Mary Taylor, CPA
Auditor of State

Fairport Harbor Exempted Village School District Performance Audit

July 17, 2008

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To the Residents and Board of Education of the Fairport Harbor Exempted Village School District:

The Ohio Department of Education (ODE) placed Fairport Harbor Exempted Village School District (Fairport Harbor EVSD) in fiscal caution due to anticipated deficits. Pursuant to ORC §3316.031 and ORC §3316.042, a performance audit was initiated. The functional areas assessed in the performance audit were financial systems, human resources, facilities, and technology. 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 eliminating the conditions that brought about the declaration of fiscal caution.

The performance audit contains recommendations which identify the potential for cost savings and efficiency improvements. The performance audit also provides an independent assessment of Fairport Harbor EVSD's financial situation and a framework for its financial recovery plan. While the recommendations contained in the audit report are resources intended to assist in developing and refining the financial recovery plan, the District is encouraged to assess overall operations and develop additional alternatives.

An executive summary has been prepared which includes the project history; a discussion of the fiscal designation; a district overview; the scope, objectives and methodology for the performance audit; and a summary of recommendations, assessments not yielding recommendations, and financial implications. This report has been provided to Fairport Harbor EVSD, and its contents discussed with the appropriate officials and District management. The District has been encouraged to use the results of the performance audit as a resource in 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. This performance audit can also be accessed online through the Auditor of State of Ohio website at http://www.auditor.state.oh.us/ by choosing the "On-Line Audit Search" option.

Sincerely,

Mary Taylor

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EXECUTIVE SUMMARY

Executive Summary

Project History

Pursuant to Ohio Revised Code (ORC) § 3316.03, the Ohio Superintendent of Public Instruction, in consultation with the Auditor of State (AOS), has developed guidelines for identifying fiscal practices and budgetary conditions that, if uncorrected, could result in a future declaration of fiscal watch or fiscal emergency within a school district. ORC § 3316.03 further stipulates that the State superintendent may declare a school district in fiscal caution based upon a review of a school district's five-year forecast. According to ORC § 3316.042, AOS may conduct a performance audit of any school district in a state of fiscal caution, fiscal watch or fiscal emergency, and review any programs or areas of operation in which AOS believes that greater operational efficiency, effectiveness and accountability of services can be achieved. Fairport Harbor Exempted Village School District (FHEVSD or the District) was placed in fiscal caution by the Ohio Department of Education (ODE) on April 24, 2004 due to projected deficits in the five-year forecast. However, FHEVSD never submitted a financial recovery plan to ODE to eliminate the deficits and the District's projected financial condition has not changed substantially since FY 2003-04. As a result, the District has remained in fiscal caution.

Pursuant to ORC § 3316.03 and ORC § 3316.042, AOS initiated a performance audit of FHEVSD. Based on a review of the District's information and discussions with the Superintendent and the Treasurer, the performance audit reviewed certain aspects of the District's financial systems, human resources, facilities and technology.

District Overview

FHEVSD operates under a locally elected Board of Education (BOE) consisting of five members that is responsible for providing public education to students. The District is located in Lake County and encompasses 1.04 square miles. According to the United States Census Bureau (2000 Census), the area in which FHEVSD is located has a population of 3,180 residents (1,546 households). The median household income was $35,205, compared to the national average of $41,994. Seven percent of the population lived below the poverty line, compared to the national average of 12 percent. In addition, 84 percent of area residents had at least a high school education while 15 percent of the residents had a bachelors degree or greater.

In FY 2006-07, the District had a total of approximately 50 full-time equivalent (FTE) employees, including 5 administrative FTEs, 34 certificated teaching FTEs, and 11 classified and other support staff FTEs. These employees were responsible for providing educational services to an average daily membership (ADM) of 502 students. Students with physical and learning disabilities comprise approximately 10 percent of the student population. Based on the FY 2006-07 ODE Local Report Card, FHEVSD met 19 of 30 performance standards. As defined by ODE, FHEVSD received the academic designation of Effective. Furthermore, the District met the adequate yearly progress requirements.

FHEVSD operates two school buildings consisting of one elementary school (kindergarten through 5th grade) and one high school (6th grade through 12th grade). Both school buildings were originally constructed in 1922. The District does not provide transportation services for regular education students based on the size of the District (1.04 square miles). It contracts with a private company and neighboring school districts to provide transportation services for certain special education students, field trips and athletic events. The District's total transportation costs per pupil ($74) in FY 2006-07 were significantly lower than the peer average ($361).

