine whether the District's assumptions were reasonable and well documented. The District's assumptions for Employee Retirement and Insurance Benefits, Capital Outlay, and Other Objects were determined to be reasonable and sufficiently detailed to support the projections. For other line items, AOS made adjustments based on information available at the time of the audit. The impact of these forecast adjustments is shown in **Table 2-5**. The paragraphs that follow explain the forecast line items assessed and detail the methodologies used to develop revised projections.

General Property Tax

General property tax includes real estate tax collections by the County Auditor on behalf of the District. Since Northridge LSD lies in Licking, Knox, and Delaware counties, general property tax is received from all three counties. Every three years, real estate values are reappraised or updated by the County Auditor's Office. The District's projected 1.6 percent average annual increase in general property tax was not well documented. For example, the Treasurer did not address changes in valuation and delinquency rates in her assumptions.

Typically, AOS would have adjusted the general property tax based on historical trends, valuation reappraisals and updates, current tax rates, and economic conditions. For example, valuations have increased by an average of 4.5 percent from FY 2004-05 through FY 2008-09 and by 2.4 percent when the reappraisal year is excluded. The valuation trends would then be used to help determine the anticipated collections through the forecasted period. However, due to recent economic conditions and the downturn in the housing market, general property tax collections were projected at a more conservative rate.

FY 2008-09 collections are anticipated to be approximately 3.5 percent less than FY 2007-08 based on the year to date collection as of March 2009. Increases in delinquency payments help explain the fact that collections are declining even as property valuations are increasing. Therefore, collection rates were flat lined from FY 2009-10 and FY 2010-11 under the assumption that collections will continue to be flat or decline despite

historical increases in valuation. There was a 2.0 percent increase in collections assumed for FY 2011-12 due to the reappraisal period which was then carried over to FY 2012-13. While these projections are conservative, they are warranted due to downfall of the housing industry. It will be critical for the District to continue to monitor the housing and real estate industry and revise projections as new and more relevant information is received.

Due to the passage of the 5-year emergency operating levy, the anticipated revenue was added to the general property tax and property tax allocation projections in **Table 2-6** for each year of the forecast period.

Tangible Personal Property Tax

Tangible personal property tax includes the amount businesses pay on equipment or supplies/materials they own. Due to changes in the State tax structure, this tax has been reduced by approximately 25 percent per year since FY 2005-06, and is being replaced with the Commercial Activities Tax (CAT). Districts are reimbursed for those reductions through 2010, after which time they will be phased out through FY 2016-17. The District's assumptions did not provide the necessary detail to support the projections and the tax law changes were not properly applied. The revised projections decrease the collections by amounts that are consistent with the State tax changes, with the last collections occurring in FY 2010-11. Furthermore, adjustments were made to the projected State reimbursements, which are reflected in the revised property tax allocation projections.

Income Tax

School district income taxes are imposed on the residents of the District and levied against income including, but not limited to, wages, salaries, tips, interest, dividends, self employment, pensions, and capital gains. Northridge LSD's income tax levy went into effect on January 1, 1998 at a rate of 1 percent for a three-year term; was renewed effective January 1, 2001 for a five-year term; and renewed for an additional five-year term effective January 1, 2006. The levy is set to expire on December 31, 2010, and at this point, the District anticipates the renewal of this levy. The District's projections show an average decrease of 8.8 percent from FY 2007-08 through FY 2010-11. Furthermore, the forecast shows projections for FY 2011-12 and FY 2012-13 even though the levy expires in FY 2009-2010. Income tax collections should not be shown beyond FY 2010-11 but instead, any projected revenue from the renewal of the levy should be reflected on a separate line until the levy is in fact renewed by voters.

Income tax collections have increased by approximately 11.8 percent from FY 2004-05 through FY 2007-08. However, when comparing FY 2008-09 year-to-date collections to

the prior four fiscal years, collection rates are down by approximately 1.7 percent. Therefore, because of the decline in collections and the recent economic downturn, the revised projections were flat-lined through FY 2009-10 at approximately \$2.1 million, which is a 0.5 percent decrease from FY 2007-08. Through the remainder of the forecast period, income tax collections are projected to increase by conservative 3 percent annually. As discussed above, collections subject to the renewal of the levy are presented on a separate line item and impact FY 2010-11 through FY 2012-13.

State Funding (Unrestricted and Restricted Grants-in-Aid)

State funding is comprised of unrestricted and restricted grants-in-aid received from the State through the State Foundation Program. The funding levels are established by the Ohio General Assembly during the State's biennial budget process, and are administered by ODE. Historically, funding levels have been established biennially and based on average daily membership (ADM), assessed valuation, State aid, and other key components. The District's assumptions for State funding did not include the detail needed to make a clear judgment about the accuracy of the projections. Additionally, the District's assumptions state that the District has received little growth in State funding in recent years, so projections were held relatively flat. However, in reviewing the forecast, auditors found projected increases as large as 6.6 percent in certain years.

Detailed assumptions of State funding projections allow Board members and administrators to plan based on expected funding levels and to identify causes if revenues do not materialize as expected. While detailed assumptions are key in understanding projections, the State is currently undergoing potential changes in how school districts are funded. Therefore, the revised projections for FY 2008-09 are based on the April 2009 State Foundation (SF-3) report, and future years were flat-lined through FY 2010-11. Thereafter, conservative 1 percent increases were applied. The District should closely monitor the projections and current State budget discussions and adjust the forecast accordingly.

Property Tax Allocation

The majority of property tax allocation includes funds received from tangible personal property tax reimbursements, the homestead exemption, and property tax rollbacks. Similar to the tangible personal property tax projections, the assumptions did not provide significant detail, nor did the District provide supporting documentation to support the projections. Furthermore, the revised projections for homestead and rollback collections were adjusted to reflect the changes to the general property tax line, due to the correlation between collections and reimbursements from the State. The historical ratios of general property tax collections to homestead and rollback collections were then applied through the forecasted period. Finally, starting in FY 2010-11, the reimbursement of tangible

personal property tax was reduced during the phase-out period, as established in Ohio's tax law restructuring. During the course of the audit, the District passed a 5-year emergency operating levy that will generate \$2.2 million per year. The revenue from that levy is included in the revised general property tax and property tax allocation projections.

Other Revenue

Other revenue consists of items such as tuition and other payments from school districts, other revenue for education provided by the District, earnings on investments, fees for classroom materials, miscellaneous receipts from local sources, proceeds from rentals and fines, and any other revenue sources. While the District's projections did provide some insight into the historical increases in other revenue, the assumptions did not provide the necessary detail to support the projections. Therefore, historical trends were identified for the various receipt codes in this category (e.g., tuition, open enrollment, and other payments from other districts), and used to help develop revised future projections.

Personal Services

Personal services include expenditures for items such as employee salaries and wages, severance pay, and supplemental contracts. According to ODE, because schools are service oriented entities, salaries and wages represent the bulk of school district expenditures. Fluctuations may occur due to reductions in force, negotiated salary schedule changes, retirement levels, or changes in enrollment which cause the required staffing levels to fluctuate. The District's personal services projections are based upon reductions in force, budget cuts, retirements, severance payments, historical trends, and other known factors. In addition, the Treasurer included annual increases of 1.5 percent to represent step increases and 3.0 percent to represent negotiated wage increases. Although the District took into account a number of pertinent factors, AOS disagreed with some of the assumptions. For example, while the Treasurer included a 1.5 percent annual step increase, auditors found that the average historical step increases were 3.4 percent for certificated staff and 1.7 percent for classified staff. The revised annual step increases were applied only to the percentage of staff members who would be eligible to receive them, rather than to the entire line item. Furthermore, a 2.0 percent annual increase was applied to the supplemental contract object codes as provided for in the negotiated agreement. During the course of the audit, the certificated staff agreed to a zero percent negotiated wage increase for FY 2009-10. That change is reflected in the adjusted forecast in **Table 2-6**.

Purchased Services

Purchased services include expenditures for services provided by people not on the District's payroll, such as legal fees, maintenance agreements, utilities, contracted transportation services, and tuition paid for students attending other school districts (open enrollment and community schools). The District's lease of the modular administrative/intermediate school building (see **facilities**) is also included in this category. The District is projecting an annual increase of 5 percent for purchased services. The Treasurer took into account budget cuts, historical trends, and costs associated with the modular lease and the contracted transportation services. Although the District's projections were sufficiently detailed, Auditors adjusted the projections to reflect a more conservative 2.4 percent annual increase in light of current economic conditions.

Supplies and Materials

Supplies and materials include expenditures for items such as general supplies, textbooks, media materials, other instructional materials, bus fuel, and maintenance supplies. The District's assumptions take into account budget cuts and planned textbook adoptions. The Treasurer included a 3.0 percent annual increase in her projections. Auditors examined each object code individually to apply an appropriate but more conservative annual increase, ranging from zero to 2.0 percent. Object codes for general supplies, library books, and newspapers/periodicals/films were projected on a per student basis.

Table 2-5 illustrates the impact of the AOS changes to the District's forecast assumptions, as well as the increased revenue from the District's successful May 2009 emergency operating levy, which was not reflected in February 2009 forecast. The projected revenue from the levy is reflected in both the general property tax and property tax allocation line items.

Table 2-5: Net Impact of Revised Forecast Projections and May 2009 Levy

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Revenue					
General Property Tax- AOS Adjustments	\$136,000	\$149,000	\$116,000	\$114,000	\$37,000
<i>General Property Tax- Levy Impact</i>	\$0	\$1,059,000	\$1,929,000	\$1,929,000	\$1,929,000
<i>General Property Tax- Total Impact</i>	\$136,000	\$1,208,000	\$2,045,000	\$2,043,000	\$1,966,000
Tangible Personal Property Tax	(\$334,000)	(\$362,000)	(\$381,000)	(\$398,000)	(\$398,000)
Income Tax	\$267,000	\$339,000	\$24,000	(\$182,000)	\$326,000
Unrestricted Grants-in-Aid	\$19,000	\$19,000	(\$50,000)	(\$339,000)	(\$671,000)
Restricted Grants-in-Aid	(\$5,000)	(\$1,000)	(\$3,000)	(\$4,000)	(\$6,000)
Property Tax Allocation- AOS Adjustments	(\$16,000)	(\$34,000)	\$9,000	(\$0)	(\$23,000)
<i>Property Tax Allocation- Levy Impact</i>	\$0	\$149,000	\$270,600	\$271,000	\$271,000
<i>Property Tax Allocation- Total Impact</i>	\$(16,000)	\$115,000	\$279,000	\$270,000	\$248,000
Other Revenue	(\$58,000)	(\$182,000)	(\$202,000)	(\$224,000)	(\$247,000)
Total Revenue- AOS Adjustments	\$9,000	(\$74,000)	(\$487,000)	(\$1,033,000)	(\$982,000)
<i>Total Revenue- Levy Impact</i>	\$0	\$1,208,000	\$2,200,000	\$2,200,000	\$2,200,000
Total Net Impact on Revenue	\$9,000	\$1,134,000	\$1,713,000	\$1,167,000	\$1,218,000
Expenditures					
Personal Services	(\$214,000)	\$397,000	\$455,000	\$514,000	\$576,000
Purchased Services	(\$92,000)	(\$155,000)	(\$246,000)	(\$343,000)	(\$446,000)
Supplies and Materials	(\$80,000)	(\$79,000)	(\$82,000)	(\$86,000)	(\$89,000)
Capital Outlay	127,000	210,000	206,000	96,000	195,000
Net Impact on Expenditures	(\$259,000)	\$373,000	\$333,000	\$181,000	\$236,000
Ending Fund Balance					
Ending Fund Balance- AOS Adjustments	\$268,000	(\$447,000)	(\$820,000)	(\$1,214,000)	(\$1,218,000)
<i>Ending Fund Balance- Levy Impact</i>	\$0	\$1,208,000	\$2,200,000	\$2,200,000	\$2,200,000
Total Net Impact on Fund Balance	\$268,000	\$761,000	\$1,380,000	\$986,000	\$982,000

Source: Northridge Local School District and AOS

Table 2-5 shows that the revised projections and the additional revenue from the passage of the May 2009 emergency levy increase the ending fund balance for Fiscal Years 2008-09 through 2012-13. The changes result in a cumulative positive impact of \$4,377,000 over the life of the forecast.

R2.6 Northridge LSD should implement the recommendations contained in the performance audit to help offset projected deficits. In addition, Northridge LSD should update its five-year financial 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, Northridge LSD could experience significant savings during the forecast period. However, due partially to the unreliability of historical financial information, AOS was unable to pinpoint some areas where Northridge LSD's spending is out of line. Therefore, the District should conduct a thorough review of its spending practices and ensure that it resolves underlying issues with its financial data. **Table 2-6** demonstrates the impact of the recommendations on the ending fund balances, assuming the recommendations are fully implemented. Adjusted line items are italicized.

Table 2-6: Revised Five-Year Forecast with Recommendations (in 000s)

	Actual			Forecasted				
	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Revenues:								
General Property Tax (Real Estate)	\$3,618	\$3,793	\$3,846	\$3,714	\$4,833	\$5,703	\$5,781	\$5,781
Tangible Personal Tax	\$57	\$47	\$64	\$48	\$36	\$17	\$0	\$0
Income Tax	\$1,842	\$2,040	\$2,085	\$2,076	\$2,076	\$1,604	\$0	\$0
Unrestricted Grants-in-Aid	\$4,446	\$4,687	\$4,703	\$4,692	\$4,692	\$4,692	\$4,692	\$4,692
Restricted Grants-in-Aid	\$47	\$49	\$41	\$29	\$29	\$29	\$29	\$29
Property Tax Allocation	\$462	\$495	\$557	\$561	\$731	\$841	\$832	\$813
All Other Revenues	\$592	\$634	\$692	\$701	\$633	\$620	\$606	\$594
Total Revenues	\$11,063	\$11,748	\$11,990	\$11,821	\$13,030	\$13,506	\$11,940	\$11,909
Proceeds from sale of notes	\$0	\$0	\$681	\$784	\$800	\$0	\$0	\$0
Operating Transfers-In	\$0	\$76	\$715	\$813	\$830	\$0	\$0	\$0
Advances-In	\$0	\$9	\$0	\$0	\$0	\$0	\$0	\$0
All Other Financing Sources	\$6	\$1	\$18	\$45	\$45	\$45	\$45	\$45
Total Other Financing Sources	\$6	\$86	\$1,414	\$1,642	\$1,675	\$45	\$45	\$45
Total Revenues and Other Financing Sources	\$11,069	\$11,835	\$13,405	\$13,463	\$14,705	\$13,551	\$11,985	\$11,954
Expenditures:								
Personal Services	\$5,914	\$5,786	\$5,649	\$5,503	\$5,656	\$5,951	\$6,257	\$6,577
Employees' Retirement/Insurance Benefits	\$1,699	\$1,772	\$1,737	\$1,663	\$1,509	\$1,595	\$1,686	\$1,783
Purchased Services	\$1,866	\$2,876	\$2,663	\$2,705	\$2,747	\$2,791	\$2,837	\$2,885
Supplies and Materials	\$469	\$503	\$500	\$411	\$422	\$434	\$446	\$458
Capital Outlay	\$193	\$17	\$106	\$672	\$336	\$336	\$336	\$336
Debt Service: All Principal (Historical)	\$85	\$150	\$155	\$0	\$0	\$0	\$0	\$0
Principal Tax Anticipation Notes	\$0	\$0	\$681	\$784	\$800	\$0	\$0	\$0
Debt Service: Principal - HB 264 Loans	\$0	\$0	\$0	\$55	\$60	\$60	\$65	\$70
Debt Service: Interest and Fiscal Charges	\$50	\$52	\$53	\$70	\$67	\$34	\$31	\$30
Other Objects	\$853	\$707	\$825	\$694	\$714	\$736	\$758	\$781
Total Expenditures	\$11,133	\$11,865	\$12,372	\$12,557	\$12,311	\$11,937	\$12,413	\$12,924
Operational Transfers-Out	\$93	\$76	\$836	\$883	\$890	\$63	\$64	\$66
Advances-Out	\$0	\$9	\$7	\$0	\$0	\$0	\$0	\$0
All Other Financing Uses	\$0	\$10	\$101	\$0	\$0	\$0	\$0	\$0
Total Other Financing Uses	\$93	\$96	\$944	\$883	\$890	\$63	\$64	\$66
Performance Audit Recommendations- Net Savings	\$0	\$0	\$0	\$0	(\$361)	(\$386)	(\$403)	(\$421)
Total Expenditures and Other Financing Uses	\$11,226	\$11,961	\$13,317	\$13,440	\$12,840	\$11,614	\$12,074	\$12,569
Result of Operations (Net)	(\$157)	(\$126)	\$88	\$23	\$1,865	\$1,937	(\$89)	(\$615)
Balance July 1	\$446	\$288	\$161	\$249	\$272	\$2,137	\$4,074	\$3,985
Cash Balance June 30	\$288	\$161	\$249	\$272	\$2,137	\$4,074	\$3,985	\$3,370
Outstanding Encumbrances	\$139	\$32	\$58	\$75	\$75	\$75	\$75	\$75
Total Reservations	\$139	\$32	\$58	\$75	\$75	\$75	\$75	\$75
Fund Balance / June 30 for Certification for Certification of Appropriations	\$149	\$129	\$191	\$197	\$2,062	\$3,999	\$3,910	\$3,295
Income Tax- Renewal	\$0	\$0	\$0	\$0	\$0	\$534	\$2,202	\$2,269
Cumulative Balance of Replacement/Renewal Levies	\$0	\$0	\$0	\$0	\$0	\$534	\$2,737	\$5,006
Unreserved Fund Balance June 30	\$149	\$129	\$191	\$197	\$2,062	\$4,533	\$6,647	\$8,301

Source: AOS and Northridge LSD

Note: Numbers will vary due to rounding

Table 2-7 summarizes the cost savings associated with the recommendations contained within the performance audit.

Table 2-7: Summary of Cost Savings

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
R3.2 Reduce 2.0 FTE regular teachers	\$76,000	\$81,000	\$86,000	\$92,000
R3.3 Eliminate retirement pickup for administrators	\$32,000	\$34,000	\$36,000	\$39,000
R3.3 Require administrative personnel to pay 30 percent contributions toward medical, dental, and vision insurance consistent with other staff	\$18,000	\$19,000	\$21,000	\$22,000
R4.6 Implement a formal energy management program	\$7,000	\$7,000	\$7,000	\$7,000
R4.7 Allocate all food service related expenses to the Food Service Fund ¹	\$14,000	\$14,000	\$14,000	\$14,000
R5.4 Reduce 4 school buses	\$212,000	\$219,000	\$227,000	\$235,000
R5.6 Purchase fuel through the State contract	\$12,000	\$12,000	\$12,000	\$12,000
Total Cost Savings from Performance Audit Recommendations	\$371,000	\$386,000	\$403,000	\$421,000

Source: Performance audit recommendations

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

¹ Allocating costs to the Food Service Fund will lead to identical costs to the Food Service Fund.

Table 2-8 summarizes the implementation costs associated with the recommendations contained within the performance audit. Each cost estimate is dependent upon Northridge LSD's decision to implement the associated recommendation and the timing of the implementation.

Table 2-8: Summary of Implementation Costs

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
R5.5 Purchase an electronic fuel monitoring system	\$10,000	\$0	\$0	\$0
Total Implementation Cost	\$10,000	\$0	\$0	\$0

Source: Performance audit recommendations

Human Resources

Background

This section of the performance audit focuses on the Northridge Local School District (Northridge LSD or the District) human resource (HR) functions, including staffing levels, compensation, employee benefits, negotiated agreements, HR management, Board of Education governance, special education, and early retirement incentives at the District. Where appropriate, recommendations were developed to improve efficiency and business practices. Recommendations also identify potential cost savings to assist the District in its efforts to address projected deficits. The District's human resource functions were evaluated against leading practices, industry benchmarks, operational standards, the Ohio Revised Code (ORC), the Ohio Administrative Code (OAC), and selected peer districts.¹ Leading practices and industry standards were drawn from the State Employment Relations Board (SERB), the Government Finance Officers Association (GFOA), the Kaiser Family Foundation (Kaiser), the Society for Human Resource Management (SHRM), the Ohio Education Association (OEA), the Ohio Department of Education (ODE), the Ohio Department of Administrative Services (DAS), and the National School Boards Association (NSBA).

Organizational Structure and Function

Northridge LSD does not have a department dedicated to performing HR functions. Instead, these activities are completed by the Superintendent and Treasurer. The Superintendent conducts employee recruitment and hiring, determines staffing levels, and leads the District's negotiating team during collective bargaining. The Superintendent's Administrative Assistant maintains personnel files, which include general information, certifications and licenses, employee evaluations, employee intent forms, and exit interviews. The Treasurer maintains files on the salary and benefits for each employee, administers the District's health insurance benefits and workers' compensation, and participates on the District's negotiating team. The Treasurer's staff consists of two employees who are responsible for administering the purchasing function, processing payroll, and reporting staff data in the Education Management Information System (EMIS).

¹ The peers include: Manchester LSD (Summit County), Miami East LSD (Miami County), Chippewa LSD (Wayne County), Keystone LSD (Lorain County), Wayne LSD (Warren County), New Bremen LSD (Auglaize County), Fort Loramie LSD (Shelby County), Anna LSD (Shelby County), Berlin-Milan LSD (Erie County), and Ross LSD (Butler County).

Staffing

Table 3-1 illustrates the full-time equivalent (FTE) staffing levels at Northridge LSD and the average of the peer districts, as reported by the ODE through EMIS. Peer data is from FY 2007-08, while Northridge LSD's staffing data was adjusted to reflect Board-approved reductions and staffing level adjustments that became effective in FY 2008-09. The comparisons in **Table 3-1** have been presented on both a total FTE and a per-1,000 students basis because staffing levels are partially dependent on the number of students served. Presenting staffing data in this manner eliminates variances attributable to the size of the peer districts.

Table 3-1: Staffing Level Comparison

	FTE Staff			FTE/1,000 Students		
	Northridge LSD	Peer Average	Difference	Northridge LSD	Peer Average	Difference
Administrative Personnel ¹	6.0	9.2	(3.2)	4.2	6.2	(2.0)
Office/Clerical ²	7.0	9.5	(2.5)	4.9	6.7	(1.8)
Classroom Teachers ³	67.0	63.5	3.5	47.0	46.0	1.0
Special Education Teachers	10.5	10.5	0.0	7.4	7.4	0.0
Educational Service Personnel ⁴	10.5	11.9	(1.4)	7.4	8.5	(1.1)
Other Certificated Staff ⁵	2.0	3.9	(1.9)	1.4	2.6	(1.2)
Teacher Aides	8.0	10.1	(2.1)	5.6	6.9	(1.3)
Other Technical/Professional ⁶	1.0	2.7	(1.7)	0.7	2.1	(1.4)
Other Student Services ⁷	2.0	1.7	0.3	1.4	0.9	0.5
Operations	16.0	34.2	(18.2)	11.2	24.5	(13.3)
Total Staffing	130.0	156.8	(26.8)	91.2	111.8	(20.6)

Source: FY 2007-08 EMIS data as submitted to ODE. EMIS data from Northridge LSD has been adjusted to reflect FY 2008-09 staffing levels.

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 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 Educational 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 includes student services staff less counselors, registered nurses, social work staff, and visiting teachers.

As illustrated in **Table 3-1**, Northridge LSD's staffing levels are higher than the peer averages on a per-1,000 student basis only in classroom teachers and other student services. The variances for classroom teachers are discussed in **R3.2**. Other student services are not separately assessed, as this category accounts for only 1.0 percent of the District's overall salary expenditures.

Compensation

Table 3-2 shows the District's FY 2007-08 average salaries and salary costs per student in comparison with the peer district averages. Beginning wages, years of service, negotiated wage increases, step increases, other personnel benefits, and in some cases, educational level attained by the personnel within a category, all impact average salaries.

Table 3-2: Average Salary Comparison¹

	Average Salaries			Salaries Per Student Educated		
	North- ridge LSD	Peer District Average	Variance	Northridge LSD Salaries per Student	Peer Salaries per Student	Variance
Administrative Personnel	\$79,707	\$71,293	11.8%	\$335	\$439	(23.7%)
Office/Clerical	\$27,301	\$28,412	(3.9%)	\$134	\$192	(30.2%)
Classroom Teachers	\$46,999	\$52,951	(11.2%)	\$2,208	\$2,440	(9.5%)
Special Education Teachers	\$48,659	\$47,436	2.6%	\$358	\$350	2.3%
Educational Service Personnel	\$54,697	\$55,397	(1.3%)	\$403	\$476	(15.3%)
Other Certificated Staff	\$50,846	\$43,529	16.8%	\$71	\$122	(41.8%)
Teacher Aides	\$14,726	\$14,286	3.1%	\$83	\$110	(24.5%)
Other Technical/Professional	\$28,523	\$19,782	44.2%	\$20	\$46	(56.5%)
Other Student Services	\$27,878	\$25,819	8.0%	\$39	\$44	(11.4%)
Operations	\$23,436	\$20,364	15.1%	\$263	\$497	(47.1%)

Source: FY 2007-08 EMIS data as submitted to ODE. EMIS data from Northridge LSD has been adjusted to reflect FY 2008-09 salaries.

¹ See footnotes to **Table 3-1** for descriptions of the various staffing categories.

Table 3-2 shows that the District's average salaries are above the peer district averages for the categories of administrative personnel, special education teachers, other certificated staff, teacher aides, other technical/professional staff, other student services, and operations personnel. However, **Table 3-2** also compares the salary cost per student educated, which assesses both staffing levels and average salaries. As shown, Northridge LSD is below the peers in every category except for special education teachers, which are 2.3 percent above the peers. Because the District's staffing levels are generally below the peer averages, it is spending less per student in these areas, even if its average salaries are above the peers.

Benefits

Northridge LSD offers medical, dental, and vision, insurance to certificated and classified employees. Employees contribute 30 percent of insurance premiums for medical and dental insurance for both single and family plans. The vision plan only offers single coverage, of which employees contribute 30 percent toward premiums. This level of employee contribution exceeds the SERB averages by a range of 9.0 to 16.4 percent for the various insurance plans. However,

the District's five administrators² do not contribute towards the cost of their benefits (see **R3.3**). The District's costs for providing life insurance and level of coverage are below the Ohio Education Association and DAS benchmarks.

The District uses an insurance committee and a third party administrator to monitor changes in the insurance industry and to evaluate insurance provisions at Northridge LSD. The committee makes recommendations regarding appropriate actions to keep costs in line while maintaining a sufficient level of coverage.

Negotiated Agreements

The collective bargaining agreement between the Northridge Local Board of Education (the Board) and Northridge Education Association (NEA) is in effect between July 1, 2007 and June 30, 2009. NEA represents certificated/licensed employees employed by the Board performing any work of the bargaining unit members, such as teachers, guidance counselors, nurses, librarians, speech and hearing therapists, and tutors.

The District does not have a classified union, and consequently, there is no classified contract to assess. There is no employee handbook or other document in place that outlines the employment provisions for classified staff (see **R3.4**).

During the performance audit, certain contractual and employment issues such as maximum class size, sick day accrual, severance pay, and professional leave compensation were assessed and compared with provisions of the ORC and OAC, as well as standard practices. Areas that were determined to be in excess of these guidelines were compared with contiguous school districts' negotiated agreements.³ Within the areas examined, provisions related to maximum class size, sick day accrual, and severance pay were found to be in excess of State minimum requirements (see **R3.4**). The contract provisions regarding maximum class size and severance pay were also highlighted in similar recommendations from the 2000 performance audit of Northridge LSD.

Special Education

Northridge LSD reports a higher special education population (10.0 percent of its total students) than the peer average (8.4 percent). The District employs the recommended practice of mainstreaming, which entails including special education students in regular education classrooms. The District mainstreams 81.6 percent of its special education students into regular

² A sixth administrator is funded through the county educational service center and does not receive benefits through the District.

³ Contiguous school districts include Liberty Union-Thurston LSD (Fairfield County), Johnstown-Monroe LSD (Licking County), East Knox LSD (Knox County), Southwest Licking LSD (Licking County), Centerburg LSD (Knox County), and Bloom-Carroll County LSD (Fairfield County).

classrooms, 3.3 percent more than the peer average. Despite the District's efforts to mainstream as many students as possible, its special education expenditures per special education student are \$1,384 higher than the peer average (see **R3.7**).

The District provides many of its special education services using resources provided by the Licking County ESC (the ESC). Examples of these resources include multiple disability teachers, a multiple handicap specialist, emotionally distressed teachers, preschool services, speech pathology instruction, and a work-study program. In addition, the Special Education Coordinator is contracted and funded through the ESC. The District also uses hearing impaired services and English proficiency classes provided from the ESC and vocational programs offered at the Knox County Career Center and Delaware Area Career Center. Contracting for services from the ESC and other sources should enable the District to lower some of its costs for special education program delivery and/or provide a broader range of programs. Moreover, the District offers early childhood intervention through its preschool program, which it believes lowers the long-term cost of instruction for special education students. ODE found the District to be in compliance with the Individuals with Disabilities Education Improvement Act of 2004, with the most recent ODE assessment being completed in February 2009.