In FY 2006-07, the District's total General Fund revenue per pupil equaled $10,137 while the expenditures equaled $9,934. By comparison, the peer average total revenues per student equaled $8,733 while the expenditures equaled $8,139. The District ended FY 2004-05 with a deficit of $24,731 in the General Fund. It made staffing and programmatic adjustments in response to the deficit and was able to end FY 2005-06 and FY 2006-07 with positive balances of approximately $103,000 and $150,000, respectively. However, the Treasurer's forecast anticipates the District's financial condition will decline substantially after FY 2007-08. For example, the Treasurer projects that the District will encounter a deficit balance of $466,000 in FY 2009-10. The deficit is projected to increase to approximately $2.5 million by FY 2011-12. FHEVSD placed a 9.0 mill continuing levy (replaces a 4.3 emergency levy) on the ballot in March 2008 that was designed to eliminate the projected deficits. However, the voters defeated the levy proposal. As a result, the District will likely need to consider alternative strategies to increase revenues and/or reduce operating costs.

Objectives

A performance audit is defined as an engagement that provides assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. A performance audits provides 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. The primary objective of the performance audit is to assist the District in identifying strategies to eliminate the conditions that brought about the fiscal caution declaration. The major assessments conducted for this performance audit include the following:

- ***Financial Systems*** includes an evaluation of the October 2007 five-year financial forecast, strategic and financial planning, revenues and expenditures, financial and management reporting, purchasing and payroll, and financial policies; and

- ***General Operations*** includes an analysis of District-wide staffing levels, collective bargaining agreements, salary and benefit costs, sick leave use, custodial and maintenance operations, energy management practices, and facility and technology planning.

The performance audit was designed to develop recommendations that provide cost savings, revenue enhancements, and/or efficiency improvements. The ensuing recommendations comprise options that FHEVSD can consider in its continuing efforts to stabilize the financial condition and improve operations.

Scope and Methodology

The performance audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that AOS plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Audit work was conducted between November 2007 and March 2008. To complete this report, the auditors gathered and assessed data from various sources pertaining to key operations. Auditors also conducted interviews with District personnel, and reviewed and assessed information from FHEVSD, peer school districts, and other relevant sources. District data was deemed reliable unless otherwise noted in the report sections. Peer school district data and other information used for comparison purposes was not tested for reliability, although the information was reviewed for reasonableness and applicability

AOS developed a composite of 10 selected districts which was used for peer comparisons. The selected districts were Bath Local School District (Allen County), Boardman Local School District (Mahoning County), Columbiana Exempted Village School District (Columbiana County), Dover City School District (Tuscarawas County), Girard City School District (Trumbull County), Heath City School District (Licking County), Lowellville Local School District (Mahoning County), McDonald Local School District (Trumbull County), Tiffin City School District (Seneca County) and Wheelersburg Local School District (Scioto County). These districts are classified as urban or suburban with low median incomes and high poverty rates, which is the same demographic classification as FHEVSD. Additionally, these ten school districts were meeting a high number of performance standards at a relatively low cost per pupil.

External organizations and sources were also used to provide comparative information and benchmarks. They included the Ohio Department of Education (ODE), the Government Finance Officers Association (GFOA), the State Employment Relations Board (SERB), the American Schools and Universities (AS&U), and the National Center for Education Statistics (NCES).

The performance audit process involved significant information sharing with the District, including preliminary drafts of findings and proposed recommendations related to the identified audit areas. Throughout the audit process, input from the District was solicited and considered when assessing the selected areas and framing recommendations. Finally, the District was invited to provide written comments in response to various recommendations for inclusion in this report. These comments were taken into consideration during the reporting process and, where warranted, resulted in report modifications.

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

Assessments Not Yielding Recommendations

Assessments were conducted on areas which did not warrant changes and did not yield recommendations, including the following:

- **Financial Systems:** projections for other operating revenues, personnel services, capital outlay, and other expenditures; and

- **General Operations:** costs for dental, vision, and life insurance; and several provisions in the collective bargaining agreement.

Key Recommendations

The performance audit contains several recommendations pertaining to District operations. The most significant of those recommendations are presented below.

In the area of financial systems, FHEVSD should:

- Analyze the financial recovery plan outlined in **Table 2-6** to evaluate the effect of recommendations presented in this performance audit. FHEVSD should consider implementing the recommendations in this performance audit and other appropriate actions to improve its financial condition. In addition, the Treasurer should update the District's financial recovery plan on an on-going basis to address changes in critical financial issues and factors affecting the projections, monitor revenue and expenditure activities, and review actual performance against budgeted and projected figures. Lastly, FHEVSD should regularly discuss potential options for reducing costs and/or increasing revenues with stakeholders to help determine future strategies for addressing the projected deficits.