Audit Objectives for the Human Resources Section

The following questions were used to evaluate HR operations within Northridge LSD:

- How do staffing levels in the major personnel categories compare with the selected peer districts?
- Is employee compensation in line with the selected peer districts, similar surrounding districts, 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?
- 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?
- Are District retirement incentives cost effective?

Northridge LSD's overall salaries and benefits are in line with selected peer districts and industry practices. The District is also in compliance with State and federal regulations in its provision of special education services.

Recommendations

Staffing

- R3.1 Northridge LSD should develop a formal staffing plan to address current and future staffing needs. In addition, Northridge LSD should develop a comprehensive recruitment plan to address all District staffing needs identified in the staffing plan. The development and design of a recruitment plan should be aligned with leading practices.**

The District does not have a formally documented staffing plan or a comprehensive recruitment plan. Instead of a formal staffing plan, the District determines staffing needs based on staffing levels as required by the negotiated agreement, student enrollment projections, and employee intent forms. The negotiated agreement generally restricts student-to-teacher ratios to 25:1, except for kindergarten through second grade, where the ratio is 22:1. Employee intent forms, submitted annually, indicate to the District whether employees plan to remain at Northridge LSD, and if so, whether they want to remain under their present assignments or would like to be considered for changes of assignment.

When there is a job opening, the Superintendent makes an internal posting. If there is no response after five days, the position is posted on the Ohio REAP⁴ and Licking County ESC websites. Candidates are first interviewed by building principals then by the Superintendent, who makes the final hiring decision upon approval from the Board.

Northridge LSD could benefit from a formalized staffing plan that would provide solid direction regarding its personnel needs. This is especially important given the financial condition of the District and the increased scrutiny of its operations by the community.

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) highlights the need for a staffing plan. SHRM notes 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.

Additionally, school districts like Tulsa Public Schools in Oklahoma and Lakota Local School District (Butler County) in Ohio have established staffing plans which incorporate

⁴ Ohio REAP is an affiliate of a national online recruitment and application service for educators.

staffing allocation factors such as state and federal regulations, workload measures, and leading practices. In general, staffing benchmarks in these plans are based on General Fund revenues, which assist in ensuring a balanced budget. Staffing plans serve as guides for determining staffing levels on an annual basis and aid in determining mid-year staffing levels should changes be necessary.

The Cincinnati City School District (Hamilton County) has developed a staffing plan that works to incorporate State requirements, contractual agreements, available resources, and educational goals into a process that includes central and site-based administrators and personnel. The staffing plan, linked to the District's student-based budgeting, employs a template that mirrors the one in use by Tulsa Public Schools. The information contained in the plan serves as a planning tool for instructional leadership teams.

By having a formalized staffing plan, the District can openly communicate its decisions regarding staffing strategies and priorities, as well as contingency plans, should the District need to address a deficit. Furthermore, the District can explain its decisions to hire or reduce personnel based on the objective analysis and clear reasoning that a staffing plan offers.

Meeting the Challenges of Recruitment and Retention (National Education Association, 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 that are 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 as to 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.

Even in difficult economic conditions, a recruitment plan is a valuable resource, as school districts will continue to fill certain positions. Once developed, staffing and recruiting plans would help clarify the goals of Northridge LSD and how those goals are attainable, and would allow the District to better communicate staffing goals and decisions to the public.

R3.2 Northridge LSD should consider eliminating 2.0 FTE regular teacher positions to reduce personnel expenditures and bring staffing levels more in line with the peers.

Table 3-3 examines regular teacher staffing at the District in comparison with the peer districts.

Table 3-3: Regular Teacher Comparison

	Northridge LSD	Peer Districts	Difference
Regular Teachers (FTE)	65.0	62.2	2.8
Regular Student Population	1,264.0	1,253.0	11.0
Regular Student-to-Teacher Ratio	19.4	20.1	(0.7)

Source: FY 2007-08 EMIS data as submitted to ODE. EMIS data from Northridge LSD has been adjusted to reflect FY 2008-09 staffing levels

Table 3-3 shows that relative to the peer average, Northridge LSD operates with a lower ratio of regular education students to regular teachers, indicating that the District educates fewer students per FTE teacher than the peers. If it was able to achieve a ratio equal to the peers, Northridge LSD would employ 62.9 teachers, based on its FY 2008-09 regular student population. Consequently, based on this comparison, the District is 2.1 FTE regular teachers over the peer benchmark.

In addition, OAC § 3301-35-05 requires school districts to maintain district-wide ratios of at least one FTE teacher for every 25 regular education students. Northridge LSD is 15.4 regular teachers above the State minimum requirement, so eliminating 2.0 FTE regular teacher positions would leave the District 13.4 teachers above the minimum.

Financial Implication: By eliminating 2.0 FTE regular teacher positions, Northridge LSD could save approximately \$76,000 in salaries and benefits starting in FY 2009-10.

Compensation

R3.3 Northridge LSD should discontinue the practice of paying any portion of the employee share of retirement contributions (pickup) on behalf of administrators or any other staff. While paying a portion of retirement contributions is allowed under State law, picking up an employee's retirement contributions increases the District's compensation costs and makes total compensation less transparent. In addition, the District should require administrators receiving medical, dental, and vision insurance to contribute toward the cost of premiums at the same rate as other District employees.

Ohio law requires both employers and employees to contribute specified percentages of employees' salaries to the appropriate State retirement funds. Northridge LSD picks up

all or a portion of the employees' retirement contributions for five administrators.⁵ The Superintendent, Treasurer, and Middle School Principal receive the full retirement contribution (10 percent) and an additional 1.0 percent pickup. The high school and primary school principals receive 2.75 and 2.70 percent pickup, respectively. Historically, payment of pickup was not addressed in administrator contracts, nor was it implemented through any formalized compensation plan. Recently, Northridge LSD updated its administrator contracts to include the cost of the retirement pickup. The total cost to the District for picking up administrators' retirement contributions was \$30,983 in FY 2008-09.

In addition, the District's administrators do not contribute towards the cost of their medical, dental, or vision insurance. The total annual cost for insurance premiums for the five administrators is approximately \$55,400, which is paid by the District. Although the District's employee contribution rate of 30 percent is well above the SERB benchmark, exempting administrators reduces the financial benefit of the provision and creates a disparity between administrators and other staff.

As shown in **Table 3-2**, the average salary of Northridge LSD's administrative personnel is 11.8 percent higher than the peer average. These two additional benefits offered to Northridge LSD administrators represent forms of compensation paid in addition to base salaries that are not transparent to the community and other stakeholders. Given the District's recent efforts to seek additional revenue from the community and financial concessions from its employees, it is imperative for administrators' compensation to be fully transparent. Hence, the District should end the practices of offering retirement pickup and excluding administrators from employee health care contribution requirements.

Financial Implication: By discontinuing the practice of picking up a portion of the employee share of retirement contributions, the District would save approximately \$32,000 annually. By requiring administrators to pay 30 percent contributions towards medical, dental, and vision insurance, the District would save \$18,000 annually.

⁵ The District has six administrators, but one is contracted and funded through the Licking County ESC and does not receive benefits from the District.

Negotiated Agreement

R3.4 Northridge LSD should reexamine its certificated collective bargaining agreement and negotiate to replace or remove contract provisions which are determined to exceed State minimum requirements or industry benchmarks, or that reduce management's flexibility in the hiring or placement of staff. In addition, the District should establish an employee handbook that addresses employment provisions for classified staff.

As a component of the performance audit, certain provisions within the Northridge LSD certificated agreement were compared with State minimum requirements and similar districts in the area.⁶ Contract provisions regarding maximum class size and severance pay, discussed below, were also highlighted in recommendations in the 2000 performance audit of Northridge LSD. Because the District did not implement recommendations made from the previous performance audit, it has missed out on an opportunity to achieve several years' worth of cost savings and reduced its ability to improve its financial condition.

The following areas in the District's certificated agreement were determined to be in excess of benchmark provisions:

- **Maximum class size:** The contract does not allow student-teacher ratios to be larger than 22:1 for K-2 or 25:1 for all other grades. According to OAC § 3301-35-05, the ratio of teachers to students district-wide shall be at least one full-time equivalent classroom teacher for each twenty-five students in the regular student population, meaning some classes can be bigger and some smaller, as long as the average ratio is 25:1.

The maximum class size provision is particularly restrictive and potentially costly to Northridge LSD if the student population changes, as the District could be contractually obligated to hire more teachers or aides in order to meet required staffing levels. Moreover, this provision may hinder the District's ability to implement additional staff reductions if it is unable to obtain additional revenue or make reductions in other areas. By establishing specific ratios for each class, rather than District-wide, Northridge LSD limits its flexibility in addressing staffing levels.

⁶ Similar districts in the area include Liberty-Union LSD (Fairfield County), Johnstown-Monroe LSD (Licking County), East Knox LSD (Knox County), Southwest Licking LSD (Licking County), Centerburg LSD (Knox County), and Bloom-Carroll LSD (Fairfield County).

- **Maximum accrual of sick days:** Sick leave accrual is unlimited. The average for similar districts in the area is 219 days. ORC § 3319.141 states that school employees can accrue up to 120 workdays, but more can be approved by the local board of education.
- **Severance pay: maximum number of sick days paid at retirement (severance payout):** Employees with at least five years service with the District may, at the time of separation, elect to be paid in cash for one-fourth of the value of their accrued but unused sick leave credit, up to a maximum of 67.5 days. This provision balances unlimited sick leave accrual as it pertains to severance, but it exceeds State minimum guidelines and the average of similar districts in the area. The average maximum severance payout for similar districts in the area is 63 days. According to ORC § 124.39, employees who retire from active service with ten or more years of service with the State are entitled to be paid in cash for one-fourth of the value of their accrued but unused sick leave credit up to a maximum of 30 days. Policies may be adopted which exceed the State minimum.

The District's maximum sick day accrual and severance payout provisions are more generous when compared with similar districts in the area. While these provisions are allowed under State law, the financial condition of the District limits its ability to pay more generous provisions. Lowering the maximum sick leave accrual and severance payout would help the District save money and reduce projected deficits. The District should consider reducing sick day provisions to levels more in line with the similar districts in the area, or possibly to the State minimum. By adopting these standards, the District could curtail sick leave costs and avoid the liability from high severance payouts.

Northridge LSD should consider renegotiating provisions within its employee bargaining agreement that are above the peer average, industry standards, or State minimums. Although adjusting certain provisions can be difficult because they are specified in the negotiated agreement and need to be agreed upon during negotiations with the bargaining unit members, these provisions have the potential to increase costs and reduce management's flexibility.

Finally, the District should establish an employee handbook that addresses employment provisions for classified staff. A classified employee handbook can serve as a guide to employment provisions for classified staff in the absence of a classified union or negotiated agreement. Marysville Exempted Local School District (Union County) does not have a classified union or classified bargaining agreement, yet has developed a handbook that serves as a guide to employment provisions for classified staff. A classified handbook would serve as a reference guide for administrators and classified staff regarding employment provisions and provide a tool for solving disputes should

they arise. This could be developed and implemented using District resources to limit implementation costs to Northridge LSD.

R3.5 Northridge LSD should amend the early retirement incentive provision in its certificated collective bargaining agreement to incorporate GFOA-recommended practices. Specifically, Northridge LSD should establish goals for the incentive, perform a thorough cost analysis, estimate the budget impact, and develop an implementation plan before offering a retirement incentive. Performing these actions would ensure the District has effectively evaluated the costs and benefits associated with the incentive.

The certificated employee bargaining agreement provides for an early retirement incentive (ERI), under which the Board may offer one year of service credit to participating employees if the Treasurer determines that the ERI will benefit the District. The Treasurer's Office notifies qualifying candidates after conducting a cost-benefit analysis. Expressed interest in the ERI is typically very low because the ERI is offered each year and employees expect to qualify for it before attaining their final salary steps. Moreover, employees are hesitant to separate early from the District due to the more costly and reduced healthcare benefits associated with retirement. Because the ERI is seldom used, it may not be accomplishing its original intent and Northridge LSD should reevaluate it to determine if it meets the District's goals and budgetary considerations. Doing so will enable the District to take advantage of potential opportunities to save money through a redesigned ERI.

An example of a properly developed early retirement incentive exists in the Worthington City School District (Franklin County) certificated agreement. To ensure adequate savings, the Worthington City School District has 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. For instance, the agreement stipulates service requirements that employees must meet in order to be eligible for the incentive. The agreement also reserves the right to provide the incentive only if enough employees apply for the incentive. By including these stipulations, Worthington City School District is able to provide the incentive only when it yields savings to the District.

Additionally, to assist in the development of an effective retirement incentive, Northridge LSD should consider GFOA's *Evaluating the Use of Early Retirement Incentives* (October 2004), which recommends that governments exercise extreme caution if considering ERIs. Governments should take several actions prior to the decision to offer an ERI, in terms of goal-setting, cost/benefit analyses, and budgetary analyses. Governments should also develop implementation plans. 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.
- **Cost/Benefit Analysis:** In judging whether an ERI should be offered, governments should assess the potential costs and benefits of the proposals, and the cost/benefit analyses 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. That said, an ERI should be offered very infrequently and without a predictable schedule to avoid the expectation that another ERI will be offered, as this will distort normal employee retirement patterns.
- **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. Lastly, performance measures should be used to ensure ERI goals are met.

By performing the actions recommended by GFOA, the District can better evaluate the costs and benefits and determine the appropriateness of offering the retirement incentive. Moreover, if the District determines that the existing ERI provision does not adequately serve its needs, it should perform the process identified by GFOA for identifying its goals for the ERI, and redesign an incentive that more effectively meets those goals.

Board Operations

R3.6 Northridge LSD should update its Board policies and procedures to reflect the Board’s vision, define roles and responsibilities, and include measurable outcomes. The Board should implement and follow an annual schedule of self-evaluation of its performance and effectiveness, and should adhere to its policy of annual performance evaluations for the Superintendent and Treasurer. Doing so will help the Board operate in an efficient and effective manner, provide feedback regarding District processes, highlight areas for improvement, and enhance accountability and public trust.

Northridge LSD has experienced considerable turnover in District leadership in recent years. The Board has a newly elected President, and the Superintendent and Treasurer have each been with the District for less than two years. Despite new leadership, relations between citizen-stakeholders and the District remain strained due to alleged past mismanagement. In part, this fact can be attributed to the lack of formal policies and guidelines that guide District operations in a manner that is transparent to the community.

Northridge LSD has Board policies that have not been formally reviewed or updated in recent years and are not in a readily usable format, either on the District’s web site or in hard copy format that is accessible to staff. The Board’s policies state that the Superintendent and Treasurer should be evaluated annually; however, the District was not able to provide evaluations for the Superintendent and Treasurer. While Board members are generally aware of their obligations to the District and the community, Northridge LSD could benefit from updated policies and procedures that outline the functions and responsibilities of its Board members on a wide range of issues: to define District goals, measure job performance, and enhance accountability and public trust.

NSBA states that policies should define goals and objectives, allow operational flexibility, reflect the board’s vision, define roles and responsibilities, and include measurable outcomes. The board usually relies on the administration for the enforcement and periodic evaluation of board policies. The board may adopt a policy requiring the Superintendent to call attention to policies that are out-of-date or need revisions.

Effective board policies permit the board to operate in an efficient and effective manner. Board policies articulate the board’s vision, show a businesslike operation, give credence to board actions, establish a legal record, foster stability and continuity, give the public a means to evaluate performance, clarify relations, improve staff morale, save time, aid in orientations and provide a sound basis for appraisal and accountability. These objectives are especially important for Northridge LSD as a means to provide clear direction and leadership toward resolving its financial difficulties, while concurrently enhancing accountability and improving community relations.

ORC § 3319.01 and § 3313.22 require school boards to establish procedures for the evaluation of their superintendents and treasurers, respectively. In addition, *Becoming a Better Board Member* (NASB, 1996) recommends that board members engage in regular self-evaluations to make sure they continue to exercise the most effective leadership possible. The self-evaluations should include both elements and desired outcomes. The following elements are recommended:

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

Conducting annual self-evaluations enables the District to identify weaknesses and provide timely feedback to remedy potential issues. Additionally, the District can use routine evaluations to clearly communicate goals and expectations for District staff. *Becoming a Better Board Member* also outlines a process for the evaluation of the Superintendent that includes defining district goals in conjunction with the duties of the position and evaluating the achievement of those goals using performance indicators such as timelines and costs. Without an effective evaluation process, Northridge LSD is not able to determine areas of strength or weakness, and therefore is unable to identify areas of focus for improvement for all parties. Evaluations of the Superintendent and Treasurer by the Board help strengthen relationships, assess strengths and weaknesses, provide documentation, serve as a basis for reinforcing good work, and measure job performance.

As explained by NSBA, formal board policies serve as the foundation for a school district's operations and the basis for communication with its stakeholders. By improving the timeliness and relevance of its policies, and ensuring that those specifically pertaining to Board operations are complied with, Northridge LSD's Board will promote a more stable operating environment and increase its level of accountability to the community.

Special Education

R3.7 Northridge LSD should investigate strategies to reduce its special education costs to a level comparable to the peer average while continuing to provide an appropriate education to special needs students. Strategies for doing so could include regular assessments of staffing needs, particularly special education attendants, and potential benefits of partnering with other agencies for the provision of specialized instruction.

Table 3-4 displays special education population percentages for Northridge LSD and the peers, and examines direct and indirect expenditures associated with the provision of special education services.

Table 3-4: FY 2007-08 Special Education Cost Comparison

	Northridge LSD	Peer Average	Variance
Special Education Population Percentage			
Special Education Students as % of Total Students	10.0%	8.4%	1.7%
% of Special Education Students Mainstreamed into Regular Classrooms	81.6%	78.3%	3.3%
Special Education Expenditures Per Special Education Student			
Direct Special Education Costs	\$1,173,041	\$853,218	\$319,823
Direct Special Education Costs Per Special Education Student	\$7,980	\$6,831	\$1,149
Special Education Portion of Support Services	\$432,295	\$341,086	\$91,209
Support Service Portion Per Special Education Student	\$2,941	\$2,721	\$219
Special Education Portion of Regular Instruction	\$458,401	\$387,481	\$70,920
Regular Instruction Portion Per Special Education Student	\$3,118	\$3,174	(\$55)
Total Special Education Expenditures (minus Transportation Cost)	\$2,063,737	\$1,387,069	\$676,667
Special Education Costs Per Special Education Student (Excludes Transportation)	\$14,039	\$12,655	\$1,384

Source: ODE's FY 2007-08 Special Education Fiscal Accountability Report (adjusted to exclude transportation expenditures).

As shown in **Table 3-4**, the District reports 10.0 percent of its total students having special needs, compared with the peer average of 8.4 percent. Northridge LSD mainstreams 3.3 percent more of its special education students than the peer average. Generally, mainstreaming is a best practice for students with special needs (mentally gifted or handicapped) and enhances the student's social interaction and development of real world situations while reducing service costs for special needs students, primarily allowing a district to reduce the number of full-time support staff that are, in some cases, providing expensive one-on-one services. Despite Northridge LSD's efforts to

mainstream as many students as possible, its special education expenditures per special education student are \$1,384 higher than the peer average.

Table 3-5 examines the difference between what Northridge LSD spends on direct special education cost categories per student and the peer averages. In total, the District spends approximately \$1,085 more per student than the peers on direct special education costs. If it could reduce its special expenditures to a level in line with the peer average, the District would save approximately \$198,000.

Table 3-5: Direct Costs Per Special Education Student

Direct Special Education Costs	Northridge LSD	Peers	Difference
Special Education Instruction Services	\$4,894.00	\$5,442.55	(\$548.55)
Psychological Services	\$405.80	\$196.99	\$208.81
Speech and Audiology	\$479.40	\$337.57	\$141.83
Support Services for Students with Disability	\$513.61	\$249.23	\$264.38
Special Education Aides	\$0.00	\$691.54	(\$691.54)
Special Education Attendant Services	\$1,431.97	\$24.84	\$1,407.12
Special Education Services - Administrative/Supervisors	\$318.16	\$0.00	\$318.16
Special Education Services - Support Staff	\$0.00	\$15.52	(\$15.52)
Subtotal Direct Special Education Costs	\$8,042.94	\$6,958.24	\$1,084.70
(Catastrophic Aid Payments)	\$0.00	\$46.66	(\$46.66)
(Speech Only Unit Allowances)	\$63.06	\$80.36	(\$17.30)
Total Direct Special Education Costs	\$7,979.87	\$6,831.21	\$1,148.66

Source: ODE's FY 2007-08 Special Education Fiscal Accountability Report.

As shown in **Table 3-5**, Northridge LSD spends more per special education student in the categories of psychological services, speech and audiology, support services for students with disabilities, special education attendant services and administrative supervisors. The District's spending on attendant services is particularly high relative to the peers, and is more than double the peer spending levels for aides and attendants combined. Consequently, Northridge LSD should closely monitor the costs of attendants in particular, but should also be mindful of costs in psychological services, speech and audiology, and support services for students with disabilities, as these can significantly increase the total cost of special education.

Practical Ideas for Cutting Costs and Ways to Generate Alternative Revenue Sources (Adsit, Murdock, 2005) suggests that districts can do the following to limit special education costs without undermining the service to special education students:

- Use stricter interpretation of eligibility criteria to identify students who may be able to be served in regular education classrooms;

- Reduce the frequency of diagnostic testing to the state minimums, as many tests could be eliminated without adversely impacting students;
- Standardize the tests used throughout the district to minimize the expense of creating new tests;
- Hire special education teachers who are also certified to teach regular education classes;
- Expand the use of paraprofessionals (e.g., instead of employing 2 teachers, consider employing one teacher and two aides); and
- Schedule and train special education teachers to handle more than one assignment.

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, and may dictate higher expenditures in some categories. However, this analysis illuminates Northridge LSD's spending levels and provides insight as to where cost containment strategies should be directed for the District to obtain spending levels more in line with the peers.

Financial Implications Summary

The following table is a summary of estimated annual cost savings. Implementing some of the recommendations would require agreement with District's certificated collective bargaining unit.

Financial Implications for Human Resources

Recommendations	Estimated Annual Cost Savings ¹
R3.2 Eliminate 2.0 FTE regular teacher positions.	\$76,000
R3.3 Discontinue offering retirement pickup.	\$32,000
R3.3 Require administrative personnel to pay 30 percent towards medical, dental, and vision insurance premiums.	\$18,000
Total Estimated Savings	\$126,000

Source: AOS recommendations

¹ Savings based on implementation in FY 2009-10.

Facilities

Background

This section focuses on the maintenance and operations (M&O) of facilities at the Northridge Local School District (Northridge LSD or the District), including assessments of staff workloads, 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 United States Department of Energy (DOE), and the Government Finance Officers Association (GFOA).

Building Configurations

Northridge LSD has four school buildings: one primary school (grades k-3), one intermediate school (grades 4-5), one middle school (grades 6-8), and one high school (grades 9-12). The high school and middle schools are connected and share several classroom spaces. The District recently consolidated the elementary schools by closing two of the three sites and dividing the students between a primary school (housed in the one remaining elementary building) and an intermediate school. The intermediate school is a modular building that has been leased for 3-5 years. Eventually, the District plans to construct a new elementary school on the main campus, and close the primary and intermediate schools.

In 1997, prior to the recent reconfiguration, the District was part of an Ohio School Facilities Commission (OSFC) building project. Under this program, the District built a new high school; renovated the old high school and turned it into a middle school; and renovated the three elementary schools, two of which are now closed. The District has not completed any major facility projects since 1997. At the time of the OSFC project, the District was not required to pass the .5 mill maintenance levy which is now a requirement of districts participating in OSFC-funded projects. Therefore, any capital improvement projects would have had to be funded from the General Fund.

In late 2008, Northridge LSD was approved to participate in the OSFC Exceptional Needs Program (ENP) to construct a new facility to house students in grades kindergarten through 5, and demolish the old elementary schools and the intermediate building. According to the OSFC, the District will need to pass a levy in order to fund its local share of the construction project. The estimated cost for the project is over \$17 million of which about \$11.5 million would have to be funded locally. The District has focused on obtaining additional operation revenue and has not yet introduced a levy for new construction.

Although the OSFC plan is relatively new, it does not contain updates that include the closure of the two elementary buildings due to their poor condition, the opening of the modular building, or the recent sale of the Hartford Elementary School. There is also no evidence to show the District has independently completed any formal plans which would incorporate the recent changes in building configuration. Furthermore, the District has not formally engaged itself in leading practice facilities planning activities such as a capital plans, enrollment projections, utilization analyses, building audits, or preventative maintenance plans (see **R4.1** and **R4.2**).

Staffing and Summary of Operations

The District employs 6 full time custodians, 1 maintenance coordinator, and some seasonal staff who help with general facilities work during the summer. In December 2008, the District eliminated two FTE custodial positions to help address projected deficits. The District contracts out grounds keeping duties to a private vendor. The District also spent \$32,229 on the seasonal workers in FY 2007-08, which was more than typical due the reconfiguration of elementary schools. The seasonal help usually only work on non-routine cleaning that cannot be completed during the regular school year. However, during the summer of 2008, the District used seasonal help to prepare buildings for the consolidation of elementary school students. The seasonal workers' duties included moving furniture and supplies from the two elementary schools that were closed to the primary building and helping prepare the two buildings for closure.

The custodians report to the building principals and are responsible for daily cleaning. Of the six custodians, two split their time between two different buildings. The Maintenance Coordinator reports to the Superintendent.

The Custodians' duties include:

- Cleaning functions (90%): routine cleaning of their assigned areas, and any other tasks assigned by the building principals; and
- Maintenance functions (10%): light maintenance as assigned by the Maintenance Coordinator.

The Maintenance Coordinator duties include:

- Supervisory functions (10%): assigning maintenance tasks, purchasing supplies, and paperwork;
- Maintenance functions (80%): monitoring the HVAC and security systems at the HS, MS, and Falls Elementary, HVAC maintenance, any other maintenance tasks; and
- Grounds functions (<10%): including light snow removal, maintaining parking lot areas, and any other grounds tasks.

Key Statistics

Table 4-1 presents the key statistics used to assess workloads based on FY 2008-09 data.

Table 4-1: Key Statistics and Workload Ratios

Buildings	
Total Number of Building	10
Elementary School	1
Intermediate School	1
Middle School	1
High School	1
Other Buildings ¹	6
Square Feet	
Total Square Feet Maintained	234,950
Total Square Feet Cleaned²	202,300
• Elementary School	39,594
• Intermediate School	16,136
• Middle School	48,570
• High School	98,000
• Other Buildings	32,650
Workload Ratios	
Total Square Feet Maintained per FTE (1.0 FTE)	234,950
<i>AS&U Cost Survey National Median⁴ (Sq. Ft. per FTE)</i>	<i>95,000</i>
Total Square Feet Cleaned per FTE (6 FTE)	33,717
Elementary School (1.6 FTE)	24,746
Intermediate School (1.0 FTE)	16,136
Middle School (1.6 FTE)	30,356
High School (1.8 FTE)	54,444
<i>NCES Planning Guide Benchmark³ (Sq. Ft. per FTE)</i>	<i>29,500</i>

Source: Northridge LSD, NCES, and AS&U.

Note: Totals may vary due to rounding.

¹Other buildings include two elementary schools not in use, two pole barns, the bus garage, and the old administrative buildings.

²The area cleaned does not include square footage for other buildings. These sites are maintained but not cleaned.

³ 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.

⁴ The AS&U study is based on a national survey which is released in April each year.

Table 4-1 shows that Northridge LSD's custodial staff workload exceeds the NCES benchmark by 4,217 square feet per FTE. This high work load is the result of the reduction of two FTE custodians in December 2008. While the overall level of productivity appears to be high, the allocation of staff between the District's buildings is not adequate based on the recommended workloads (see **R4.3**), which resulted in less than idea levels of cleanliness at the high school.

The District's maintenance department also maintains a very high square footage. This is achievable due to the experience of the maintenance coordinator, as well as the effective use of technology. However, the District has a history of emphasizing responsive rather than preventive maintenance, which can lead to costly repairs in the future. The responsive approach to maintenance is partly due to the District's financial situation. Nevertheless, the District's maintenance activities and responsiveness could be improved with the implementation of a District-wide facilities plan (see **R4.1**).

Financial Data

Table 4-2 summarizes expenditures reported by the District to maintain and operate its facilities for FY 2005-06 through FY 2007-08 and projected expenditures for FY 2008-09.

Table 4-2: Historical Expenditures

Object of Expenditure	FY 2005-06	FY 2006-07	FY2007-08	Projected FY 2008-09
Salaries	\$339,860	\$341,432	\$376,537	\$337,788
Benefits	\$116,934	\$112,172	\$119,771	\$111,470
Purchased Services ¹	\$155,823	\$190,723	\$183,934	\$193,791
Utilities	\$363,208	\$321,907	\$340,170	\$320,326
Electricity	\$181,061	\$196,750	\$203,182	\$197,338
Water & Sewage	\$2,360	\$5,906	\$12,909	\$22,988
Gas	\$179,787	\$119,250	\$112,659	\$100,000
Supplies/Materials	\$83,945	\$77,456	\$64,151	\$47,013
Capital Outlay	\$0	\$6,300	\$2,423	\$86
Total	\$1,059,770	\$1,049,990	\$1,086,987	\$1,010,474

Source: District financial reports for FY 2005-06, 2006-07, 2007-08, and projected FY 2008-09.

Note: Totals may vary due to rounding.

¹ Purchased Services total exclude utilities costs.