- Include detailed goals, objectives, benchmarks, timeframes, performance measures and cost estimates (where applicable) in developing the new strategic plan. In addition, FHEVSD should link the strategic plan to the budget and five-year forecast, and review the plan on a regular basis.

- Adopt a policy on financial forecasting that specifies the process to be used in developing the financial forecast and defines the involvement of other District administrators. Board members should require that the forecast document present more detailed historical and projected information, supporting schedules, and additional explanations. The Treasurer should also review the suggested improvements in the methodology and assumptions used in projecting certain revenue and expenditure line items (see **R2.3** and **R2.4**).

- Prepare its annual financial statements in accordance with generally accepted accounting principals (GAAP).

- Hold public meetings with citizens on a regular (e.g., quarterly) basis to discuss a wide range of topics including the District's financial condition, proposed curriculum modifications, goals and objectives. The District should also explore other methods for obtaining stakeholder feedback, such as through periodic surveys, the website, and newsletters.

- Review the impact of changes made in the special education program on costs and outcomes. The District should determine whether it can expand upon the recent changes implemented for the special education program, as well as identify additional strategies to save costs and still provide a quality program. Likewise, the District should further review spending in other instruction, dues and fees, and communication to identify potential cost-saving strategies.

- Develop a more comprehensive purchasing policy that establishes a minimum threshold for obtaining price quotes and covers requests for proposals. The Treasurer's Office should help establish the new threshold with the intent of subjecting more items to competitive pricing without being overly cumbersome for operational units.

- Consider implementing an on-line requisitioning system at all schools and departments. To facilitate this, FHEVSD should work with the Lake Geauga Computer Association to ensure the current technology is able to support the requisitioning module and that users are provided appropriate training.

- Consider adjusting the payroll schedule to allow a two week delay from the time payroll information is submitted to the Treasurer's Office to the time checks are issued to the employees. Subsequently, the District should negotiate that all employees be paid through direct deposit.

In the area of general operations, FHEVSD should:

- Consider eliminating 2.5 regular education FTEs, if the District does not implement the performance audit recommendations, identify other strategies to reduce costs, and/or experience increases in student population. However, the District should evaluate decisions to reduce regular teacher staffing levels against the impact the reductions may have on the District's education levels and student achievement.

- Consider eliminating 1.0 principal FTE, if the District does not implement the performance audit recommendations or identify other strategies to help eliminate the projected deficits. However, prior to eliminating a principal FTE, the District should ensure that taking such action is feasible based on licensure requirements for principals. The District should also evaluate the option of eliminating a principal position against the impact the elimination may have on the District's ability to effectively manage the operations at each school. Furthermore, the District should ensure staffing information is correctly reported in EMIS.

- Consider eliminating 0.5 FTE in the Treasurer's Office/clerical function. The Board should also review the salary levels in the Treasurer's Office to ensure they are appropriate.

- Reallocate 0.5 FTEs from the custodial function to the maintenance function.

- Address the high certificated and classified salaries by negotiating new salary schedules for all positions and/or granting lower negotiated wage increases to base salaries in the future. FHEVSD should also negotiate to reduce the base salary used in determining the compensation for its supplemental contracts and eliminate the longevity bonuses that are included in the supplemental pay schedules. Furthermore, the District should consider negotiating to reduce the severance payout provisions.

- Negotiate to require all employees receiving health benefits to contribute at least ten percent towards monthly health care premiums. The District should also negotiate to establish the Super Med Select plan as the base plan. Employees choosing to enroll in the Traditional plan should be required to pay the difference in the premiums between the Super Med Select plan and the Traditional plan. The District should also review employee co-payments for physician visits, prescription co-pays, average annual deductibles, hospital cost sharing, and annual out-of-pocket maximums to identify potential cost savings.

- Strive to reduce the amount of sick leave used by employees by developing a policy to ensure its proper use, including prohibitions against "pattern abuse." To identify potential pattern abuse, the District should begin actively monitoring the use of sick leave through management reports prepared on a monthly basis.

- Develop a facilities master plan that reflects the future direction of the District. In carrying out the process, the District should work with a cross-section of school personnel, parents, students, and community members to ensure all stakeholders have input regarding the District's facility needs and future plans. In addition, the District should establish a formal preventive maintenance program that addresses all routine, cyclical, and planned building maintenance functions. Lastly, the District should develop a comprehensive five-year capital improvement plan that is updated on an annual basis to ensure that critical repair work is completed and equipment is replaced.