Facility expenditures for FY 2008-09 are expected to be 7.0 percent less than in FY 2007-08 and 4.6 percent less than FY 2005-06 levels. Salary and benefits are expected to decrease from FY 2007-08 to FY 2008-09 because of reductions in the custodial staff. Furthermore, the District's utilities, supplies, and purchased services costs are expected to be lower due to the closure of its two elementary buildings.

Table 4-3 shows the District's costs per square foot compared to the AS&U national median benchmarks. Expenditure categories that exceed the AS&U national median may indicate operational inefficiencies and represent opportunities for further cost reductions.

Table 4-3: FY 2008-09 Projected Facility Expenditures per Square Foot

Expenditure Category	NRLSD	AS&U	Difference	Percent Difference
Personal Services and ERIB	\$1.91	\$2.05	(\$0.14)	(6.7%)
Purchased Services (Excluding Utilities)	\$0.82	\$0.61	\$0.21	35.2%
Utilities	\$1.36	\$1.52	(\$0.16)	(10.3%)
Supplies & Materials and Capital Outlay	\$0.20	\$0.38	(\$0.18)	(47.2%)
M&O Expenditure Total	\$4.30	\$4.56	(\$0.26)	(5.7%)

Source: District projected financial report for Fiscal Year 2008-09, AS&U 37th Annual Cost Study 2008

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

Note: Totals may not sum due to rounding.

As shown in **Table 4-3**, Northridge LSD's projected FY 2008-09 overall spending from the General Fund of \$4.30 per square foot is \$0.26 per square foot less than the AS&U. Purchased services are above the AS&U median by \$0.21 per square foot. However, part of the higher costs can be attributed to the District contracting out the grounds keeping function, which includes snow removal and mowing, and the use of season workers in summer.

Audit Objectives for the Facilities Section

The following is a list of the audit objectives used to evaluate the District's M&O Department:

- How do the District's costs compare to industry standards and how have the costs changed over the previous three years?
- How does the District's M&O staff workload compare to industry benchmarks?
- Does the M&O Department have operational procedures, standards, and measures that meet leading practices?
- Does the District have a formal energy conservation program that compares to leading industry standards?
- Do utilization rates and enrollment trends suggest the District change how it plans to use its buildings?
- Does the District meet leading practices for planning and maintaining its facilities?
- Does the District have a methodology for identifying and allocating all appropriate direct and indirect costs to the Food Service Fund?

Northridge LSD met leading practice standards in the areas of providing training to its maintenance staff and conducting regular building user surveys.

Recommendations

Facility Planning

- R4.1 Northridge LSD should develop a facilities plan that incorporates leading practice elements, such as capital improvement plans, enrollment projections, building capacities, utilization analyses (see R4.2), and a preventive maintenance program. Furthermore, the District should plan and implement periodic comprehensive building audits to identify important maintenance and safety issues, assess the overall condition of facilities and equipment, and to act as a reference for capital improvement and preventive maintenance planning. The District should ensure that appropriate staff implement these audits and all aspects of facility needs are incorporated into the inspections. Developing and conducting formal audits will reduce long-term costs associated with unanticipated repairs.**

Although the District has a facility plan which was completed by the OSFC in 2008, this plan does not address all recommended elements including a capital improvement plan, with a focus on preventive maintenance and funding options. As evidenced by the condition of their elementary building and the need to close the other two elementary schools, the District should monitor the condition of its buildings and protect the investment made in 1997 in the middle school and high school through a comprehensive facilities plan.

According to *Creating a Successful Facilities Master Plan* (DeJong, 2001), school districts should develop a long-term facilities plan. The plan should contain information on capital improvements and financing, preventive maintenance and work orders, overall safety and condition of buildings, enrollment projections, and capacity analyses (see R4.2). The plan should be developed on a foundation of sound data and community input. A facility plan, if developed appropriately, has the potential of having a significant effect on the quality of education in a school district. As a road map the facility master plan should specify the projects that have been identified, the timing and sequence of the projects, and their estimated costs. A district-wide facility master 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.

Northridge LSD will need to work with its community to secure funding for planned new construction. Without the funding, the new elementary facility cannot be completed and the District would need to find other solutions to its facility needs. The implementation of a facility plan that includes capital plans could help relay the facility needs to the community. Furthermore, because new buildings are costly, by having a formal facilities

plan the District demonstrates its commitment to maintain this investment through the use of a comprehensive maintenance program.

R4.2 Northridge LSD should develop a methodology for projecting enrollment and determining building capacity in order to determine building utilization rates. Furthermore, the District should monitor building utilization and enrollment trends. These steps would help the District plan for future facility needs (see R4.1).

Prior to the completion of the enrollment projection as part of the 2008 OSFC facility plan, enrollment projection had not been completed since the 1997 OSFC construction project. The 2008 OSFC projection shows steady enrollment, which is similar to the projection created by auditors. **Table 4-4** shows the enrollment projections for the District from FY 2009-10 through FY 2012-14 as developed by the auditors.

Table 4-4: Enrollment Projection¹

Year	K	1	2	3	4	5	6	7	8	9	10	11	12	Total
FY 2009-10	105	82	92	110	106	124	123	128	117	131	121	119	97	1,454
FY 2010-11	105	106	81	94	110	108	126	127	132	125	126	119	113	1,471
FY 2011-12	105	106	104	82	94	112	109	130	130	141	121	125	114	1,473
FY 2012-13	105	106	104	106	82	95	113	113	133	140	136	120	119	1,473
FY 2013-14	105	106	104	106	106	84	97	117	116	143	135	135	114	1,467

Source: AOS enrollment projection using a modified Cohort Survivor methodology and ODE historical enrollment data.

As shown in **Table 4-4**, the historical enrollment trend appears static. The OSFC projection extends for 10 years and shows only an increase of 86 students for the ten year period. Although the District may not experience significant changes in enrollment, it is important to regularly monitor and update enrollment projections and plan accordingly.

Table 4-5 shows the capacity and utilization percentage for FY 2008-09. This analysis only includes those buildings that were open in FY 2008-09.

¹ According to *Defining Capacity* (DeJong, 1999), elementary school functional capacity is calculated by taking the number of regular education classrooms and multiplying by 25 students. For middle and high schools, the capacity is calculated by multiplying the number of teaching stations by 25 students and then multiplying the result by 85 percent. Headcount is then divided by the functional capacity to determine the utilization rate.

Table 4-5: Capacity and Utilization Rates

Building	Number of Regular Classrooms	Building Functional Capacity	FY 2008-09 Head Count	Utilization Rate
Northridge Elementary	19	475	398	83.8%
Northridge Intermediate	10	250	243	97.2%
Northridge Middle School/High School ¹	44	935	828	88.6%

Source: District floor plans, interviews, and ODE headcount data for FY 2008-09.

¹Since the high school and middle school share some classroom space, the classroom spaces were combined to calculate utilization rates.

As shown in **Table 4-5**, all of the District's sites are near or above the 85 percent utilization rate, which is considered optimal utilization. The high utilization rates further relay the importance of implementing a District-wide facilities plan (see **R4.1**). This is particularly important since the modular building is 97 percent utilized and is designed as a short-term solution during transition or construction phases.

According to *Creating a Successful Facilities Master Plan* (DeJong, 2001), school districts should develop enrollment projections and capacity analyses as part of capital improvement planning. By projecting enrollment and calculating capacity utilization, the District can plan better for the future. If the district's data shows the buildings are underutilized and the enrollment trends shows a decline, a district can make the decision to close a building based on the data. Conversely, if the enrollment is increasing and the buildings are overcrowded, a district has data to show voters the need for a levy to build new buildings. In either case, the data can help a district communicate its needs to the public.

Northridge LSD has not conducted capacity analyses, or calculated utilization percentages for use in decision-making about the future of its buildings. Without this data, it is difficult for District officials to communicate facility needs to the public. Lack of data also makes it more difficult to justify the decisions the District makes about its building configuration.

Staffing

R4.3 Northridge LSD should review the current custodial workload ratios and consider redistributing staff to achieve more equitable staffing at each building. Specifically, the District should consider reassigning a portion of the custodial staff time from the intermediate and primary schools to the high school. The reallocation of staff would bring workloads at each building more in line with industry standards. Furthermore, the District should monitor staff distribution on an annual basis to ensure that efficiency levels are being achieved based on identified benchmarks and desired levels of cleanliness.

Table 4-6 shows the District's workload ratios for custodial staff, based on the number of FTE's per building and the square footage cleaned, and the number of FTE necessary if workloads were in line the NCES benchmark.

Table 4-6: FY 2008-09 Workload Ratios

	Cleaned Square Footage	FTE Per Building	Cleaned Square Footage per FTE	Benchmark FTEs ¹	FTE Difference Over (Under)
Northridge Primary	39,594	1.6	24,746	1.3	0.3
Northridge Intermediate	16,136	1.0	16,136	0.5	0.5
Northridge Middle	48,570	1.6	30,356	1.6	0.0
Northridge High	98,000	1.8	54,444	3.3	(1.5)
Total	202,300	6.0	33,717	6.9	(0.9)

Source: Northridge Local School District and NCES

¹ The benchmark is based on 29,500 square feet per FTE.

As shown in **Table 4-6**, workload ratios would suggest that the District's overall custodial staff levels are slightly below the recommended level (0.9 FTE under). However, two of the sites (the primary and intermediate schools) have more staff allocated to them than suggest by the benchmark. The discrepancy in the workload ratios could be attributed how staff were allocated after the District's reconfiguration of school buildings and the reduction of two custodial staff. Prior to the reduction in custodians, the District-wide workload ratio was 25,288 square feet per FTE which was below the benchmark of 29,500. While the overall ratio for the District is high at 33,717 square feet per FTE, a more equitable workload could be achieved by reassigning custodians among the buildings. Furthermore, because the high school workload ratios are higher than the other buildings, reallocating custodians may result in a more even level of cleanliness.

Operating Procedures and Standards

R4.4 Northridge LSD should develop a formal handbook for custodial and maintenance operations. The handbook should contain the elements described by NCES, such as detailed time standards and specific instructions on performing routine and non routine tasks. The District should review the manual annually and update the procedures as necessary.

The District has neither a custodial handbook nor a maintenance handbook. The District has not prioritized developing written procedures; it normally fixes problems as they arise. Moreover, the District relies on its experienced staff to handle any issues that occur. However, the District uses regular checklists for the maintenance of major plant machinery. The Maintenance Coordinator also compiles a monthly report of his activities, which he provides to the District administration.

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 the following departmental information:

- 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. 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 formal policies and procedures to guide custodial and maintenance operations, procedures and standards may not be consistently followed. Developing policy and procedures manuals with standards for all staff will help ensure more efficient and effective operations. Furthermore, written policies and procedures would help ensure that issues are managed in a consistent manner. Once the District has developed and implemented a manual, it should make this information available to interested parties

through its website and disseminate the information internally through links to the website. Development of a policy and procedures manual could be implemented with little cost to the District.

R4.5 Northridge LSD should develop and implement formal performance standards and measures to clarify staff expectations, evaluate individual performance, and assess overall operational effectiveness. Performance standards should include specific job expectations and corresponding times required to complete each task and be linked to specific program goals and objectives. Furthermore, standards should be incorporated into the policies and procedures handbook to ensure that all staff are properly informed of time and job duty expectations related to their positions (see R4.4). Moreover, the District should seek to maximize productivity through the development and implementation of specific performance measures including the number of square feet cleaned per hour or per shift, and costs per square foot. Increased efforts to measure and track performance can assist in improving decision-making and resource allocation, and may help reduce operating expenditures.

The Maintenance Coordinator and Superintendent report that staffing decisions are not compared to or evaluated against benchmarks or performance standards. This is evident through the disparity in number of square feet assigned to custodians across the District's buildings as shown in **Table 4-1**. The District's recent staffing reductions, as well as building consolidation, have led to a situation where square feet cleaned per custodian varies widely (see **R4.3**).

The NCES *Planning Guide for Maintaining School Facilities* (NCES, 2003) recommends that a school district develop a plan that includes performance standards including:

- Establish goals;
- Create an evaluation instrument (e.g., a checklist);
- Be as detailed and specific as possible;
- Define the performance scale (e.g., 0 = poor to 5 = excellent);
- Be flexible (i.e., acknowledge extraordinary circumstances when they arise);
- Convey expectations to affected staff people; and
- Review the performance standards on a regular basis (e.g., annually).

Best Practices in Public Budgeting (Government Finance Officers Association, 2000) recommends that organizations develop and utilize performance measures for functions, programs, and/or activities. Performance measures should be linked to specific program goals and objectives. The measures should be valid, reliable, and verifiable. Whenever feasible, they should be expressed in quantifiable terms. Measures should be reported in

periodic reviews of functions and programs and should be integral to resource allocation decisions.

Twin Valley Community LSD (Preble County) has a custodial plan, which is considered to be a best practice. The plan lists specific job expectations (standards) and corresponding times (measures) required to complete each task. Its standards and measures are based on International Sanitary Supply Association (ISSA) cleaning standards.

Without performance standards and measures for the Maintenance and Operations Department, it is difficult to evaluate the efficiency or effectiveness of specific tasks or operations. Because the District has no baseline performance standards, it cannot reliably determine whether changes affect operational performance as intended.

Energy Management

R4.6 Northridge LSD should develop and implement a formal energy management program that incorporates elements of recommended practices. The District should distribute and discuss the policies and procedures with the administration, faculty, and staff in an effort to educate them about energy conservation, and the potential impact on the operating budget. As a component of the procedures, Northridge LSD should implement an energy conservation education program for its students and staff.

Northridge LSD has not developed a formal energy management program. It also lacks energy management policies, energy education programs, detailed strategies such as prohibiting the use of personal appliances, and overall energy management guidelines. However, the Maintenance Coordinator indicated that informal steps are taken to reduce energy usage, such as remote HVAC monitoring and control. The high school/middle school building has programmable HVAC systems and time controlled exterior lighting, which is used to manage energy consumption.

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

- Establish an energy policy with specific goals and objectives;
- Assign someone to be responsible for the district's energy management program, and give this energy manager access to top-level administrators;
- Monitor each building's energy use; and
- Conduct energy audits in all buildings to identify energy-inefficient units.

Mansfield City School District (Richland County) has implemented an energy conservation policy, which incorporates several elements of best practices. The policy includes goals for the District as well as procedures for saving energy and money. The procedures include controlling temperatures at established ranges, turning off the lights when areas are unoccupied, turning off exterior lights during the day, eliminating personal electric devices, turning off all computers, monitors, printers, and closing blinds and doors to conserve heat.

While the District's energy expenditures per square foot is under AS&U medians (see **Table 4-4**), it lacks a formal energy conservation plan. Additional steps beyond the informal practices could be helpful in controlling and monitoring utility expenditures. If steps were outlined in a policy, it could save energy dollars and eliminate energy waste in the District's buildings. The policy could also encourage students and staff to contribute to energy efficiency in the District.