- Develop formal energy management and conservation policies and procedures. Once in place, 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 impact waste has on the District's operating budget. The District should also assign an employee to monitor District-wide and building-level energy consumption.

- Ensure the technology plan is presented to, discussed with, and approved by the Board. The District should also adopt a computer replacement cycle and work to identify specific funding sources that can be dedicated to achieving the goals and objectives outlined the technology plan. Lastly, the District should consider implementing a formal training program for technology users and developing a disaster recovery plan.

Summary of Financial Implications

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

Summary of Performance Audit Recommendations

	Estimated Savings
Recommendations Not Subject To Negotiations	
R3.1 Reduce 2.5 teaching FTEs.	$112,000
R3.2 Reduce 1.0 principal FTE.	$98,000
R3.3 Reduce staffing within the Treasurer's Office/clerical function by 0.5 FTEs.	$15,800
R3.9 Reduce the amount of sick leave taken by employees	$7,500
R3.10 Reduce purchased service costs through staffing reallocation.	$4,800
R3.15 Develop formal energy management policies and procedures, and assign someone to monitor energy use.	$18,000
Total Recommendations Not Subject to Negotiation	**$256,100**
Recommendations Subject to Negotiations	
R2.12 Negotiate mandatory direct deposit for all employees.	$700
R3.4 Renegotiate both certificated and classified salaries schedules, and/or negotiate lower future increases to base wages.	$38,100
R3.6 Negotiate to have employees contribute at least 10 percent of health insurance premiums and make Super Med Select the base plan.	$109,200
Total Recommendations Subject to Negotiation	**$148,000**
Total Financial Implications	**$404,100**

Source: Financial implications identified throughout this performance audit

Financial Systems

Background

This section focuses on the financial systems in the Fairport Harbor Exempted Village School District (FHEVSD or the District), including an assessment of FHEVSD's five-year forecast. The executive summary of this performance audit summarizes the audit objectives used to guide the assessments in the financial systems section. FHEVSD's operations were evaluated against best or recommended practices and standards from applicable sources, such as the Government Finance Officers Association (GFOA) and selected peer school districts,[1] for the purpose of developing recommendations to improve efficiency and business practices

Financial History

The Ohio Revised Code (ORC) § 3316.03 allows the Auditor of State (AOS) to place a school district in fiscal watch or fiscal emergency if certain conditions are met. ORC § 3316.03 also authorizes the Ohio Department of Education (ODE) to place a school district in fiscal caution if it identifies fiscal practices or budgetary conditions that if left uncorrected, could lead to fiscal watch or emergency conditions. If fiscal caution is declared, the district is given 60 days to provide a written proposal to ODE that outlines a plan to correct the practices or conditions that led to the declaration.

A district may be placed in fiscal caution by the Superintendent of Public Instruction when the district projects a current year ending fund balance less than or equal to two percent of current year projected revenue or a deficit greater than two percent in the next fiscal year. On April 24, 2004, FHEVSD was placed in fiscal caution due to the projected deficits in the five-year forecast submitted to ODE. However, FHEVSD never submitted a financial recovery plan to ODE to eliminate the deficits and the District's projected financial condition has not changed substantially since FY 2003-04. As a result, the District has remained in fiscal caution.

Financial Condition

FHEVSD is funded at the local level through a variety of voter-approved levies including the following:

- 69.9 operating mills for the General Fund (19.8 effective mills);
- Two emergency levies for the General Fund that total 11.1 mills; and

[1] See the **executive summary** for a list of peer districts and an explanation of the selection methodology.

- A 2.0 mill permanent improvement levy that generates approximately $88,000 annually.

FHEVSD's property tax levies generate approximately $2.4 million in local revenues for the General Fund.

The District ended FY 2004-05 with a negative ending fund balance in the General Fund of $24,731. The District made staffing and programmatic adjustments in response to the deficit and was able to end FY 2005-06 and FY 2006-07 with surpluses of approximately $103,000 and $150,000, respectively. However, the Treasurer's forecast anticipates the District's financial condition will decline substantially after FY 2007-08. For example, the Treasurer projects a deficit balance of $466,000 in FY 2009-10. The deficit is projected to increase to approximately $2.5 million by FY 2011-12. FHEVSD placed a 9.0 mill levy proposal on the ballot in March 2008 to eliminate the projected deficits. This levy would have replaced a 4.3 mill emergency levy (4.7 mills of new money) and was structured to generate approximately $614,000 annually. However, the voters defeated the levy proposal.

Table 2-1 presents historical and projected revenues and expenditures, as of October 2007. This forecast was used as the starting point for assessing the District's financial condition.