Financial implication: Based on a 2 percent potential savings achieved through energy awareness, the District could save approximately \$7,000 starting in FY 2009-10.

Utilities Chargeback

R4.7 Northridge LSD should ensure that all food service related expenses for utilities are charged to the Food Service Fund, regardless of any future need to transfer funds from the General Fund to the Food Service Fund. By properly accounting for all food service expenses, a more accurate financial picture will be available, allowing for improved decision-making related to the food service program. Charging back a portion of the cost of utilities to the Food Service Fund would also help reduce General Fund obligations and contribute to improving the overall financial condition of the District.

Northridge LSD does not identify and allocate direct facilities costs, such as electricity, gas, and water, to the Food Service Fund. One method of allocating costs to the Food Service Fund is to calculate the percentage of square footage used by the food service operation and then apply that percentage to a cost category. For example, applying the percent of the facilities square footage occupied by the food service operation to the electricity expenditures of the District would result in additional food service costs of a projected \$8,000 in FY 2008-09.

Measuring the Cost of Government Service (GFOA, 2004) suggests that governments should measure the full costs of their services. 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.

Furthermore, ORC § 3313.81 states that all receipts and disbursements in connection with the operation of food service for school food service purposes and the maintenance, improvement, and purchase of equipment for school food service purposes shall be paid directly into and disbursed from the food service fund which shall be kept in a legally designated depository of the board. Revenues for the operation, maintenance, improvement, and purchase of equipment shall be provided by the food service fund, appropriations transferred from the general fund, federal funds, and from other proper sources.

Allocating utility costs to the Food Service Fund will help Northridge LSD evaluate the efficiency and performance of its food service operation; provide more accurate data for decision making, and help improve the financial condition of the General Fund.

Financial Implication: By charging back to the Food Service Fund for direct cost such as gas, electricity, and trash removal, the District could realize an estimated saving in the General Fund of approximately \$14,000 in FY 2008-09.

Financial Implications Summary

The following table presents a summary of the estimated annual cost savings identified in recommendations presented in this section of the report. Only recommendations with quantifiable financial implications are listed.

Summary of Financial Implications for Facilities

Recommendation	Annual Cost Savings
R4.6 Implement an energy conservation plan and formal policy.	\$7,000
R4.7 Charge a portion of utilities back to the Food Service Fund.	\$14,000
Total	\$21,000

Source: AOS recommendations

Transportation

Background

This section of the performance audit focuses on Northridge Local School District's (Northridge LSD or the District) transportation operations. Transportation operations were evaluated against best practices, operational standards, and selected peer school districts. Comparisons were made for the purpose of developing recommendations to improve the efficiency and effectiveness of business practices and, where appropriate, to reduce expenditures. The peers were selected using data reported to the Ohio Department of Education (ODE) to identify districts whose transportation environment would be most similar to Northridge LSD's. The peers were chosen specifically to compare transportation operations based on similarities in terms of district size, population density, and other demographic factors that could affect transportation operations. **Table 5-1** shows a comparison of Northridge LSD with the peers in terms of these factors.

Table 5-1: Transportation Peer Comparison

School District	Square Miles	Total Riders	Density Riders per Square Mile	District Enrollment	Enrollment per Square Mile
Northridge Local	137	1,289	9.4	1,542	11.3
East Clinton Local (Clinton County)	129	1,148	8.9	1,542	12.0
Joseph Badger Local (Trumbull County)	106	938	8.8	1,060	10.0
Grand Valley Local (Ashtabula County)	122	1,091	8.9	1,439	11.8
East Knox Local (Knox County)	107	969	9.1	1,253	11.7
Miami East Local (Miami County)	121	1,104	9.1	1,320	10.9
North Fork Local (Licking County)	135	1,336	9.9	1,886	14.0
Peer Average	120.0	1,098	9.1	1,417	11.7
Percentage Above (Below) Peers	14.1%	17.4%	3.3%	8.8%	(3.4%)

Source: Northridge LSD and peer T-forms submitted to ODE

Throughout this section, leading practices and operational standards were drawn from various sources, including ODE, the Legislative Office of Education Oversight (LOEO), the American Association of School Administrators (AASA), the Government Finance Officers Association (GFOA), and the National State Auditors Association (NSAA).

Northridge LSD contracts with First Student, Inc. (the Contractor) to provide student transportation services on behalf of the District. The Transportation Manager, who is an employee of the Contractor, has been in place since the District began contracting for services in August 1996; prior to that time he was a District transportation employee. The Contractor provides all aspects of transportation operations, including buses, maintenance, drivers, insurance, and routing. However, purchasing and accounting for fuel remain the responsibilities of the District. The Contractor charges the District a daily rate for each bus it operates. In FY 2007-08, Northridge LSD paid the Contractor approximately \$1.2 million. The Contractor also provides transportation operations for the neighboring Johnstown-Monroe Local School District, and manages operations for both districts from the Northridge LSD facility.

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.

Northridge LSD's transportation policies address only the level of service and bus driver qualifications (see **R5.1**). According to these policies, transportation services are provided to students at all grade levels who live more than two miles from their school buildings, which is in accordance with State minimum requirements. In practice, however, the District provides transportation to all students who request it, with the exception of those students who live within walking distance of the elementary school. Because the remaining three school buildings are on a single campus which is located along a busy highway with no sidewalks, requiring their students to walk to school is not a viable option.

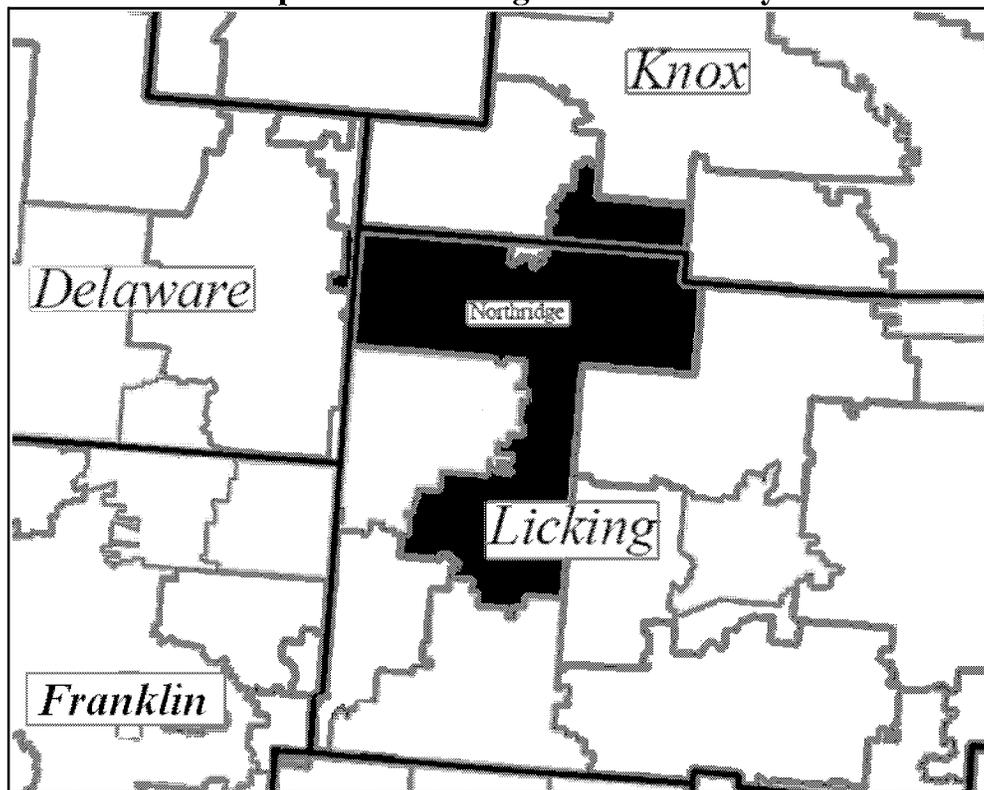
Operating Environment

Northridge LSD uses buses owned and operated by the Contractor¹ to transport regular and special needs student riders. In addition to the students at the District's four school buildings, transportation is provided to special education students who receive services both inside and outside of the District, as well as students who attend non-public schools.

¹ 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).

The single campus comprising the high school, middle school, and intermediate school is located relatively centrally in the District. The primary school is located in Alexandria, which is close to the southeast corner of the District. Prior to FY 2008-09, the District operated two additional elementary schools, which were more evenly distributed throughout the District (see **facilities** for a more detailed discussion of the elementary schools). The closing of these two buildings has impacted the efficiency of the District's transportation operations relative to the peers (see **R5.4**). Northridge LSD covers 137 square miles, and the layout of the District (essentially J-shaped) makes efficient routing somewhat challenging. **Map 5-1** shows the size and span of Northridge LSD, which is located primarily in Licking County, but also includes small portions of Delaware and Knox counties.

Map 5-1: Northridge LSD Territory



Source: Public Utilities Commission of Ohio

Operating Statistics

Each school district in Ohio is required to report detailed information about the district's transportation operations to ODE on an annual basis. The T-1 form is used to report information on students, buses, and miles. The T-2 form is used to report the actual expenses incurred in the transportation of eligible students to and from their school.

Northridge LSD has not developed formal operating procedures for collecting, submitting, and verifying T-form data reported to ODE. As a result, a number of errors and improper methodologies were identified in the District's T-form reporting process and in the numbers actually reported by the District, particularly on its T-1 forms. AOS determined that the District's T-1 data was unreliable and could not be used in this audit. The Transportation Manager provided separate operational data and presented it as being more accurate than the T-1 data. For the purpose of assessing the District's transportation operations and making comparisons with peer districts, AOS used this data although its reliability could not be verified. The expenditure data reported on the District's T-2 forms, after some modification, was determined to be reasonably reliable and is used in this audit. Issues with the District's transportation data are discussed more fully in **R5.3**.

Based on the data provided, Northridge LSD provided transportation to 1,291 students in FY 2007-08, 99.8 percent of whom were transported on Contractor-owned yellow buses. Public regular needs riders comprised 92.8 percent of all students transported, and special needs riders comprised 2.3 percent. The District also transported 61 students to non-public schools, which comprised 4.7 percent of its ridership. The District's combined percentage of special needs and non-public riders (7.0 percent) was significantly higher than the peer average of 1.6 percent. This higher percentage is attributable to the large number of educational options available outside the District, particularly given its proximity to Franklin County.

In FY 2007-08, the District used 29 active buses (22 regular needs and 7 special needs) to transport its students. The District added one regular needs and one special needs bus in FY 2008-09, primarily to address challenges posed by its closing the two elementary schools. However, according to data provided by the Contractor, the District's ridership actually decreased by 240 riders in FY 2008-09.

Table 5-2 compares the District's transportation statistics with the peer averages for FY 2007-08.

Table 5-2: Key Statistics and Operating Ratios (FY 2007-08)

	NRLSD	Peer Average	Percent Above (Below)
Square Miles	137	120.0	14.2%
ODE Enrollment	1,542.0	1,416.7	8.8%
Total Students Transported (All Types)	1,291	1,111.3	16.2%
Yellow Bus Riders (Type I & II)	1,289	1,097.7	17.4%
Regular Needs Riders	1,259	1,083.5	16.2%
• Public	1,198	1,079.8	10.9%
• Non-Public	61	3.7	1,563.6%
• Community School	0	0	n/a
Special Needs	30	14.2	111.8%
Buses (Type I & II)			
• Regular Needs Buses¹	20	14.3	39.5%
• Special Needs Buses ²	7	1.2	500.0%
• Active Buses	27	15.5	74.2%
Miles (Type I & II)			
• Annual Routine Miles	426,600	310,920	37.2%
• Annual Non-routine Miles	20,727	44,887	(53.8%)
Operating Ratios			
• Daily Miles per Rider	1.8	1.6	17.1%
• Riders per Square Mile	9.4	9.1	3.1%
• Enrollment per Square Mile	11.3	11.7	(4.0%)
• Public Riders as % of Enrollment	78%	77%	0.4%
Regular Riders per Regular Bus	63.0	76.2	(17.4%)
Routine Miles per Active Bus	15,800	20,210	(21.8%)

Source: Northridge LSD and T-forms submitted to ODE

Note: Because Northridge LSD uses Contractor-owned buses, its transportation services are classified by ODE as Type II, while the peer districts, that use Board-owned buses, are all classified as Type I.

¹ Through its Transportation Contractor, Northridge LSD reported 22 and 23 regular needs buses for FY 2007-08 and FY 2008-09, respectively. However, in both years, five regular buses were used for transportation of regular, non-public students from both Northridge LSD and Johnstown-Monroe LSD. Thus, for this comparison, only three of these five buses (based on the proportion of Northridge LSD riders) are presented as Northridge LSD buses.

² Similar to the non-public buses described above, Northridge LSD's special needs buses transport students from both Northridge LSD and Johnstown-Monroe LSD. However, because the District's number of special needs buses was not assessed in comparison with the peers, AOS did not prorate these buses as it did for non-public buses.

As **Table 5-2** shows, the regular ridership per bus at Northridge LSD was 17.4 percent lower than the peer average in FY 2007-08 (see **R5.4**). The District's ridership level was even further below the target efficiency benchmark of 87.4 riders per bus, determined based on the rated capacity of its bus fleet and industry benchmarks established by AASA (2005). Although

Northridge LSD's ridership level drops even lower when special needs riders are included, this drop is overstated since Northridge LSD and Johnstown-Monroe LSD generally share buses for special needs riders transported outside of their districts.

Operating Expenditures

Because Northridge LSD contracts for transportation service, it pays a flat daily rate per bus that covers transportation expenditures incurred by any school district, such as salaries and benefits, maintenance, bus insurance, bus replacement costs, overhead, and any other costs related to the transportation of students, with the exception of fuel.² However, the rate also includes expenditures that are unique to districts that contract for service, such as taxes, interest charges, overhead, advertising, and Contractor profit. Finally, because the buses used at Northridge LSD are owned by the Contractor, the contract rate includes a component to offset bus replacement costs incurred by the Contractor. **Table 5-3** compares the District's transportation expenditures with the peer averages on both a per-student and per-bus basis.

Table 5-3: Transportation Expenditure Comparison

	Northridge LSD	Peer Average	Difference
Costs Per Active Bus	\$52,781.95	\$56,824.96	(7.1%)
Costs Per Rider	\$1,089.66	\$804.07	35.5%

Source: Northridge LSD transportation contract, fuel information provided by Northridge LSD, and peer T-2 reports.

Note: Bus lease costs related to the District's contract were deducted from Northridge LSD's total expenditures because similar expenditures (i.e., bus purchases) are not reported on the peers' T-2 forms.

Because the District's contract rate is charged on a per-bus basis, comparing the cost per bus with the peer average provides the best measure of the reasonableness of the Contractor's rates. As shown in **Table 5-3**, Northridge LSD's cost per bus for FY 2007-08 was 7.1 percent lower than the peer average, which indicates that the per-bus rate charged in the transportation contract is in line with the peer average. However, the District's cost per rider was 35.5 percent higher than the peer average, which suggests that the District uses significantly more buses to transport its students, an assessment confirmed by the ridership comparison shown in **Table 5-2**. To bring its transportation expenditures in line with the peers, Northridge LSD needs to identify ways to become more efficient by reducing the number of buses it uses (see **R5.4**).

In addition, Northridge LSD spends 40.9 percent more per rider on fuel, the only transportation expenditure not included in its contract, than the peer average. Again, this is due in part to the fact that the District uses more buses and drives more miles than the peers. However, a comparison of fuel prices paid by the District with prices available through the State shows that Northridge LSD could potentially reduce its expenditures by changing the way it purchases fuel (see **R5.6**).

² The District provides its own fuel.

Special Needs Transportation

Ohio law and Northridge LSD's transportation policy state that temporarily or permanently disabled children are entitled to bus transportation between their homes and their schools. In FY 2008-09, the District used 8 special needs buses to transport 55 special needs riders. These statistics represent increases over FY 2007-08, when the District transported 30 special needs riders on 7 buses. Most of these buses transport students to schools outside the District, and in many cases, the buses transport students from both Johnstown-Monroe LSD and Northridge LSD. In addition, when appropriate, the District mainstreams onto regular bus routes those special needs students who do not have specific needs which require the use of a special needs bus. Decisions about the transportation of special needs students are made by the Special Education Coordinator and the Transportation Manager, as provided for in Ohio law.

Previous Performance Audit

As discussed in the **executive summary**, a previous performance audit of Northridge LSD was released in 2000. As part of that audit, the District's transportation operations were assessed, and recommendations were made to improve the efficiency and effectiveness of the operation, and to reduce costs. A number of the issues identified in the 2000 performance audit have not been resolved and continue to serve as barriers to the efficient operation of the District's transportation function. Specifically, the following recommendations, which were made in the 2000 performance audit, are repeated in this audit because they have not been addressed:

- Improve the District's transportation data reporting (**R5.3**);
- Require the Contractor to implement electronic routing software (**R5.4**);
- Purchase and install an electronic fuel tracking/security system (**R5.5**);
- Reduce the number of buses used to improve efficiency and reduce costs (**R5.4**); and
- Improving the District's contracting and oversight process (**R5.7**).

Audit Objectives for the Transportation Section

The following is a list of the questions used to evaluate the Northridge LSD transportation function:

- How do the District’s transportation policies and procedures compare with best practices and how do they impact operations?
- How can the District improve the accuracy and reliability of its transportation data?
- 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?
- Does the District have sufficient controls in place to ensure the security of its fuel?
- How does the District ensure it gets the best value when purchasing transportation related items?
- Is the District providing specialized transportation service in an effective and efficient manner?
- Is the District effectively managing its contracted transportation operations?

Auditors identified Northridge LSD’s special education transportation practices as meeting or exceeding legal requirements and industry standards.

Recommendations

Policies, Plans, Procedures, and Guidelines

- R5.1 Northridge LSD should update its transportation policies so that they address all aspects of its transportation operations and articulate the Board's position on the level of transportation service to be provided to District students. In addition, the District should establish administrative guidelines to outline how policies will be implemented and how any exceptions to the levels of transportation service established in the policy will be granted.**

Northridge LSD's transportation policies are extremely limited (see **human resources** and **financial systems** for discussions of the District's overall lack of up-to-date Board policies and administrative procedures). The policies are not available in electronic format, and the hard copies provided by the District only address level of service and bus driver qualifications. Other important transportation information, such as student behavior and discipline, field trips, and non-routine transportation (see **R5.2**), are not addressed in the Board policies. Moreover, the policy requires the Superintendent to adopt and implement administrative guidelines for the District's transportation policies. However, no administrative guidelines exist to govern transportation operations.

In addition, Northridge LSD's policy regarding the level of transportation services provided to its students does not match its actual practice. According to the policy, transportation services are provided to students at all grade levels who live more than two miles from their school buildings. In practice, the District provides transportation to all students who request it, except for those students who live within walking distance of Northridge Primary School.

According to the Association of School Business Officials International (*Key Legal Issues for Schools*, 2006), school board policies provide visible statements about the board's beliefs and actions regarding educational and managerial practices, and are the means through which boards plan their strategic directions. Policies should be adopted with a clear vision and strategies for achieving that vision, and as a result, should be the basis for the actual practices and budgeting decisions of a district. Regulations and guidelines should be developed by the administration, rather than the board, and should be designed to put the policies into practice. Guidelines should determine how, where, when, and by whom things are to be done.

Because Northridge LSD's transportation policies are incomplete and do not reflect its actual practice of transporting all students, they do not provide sufficient direction to administrators, and may be misinterpreted or misunderstood by staff, as well as members

of the community. Updating the policies to address the abovementioned omissions would help District administrators fulfill the Board's expectations and better manage transportation operations. Moreover, the District should develop and implement administrative guidelines to put the policies into practice and ensure that District staff and the community understand clearly how policies are to be carried out.

R5.2 Northridge LSD should adopt a Board policy and administrative guidelines regarding the non-routine use of school buses. Specifically, the Board policy should state under what circumstances it will charge for the non-routine use of buses. Furthermore, administrative guidelines should document the District's methodology and other provisions for recovering the costs of non-routine transportation.

Ohio Administrative Code (OAC) § 3301-83-16 defines "non-routine transportation" as the transportation of passengers for any purpose other than regularly scheduled routes to and from school. At Northridge LSD, non-routine transportation consists primarily of field trips and transportation for athletic and other extracurricular activities. The District does not have a Board policy that addresses non-routine transportation, although it does have a process in place for the recovery of some of its field trip costs from the District's Parent-Teacher Organization or other sponsoring organizations.

The Contractor tracks and bills the District separately for non-routine routine trips. The Treasurer uses the Contractor's invoice to bill the sponsoring organizations for reimbursement. However, because the District is responsible for purchasing its own fuel, fuel costs are not included on the invoice received from the Contractor. Consequently, the District is not recovering the costs of fuel used for non-routine trips.

OAC § 3301-83-16 requires school districts to recover an amount, not to exceed the actual operational costs associated with the non-routine use of school buses, with the exception of field trips that are extensions of the instructional program. The types of non-routine transportation can range from field trips to athletic events to community-sponsored activities, and include organizations both internal and external to the District. *Setting of Government Charges and Fees* (GFOA, 2001) recommends that government policies on charges and fees identify the factors used to price a good or service, and that both direct and indirect costs be incorporated when determining the cost of a service.

Although Northridge LSD attempts to recover some of the costs of its non-routine transportation, it does not have policies and procedures to authorize and govern the recovery of these costs, which can lead to the omission of some cost components. Moreover, by not having administrative guidelines that detail how it charges for non-routine transportation, the District has incurred additional, unnecessary expenditures by not fully recovering its costs. Establishing policies and guidelines will provide a greater

level of consistency in the District's practices, and help ensure that all parties understand the basis for the recovery of the costs of non-routine transportation.

Transportation Data

R5.3 Northridge LSD should develop and document procedures for completing, reconciling, and submitting T-forms in accordance with ODE instructions. Formal procedures which document the activities of all positions responsible for collecting and ensuring accurate reporting of this information will improve the reliability of the transportation data reported. These procedures will help ensure continuity in the reporting process and compliance with State requirements in the absence of District or Contractor employees with institutional knowledge. Moreover, the Superintendent, Treasurer, and Transportation Manager should attend ODE training to ensure that they understand the transportation reporting process.

At Northridge, the Transportation Manager, who is an employee of the Contractor, is responsible for maintaining records related to the transportation operations, and is responsible for preparing the District's T-forms. The one exception is data and records related to District fuel expenditures, which is the responsibility of the Treasurer. The T-form process uses a system of electronic approvals. The Transportation Manager prepares and reviews the T-forms electronically. Once completed, the forms are forwarded to the Treasurer for review and signature. When the Treasurer has completed reviewing and signing the form, it is forwarded to the Superintendent who reviews, signs, and submits it to ODE.

The District has not developed formal standard operating procedures for collecting, submitting, and verifying T-form data reported to ODE. For example, there is no formal collaboration between the Contractor and the District administration to ensure accuracy and validity of data. Furthermore, some District administrators commented on a lack of understanding of the T-form process or the numbers that go into the reports. Moreover, the District has no documentation identifying which officials are responsible for which aspects of T-form reporting or how various data is obtained and costs are allocated.

A number of errors were identified on the District's T-forms, including the following:

- Fuel Expenditures – The T-2 forms submitted for FY 2005-06, 2006-07, and 2008-09 all failed to list any fuel expenditures (although the cost of fuel seems to be accounted for in the total reported expenditures for FY 2006-07). Fuel purchases are the responsibility of the District, and it should report those expenditures. The Treasurer has acknowledged that the District maintains fuel records, but District officials were unaware of who was responsible for reporting this data.

Consequently, the District's transportation expenditures for FY 2005-06 and FY 2007-08 were understated by \$169,000 and \$255,000 respectively.

- October Rider Counts – The T-1 instructions issued by ODE state that districts are to report the number of riders enrolled and actually transported during the first full week of October. To determine the correct number to report, the instructions state, "Districts shall count riders for each day of the count week, and then report the average riders for ONE DAY of that week." Instead, the District reports each student transported during the count week, rather than a daily average. This methodology conflicts with the ODE instructions, meaning that the number of riders reported by the District is likely misstated.

In addition, in FY 2008-09, the District implemented shuttle routes by which elementary school students are transported from the main campus to the primary school, picking up additional elementary students along the way. The Transportation Manager acknowledged that on the FY 2008-09 T-1, some of these elementary students were counted twice – once on the bus that transported them to the main campus, and then again on the shuttle bus that transported them to the elementary school. The T-1 instructions state, "Students shall be counted only once each day, regardless of how many vehicles they ride." This error in reporting further contributed to the inaccuracy of the District's reported ridership.

- Bus Reporting – The Transportation Manager indicated that when a bus owned by the Contractor is transferred from another district for use at Northridge LSD, he is unable to enter it into the ODE reporting system. Consequently, he manipulates some of the data in order to report the correct numbers of riders and miles. For example, in FY 2007-08, the District used 7 special needs buses, but for the reasons described above, all special needs riders were reported on 3 buses. In both FY 2007-08 and FY 2008-09, the District's T-1 report lists 23 active buses. However, the actual numbers are 29 active buses in FY 2007-08 and 31 active buses in FY 2008-09. According to ODE, by properly maintaining its vehicle inventories (i.e., removing a vehicle from one district's inventory before trying to enter it for another district), the Contractor could avoid this problem.
- Daily Mileage – The District's T-1 reports show a drop of approximately 32.6 percent in public daily miles between FY 2005-06 and FY 2006-07. According to the Transportation Manager, the Contractor replaced some buses mid-year with buses that had the same numbers. However, the shop manager did not properly account for the differences in mileage between the old and new buses. Consequently, the daily mileage reported for FY 2006-07 is not accurate.

According to *Documentation of Accounting Policies and Procedures* (GFOA, 2002 and 2007), government agencies should develop formal documentation of accounting policies and procedures. A well-designed and properly maintained system of documenting policies and procedures enhances both accountability and consistency. The resulting documentation can also serve as a useful training tool for staff and can help ensure consistency through staff turnover. The documentation of policies and procedures should delineate the authority and responsibility of all employees, especially the authority to authorize transactions and the responsibility for the safekeeping of assets and records. Likewise, it should indicate which employees are to perform which procedures, and procedures should be described as they are actually intended to be performed.

School districts account for their transportation costs and riders through ODE T-forms. As such, it is important that these forms be accurate and that the processes for completing them be documented. In the case of Northridge LSD, the failure to do so has led to significant errors in its T-form reporting. In addition to the lack of documented procedures, the District's administrators, who are responsible for approving the reports submitted to ODE, are not able to critically review the data. ODE, in cooperation with the Ohio Association of School Business Officials and the Ohio Association for Pupil Transportation, offer periodic training opportunities on various transportation issues, including data collection and reporting. The Superintendent, Treasurer, and Transportation Manager should consider attending one or more of these training sessions to give them a foundation that they can use to contribute to the reliability of the District's transportation data.

The lack of reliable transportation data can have serious consequences for Northridge LSD. First, the District's failure to comply with ODE's reporting guidelines could potentially lead to a loss in State funding, particularly as the State considers various options for developing a new transportation funding formula. Just as importantly, without accurate data, it will be extremely difficult for the District to make any meaningful change to increase efficiency, reduce costs, or evaluate the performance of its transportation Contractor.

Routing Efficiency

R5.4 Northridge LSD should consider eliminating four regular needs buses in order to improve the efficiency of its transportation operation and reduce costs. Specifically, the District should require its Transportation Contractor to implement electronic routing software to design more efficient routes and maximize the capacity utilization of its buses. The District should require the Contractor to explore, through the routing software, the feasibility of other initiatives to improve efficiency, such as staggered bell schedules, multi-tiered routing, and cluster stops. Finally, the District should incorporate performance measures and incentives into

its next transportation contract to encourage the Contractor to maximize efficiency (see R5.7).

Table 5-4 compares Northridge LSD's regular ridership per bus with the peer average. The District's data was obtained from the Contractor due to the unreliability of the T-1 reports (see R5.3). The Contractor's data is of indeterminate reliability.

Table 5-4: Regular Needs Ridership Comparison

	NRLSD (FY 2008-09)	NRLSD (FY 2007-08)	Peer Average (FY 2007-08)	Difference vs. Peers (FY 2007-08)
Regular Needs Buses ¹	21	20	14	6
Regular Needs Riders	994	1,259	1,083.5	175.5
Regular Riders per Regular Bus	47.3	63.0	76.2	(13.3)
Number of Buses Needed (Using FY 2007-08 NRLSD Ridership and Peer Efficiency Level)				17

Sources: Northridge LSD Transportation Contractor and peer district T-1 forms.

¹ Through its Transportation Contractor, Northridge LSD reported 22 and 23 regular needs buses for FY 2007-08 and FY 2008-09, respectively. However, in both years, five regular buses were used for transportation of regular, non-public students from both Northridge LSD and Johnstown-Monroe LSD. Thus, for this comparison, only three of these five buses (based on the proportion of Northridge LSD riders) are presented as Northridge LSD buses.

In FY 2008-09, due in part to issues related to the closing of two elementary schools and data errors (see R5.3), Northridge LSD transported 47.3 regular needs riders per bus, which was 28.9 riders per bus (or 37.9 percent) below the FY 2007-08 peer average. Even in FY 2007-08, prior to the changes that caused ridership to drop, the District's ridership was 13.3 riders per bus (or 17.5 percent) below the peer average. Based on the FY 2007-08 ridership level, Northridge LSD would need to operate with 17 regular needs buses to achieve the peers' level of efficiency of 76.2 riders per bus, a reduction of 4 buses.³

The District's low ridership numbers translate directly into higher costs. As shown in **Table 5-3**, Northridge LSD's reported transportation expenditures are 35.5 percent higher per rider than the peer average. Operating buses more efficiently is one of the most effective ways to achieve savings in a school district's transportation operation. By transporting more students per bus, a district can reduce the number of buses it uses and the costs associated with operating those buses. Using Northridge LSD's contract rate in effect for FY 2008-09, the District could save nearly \$53,000 per year for each bus it is able to reduce. The District would also experience some fuel savings, although that amount is more difficult to quantify because the remaining buses would have to travel more miles.

³ It should be noted that the recommendation to reduce 4 buses is a conservative assessment. For example, the District would only need 13 buses to achieve the peer level of efficiency based on its FY 2008-09 ridership.

There are a number of factors that contribute to Northridge LSD's low ridership numbers. First, the geography of the District (see **Map 5-1**) presents an obstacle to efficient transportation. The shortest route from one end of the District to the other is approximately 21 miles, which takes approximately 48 minutes to drive. It is also a challenge to route a fleet of school buses, which travel various routes and which each make multiple stops, while minimizing the length of time students are on the buses. The travel time factors created by the District's geography is compounded by the locations of the school buildings. According to the Transportation Manager, the geography of the District and locations of its school buildings contribute to average ride times of about 1 ¼ hours per route.

Although the District's size and layout will always present challenges to reaching optimal efficiency, there are steps the District could take to improve its level of efficiency. First, the District should require its Contractor to use routing software. Currently, the Transportation Manager routes all of the District's buses (as well as those of Johnstown-Monroe LSD) by hand. Routing software uses mapping technology and mathematical formulas to help a district identify the most efficient manner in which to route its buses. Moreover, the software provides a level of flexibility to experiment with different options, such as multiple tiers or different bell schedules, in order to reduce the length of time students spend on buses. The routing software would also allow the Transportation Manager to redesign routes through the year based on significant changes in ridership. Given the size, shape, and distance between stops in the Northridge school district, routing by hand is excessively burdensome and inefficient, even with an extensive knowledge of the District's geography. Routing software can be purchased for approximately \$10,000, with an annual maintenance fee of approximately \$2,100. The District should seek to require the Contractor to purchase and implement the software as a component of its cost of doing business. Implementation of routing software to improve efficiency was recommended in the District's 2000 performance audit, but it has not been addressed.

Second, Northridge LSD should explore several other options that are available to school districts to improve routing efficiency, including multi-tiered routing, staggered bell schedules, cluster stops, and alternative methods of transportation. Most Northridge LSD buses run two tiers, but some run only one. Given the rural nature of the District and the lack of sidewalks in many areas, the District primarily picks students up at their homes. The District has used alternative methods of transportation, most notably sharing routes with Johnstown-Monroe LSD for out-of-district transportation of non-public and special needs riders. Through the process of implementing routing software, the District should explore the feasibility of expanding its use of all these options to improve efficiency.

Finally, the District should build provisions into its transportation contract to encourage the Contractor to be more efficient. These provisions should include both performance

measures and incentives (see **R5.7**, as well as **issues for further study** in the **executive summary**). Including incentives in the contract would help ensure that the interests of the District and the Contractor are aligned. In addition, performance measures would help the District monitor the Contractor's success in achieving the District's goals and hold the Contractor accountable for its performance. Incorporating these provisions into the next transportation contract will help improve efficiency.

The efficiency of a school district's transportation operation has a significant impact in terms of expenditures. In the case of Northridge LSD, because it pays its Transportation Contractor on a per-bus basis, the number of buses it can reduce will have a direct effect on the amount it pays. Despite the challenges posed by the District's geography and building layout, the District should require and incentivize the Contractor to take measures to become more efficient.

Financial Implication: By reducing 4 buses, Northridge LSD could save approximately \$212,000 based on its FY 2008-09 contract rates.

Fuel Security

R5.5 Northridge LSD should consider installing an electronic fuel management system and requiring its Contractor to implement a reporting system to better track fuel and improve management controls.

The District has one centralized diesel fuel tank, which holds 15,000 gallons and is located on the same premises as the bus garage. Although the District purchases the fuel, the tank is used for buses that serve both Northridge LSD and Johnstown-Monroe LSD. The Transportation Manager allocates fuel expenditures between the two districts based on mileage, and the Northridge LSD Treasurer invoices Johnstown-Monroe LSD for reimbursement based on this allocation.

The fuel tank is physically secure. It is fenced in, and only the Transportation Manager and fuel supplier have keys to the lock. The tank itself is controlled by a power switch located in the bus garage, and is shut off each night to prevent the unauthorized use of fuel. However, the District does not have a means to track fuel by driver or by bus at the pump, which limits its ability to monitor its fuel usage or to ensure the appropriate use of fuel. Instead, drivers complete daily sheets showing the number of gallons used each day. These sheets are reconciled against a meter system report which shows the total amount of fuel used each day by the entire fleet. This system helps the Transportation Manager ensure that fuel is not being used in excess of the overall totals reported by drivers, but it does not provide the District with detailed information to adequately track the use of its fuel.

In its *FleetSolutions* magazine (*Can Fuel Cards Save You Money?*, January/February 2009), the National Association of Fleet Administrators (NAFA) outlines the multiple benefits of electronic fuel cards, which can have similar benefits regardless of whether they are used at service stations or a centralized fuel tank. Fuel cards allow organizations to monitor fuel usage by driver or by vehicle, to keep track of the mileage at each refueling, and to place limitations on who has access to fuel. Tracking fuel usage at this level provides transportation managers with information to pinpoint inappropriate or inefficient patterns of activity. According to NAFA, fuel card systems help organizations lower their costs by identifying and quickly resolving variances in fuel usage, reducing overall usage, and cutting back on the amount of paper used for reporting. For a school district like Northridge LSD, which contracts out its transportation operations, an electronic fuel management system that uses fuel cards or pin numbers would provide a level of transparency and accountability for the District to ensure that taxpayer dollars are being spent appropriately.

The 2000 performance audit also recommended that the District require the Contractor to implement an electronic fuel security system, which would allow it to better track fuel usage. Although District officials and the Contractor have engaged in discussions about a fuel card system, they have not implemented this recommendation. Without a system for monitoring fuel usage at the bus level, the District is vulnerable to inefficient or inappropriate fuel usage. Moreover, because both Northridge LSD and Johnstown-Monroe LSD buses refuel at the District's tank, it is particularly important to have the ability to track the actual level of fuel used by each district to ensure that costs are allocated appropriately.

Financial Implication: Based on industry-provided information, Northridge LSD could purchase an electronic fuel maintenance system for a one-time cost of approximately \$10,000.

Fuel Purchasing

R5.6 Northridge LSD should consider purchasing its motor vehicle fuel through a consortium or the State fuel contract available through the Ohio Department of Administrative Services (DAS) in order to reduce fuel expenditures. At a minimum, the District should incorporate measures to track its fuel costs against an industry benchmark and periodically solicit bids from multiple suppliers to ensure it is getting the best fuel prices available.

Northridge LSD has its fuel tank refilled about once a week and it is invoiced monthly. In FY 2007-08, the District spent approximately \$255,000 on fuel, but it does very little to control the costs of its fuel expenditures or ensure that it is getting the best price for its fuel. The District changed fuel suppliers in FY 2007-08, but there is no evidence that it

engaged in any type of competitive selection of the new supplier. Moreover, it does not regularly request quotes from different suppliers in order to compare prices, nor does it track its prices against any benchmarks.

The 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. DAS opens its fuel contract to a competitive bidding process after three years, and the contract provides a benchmark against which to compare the fuel prices Northridge LSD has received from its vendor.

Table 5-5 shows the comparison between Northridge LSD's fuel prices and the DAS prices for sample periods in FY 2006-07, 2007-08, and 2008-09.

Table 5-5: DAS Fuel Price Comparison

Week	Gallons Purchased	NRLSD Average Price per Gallon	DAS Average Price per Gallon	Difference
5/28/2007	2,880	\$2.66	\$2.70	(\$0.04)
1/15/2008	2,875	\$3.42	\$3.11	\$0.31
1/16/2009	2,808	\$2.24	\$2.06	\$0.18
Average Price Difference (per Gallon)				\$0.15

Note: Average price per gallon includes taxes and, for the DAS price, a fixed fuel transportation charge.

Based on the sample of weeks shown in **Table 5-5**, Northridge LSD's fuel prices exceeded the DAS prices for two of the three weeks tested, averaging about 15 cents per gallon (5.4 percent) more for the weeks tested. Based on the District's average fuel expenditures from FY 2005-06 through FY 2007-08, it could have saved an average of \$11,500 per year by participating in the DAS contract.

By purchasing its fuel through the State contract or a similar consortium, Northridge LSD could experience significant savings in its fuel expenditures. At a minimum, the District should incorporate measures to track its fuel costs against an industry benchmark and periodically solicit bids from multiple suppliers to ensure it is getting the best fuel prices available.

Financial Implication: By purchasing fuel through the State's fuel contract, Northridge LSD could save approximately \$12,000 per year.

Contract Oversight

R5.7 Northridge LSD should take a more proactive role in negotiating a new transportation contract that ensures efficient operations and savings for the District. The District should study the expiring contract to identify costly provisions before attempting to negotiate a new contract. It should seek a contract that includes performance measures and efficiency incentives. In addition, the District should follow leading practices and establish a sound contract monitoring process. Finally, it should establish and follow a process for determining whether continuing to contract for transportation services is the best long-term option.

The District provides very little oversight of its transportation contract or the performance of the Contractor. The contract itself requires very little reporting or performance measurement on the part of the Contractor. In addition, District officials have not played an active role in overseeing the transportation operation, in part because they are new to their positions and have been busy in other areas. They also have a personal level of trust with the Transportation Manager. These issues are compounded by the District's general lack of policies and procedures (see **R5.1**, as well as **human resources** and **financial systems** for more detailed discussions on policies and procedures). In other words, the District has no formal processes in place to ensure the Contractor is meeting expectations. There are no regular meetings between the Transportation Manager and District officials to discuss short- or long-term goals, priorities, or performance issues. Finally, the Transportation Manager does not have a specific point of contact at the District, other than for financial issues, which go through the Treasurer.

Contracting for Services (NSAA, 2003) outlines a number of best practices for public agencies to consider when contracting for services, and many of these practices would benefit Northridge LSD as it tries to better manage its transportation contract. Specifically, NSAA states that proper planning provides the foundation for effective contract management by identifying the services that are needed, the manner in which the services should be provided, and the provisions that should be addressed in the contract.

Proper planning also includes the decision of whether or not to contract for the service. NSAA suggests that governments conduct cost/benefit analyses and evaluate options, such as whether contracting is more or less expensive than using agency staff. According to best practices developed by the Idaho Department of Education (2005),⁴ districts should identify their unit costs, both direct and indirect, of providing transportation services so that they can compare these costs with the prices charged by private vendors. In the case of Northridge LSD, which already contracts for these services, it would need

⁴ Available at http://www.sde.idaho.gov/site/transportation/docs/reg_rule/BestPractices.pdf

to conduct an analysis of the resources the District would need to perform the same functions in-house, and how much their unit costs would be.

Northridge LSD's transportation contract expires after FY 2008-09. District officials should engage in careful planning to determine whether to continue contracting with the existing vendor, or even to continue contracting at all. If the District decides to continue contracting, it must ensure that the next contract meets the needs of the District. Northridge LSD should study the existing contract in order to understand the basis for the rates provided, and determine whether that rate structure is the most beneficial to the District (see **issue for further study** in the **executive summary**). It should identify provisions in the contract that are costly or otherwise not beneficial to the District. For example, the provision which requires the District to reimburse the Contractor for sick leave that drivers accumulated when they were District employees before transportation operations were contracted could be costly to the District. The contract also allows the Contractor to use the District-owned bus garage rent-free and requires the District to make all normal repair and maintenance of the facility and pay most utilities.

NSAA also states that public agencies should develop performance measures to hold vendors accountable for the delivery of quality services. Performance requirements should:

- Clearly state the services expected;
- Clearly define performance standards and measurable outcomes;
- Identify how vendor performance will be evaluated;
- Include positive or negative performance incentives;
- Identify the staff that will be responsible for monitoring vendor performance;
- Ensure that sufficient staff resources are available to handle vendor/contract management properly; and
- Clearly define the procedures to be followed if, during the course of the contract, unanticipated work arises that requires modification to the contract.

By defining performance standards and measurable outcomes, then providing incentives to meet those standards, Northridge LSD would effectively establish the priorities for its transportation operation (e.g., maximizing efficiency) and help ensure that the Contractor's priorities are the same. By identifying a specific staff member who is responsible for monitoring performance, the District would help ensure that important issues are not overlooked, that there is somebody within the District who understands the transportation operation, and that the Contractor receives consistent direction and guidance.

Finally, according to NSAA, contract monitoring is an essential part of the contracting process. Monitoring should ensure that contractors comply with contract terms, that

performance expectations are achieved, and that any problems are identified and resolved. Without a sound monitoring process, the contracting agency does not have adequate assurance it receives what it contracts for. NSAA lists a number of recommendations for effective contract monitoring, but a few that are particularly relevant for Northridge LSD include: assigning a contract manager with the authority, resources, and time to monitor the project; tracking budgets and comparing invoices and charges with contract terms; and evaluating the contractor's performance against a set of pre-established, standard criteria and retaining this record of contract performance for future use.

By becoming more involved in the management of its transportation contract, the District can better ensure that its priorities for student transportation are addressed and that the interests of the District are being served. Moreover, while there is no evidence to question the integrity of the Contractor, improved oversight would provide the District with a deeper level of confidence in accuracy of the expenses charged and the value received under the contract. Finally, and perhaps most importantly, an improved contracting process will help the District, at a time when it is requesting increased financial support, reassure the community that its tax dollars are being spent in an effective manner.

Financial Implications Summary

The following table is a summary of estimated annual cost savings, one-time implementation costs, and annual implementation costs from the recommendations contained in this section.

Financial Implications for Transportation

Recommendations	Annual Cost Savings	One-Time Implementation Costs
R5.4 Reduce 4 buses and implement a routing system.	\$212,000	
R5.5 Purchase electronic fuel monitoring system.		\$10,000
R5.6 Purchase fuel through State contract.	\$12,000	
Total Estimated Savings/Costs	\$224,000	\$10,000

Source: AOS recommendations