Table 2-1: FHEVSD Financial History and Forecast (in 000's)

	Actual 2004-05	Actual 2005-06	Actual 2006-07	Forecast 2007-08	Forecast 2008-09	Forecast 2009-10	Forecast 2010-11	Forecast 2011-12
Real Estate Property Tax	$1,976	$2,243	$2,525	$2,465	$2,477	$2,489	$2,499	$2,510
Tangible Personal Property Tax	321	279	199	137	137	138	139	139
Unrestricted Grants-in-Aid	1,204	1,237	1,248	1,250	1,269	1,288	1,307	1,327
Restricted Grants-in-Aid	66	16	227	173	175	177	179	180
Property Tax Allocation	315	332	261	236	237	224	216	197
Other Revenues	918	937	765	819	828	836	844	853
Total Operating Revenues	**$4,800**	**$5,044**	**$5,225**	**$5,080**	**$5,123**	**$5,152**	**$5,184**	**$5,206**
Salaries & Wages	2,722	2,525	2,527	2,559	2,700	2,849	3,005	3,171
Fringe Benefits	951	968	1,017	1,128	1,263	1,415	1,584	1,775
Purchased Services	1,035	1,162	1,314	1,045	1,065	1,087	1,108	1,131
Supplies, Materials & Textbooks	97	71	91	101	103	105	107	109
Capital Outlay	0	1	3	5	5	5	5	5
Other Object	62	68	132	140	143	143	146	146
Total Operating Expenditures	**$4,867**	**$4,794**	**$5,084**	**$4,978**	**$5,279**	**$5,604**	**$5,955**	**$6,337**
Net Transfers/ Advances	37	(50)	(30)	(64)	(62)	(62)	(62)	(62)
Other Sources/Use	11	(50)	7	5	5	5	5	5
Net Financing	**$48**	**($100)**	**($23)**	**($59)**	**($57)**	**($57)**	**($57)**	**($57)**
Result of Operations (Net)	**($19)**	**$150**	**$118**	**$43**	**($213)**	**($509)**	**($828)**	**($1,188)**
Beginning Cash Balance	$42	$23	$173	$291	$334	$121	($388)	($1,216)
Ending Cash Balance	**$23**	**$173**	**$291**	**$334**	**$121**	**($388)**	**($1,216)**	**($2,404)**
Encumbrances	19	42	113	50	50	50	50	50
Budget Reserve	28	28	28	28	28	28	28	28
Ending Fund Balance	**($24)**	**$103**	**$150**	**$256**	**$43**	**($466)**	**($1,294)**	**($2,482)**

Source: FHEVSD
Note: Line items and totals may vary from those submitted to ODE due to rounding

By its nature, forecasting requires estimates of future events; therefore, differences between projected and actual results are expected. In total, the revenues and expenditures shown in **Table 2-1** appear understated (see **R2.3** and **R2.4**). As a result, certain assumptions were revised and included in the adjusted forecast presented in **Table 2-6**.

Recommendations

Strategic and Financial Planning

R2.1 In developing the new strategic plan, FHEVSD should include detailed goals, objectives, benchmarks, timeframes, performance measures and where applicable, cost estimates. In addition, FHEVSD should link the strategic plan to the budget and the five-year forecast. This would help shift the focus of budgetary decisions from inputs (salaries and cost of purchased goods and services) to outcomes, and ultimately to the accomplishment of the goals and objectives stated in the strategic plan. Finally, the District should review the strategic plan on a regular basis to determine its success in achieving the stated goals and objectives, and to identify appropriate updates to the plan.

FHEVSD has a strategic plan which was created by the previous Superintendent in 2005. The strategic plan includes three goals, focus areas, performance measures, and action steps. However, each of the action steps indicates that future efforts are "to be determined." Furthermore, the goals, focus areas and performance measures are vague in some cases, and do not include timeframes, estimated costs, or objective standards that can be measured over time. The strategic plan also lacks a link to the budget and five-year forecast, which is partially due to the absence of cost estimates. The current Superintendent indicated that the District will be developing a new strategic plan in 2008.

In *Recommended Practices on the Establishment of Strategic Plans* (GFOA, 2005), GFOA recommends that all governments develop a strategic plan in order to provide a long-term perspective for service delivery and budgeting. The strategic plan will establish logical links between spending amounts and goals. In addition, the focus of the strategic plan should be on aligning organizational resources to bridge the gap between present conditions and the envisioned future. In developing the strategic plan, GFOA recommends the inclusion of measurable objectives and performance measures. Objectives should be expressed as quantities or at least as verifiable statements, and ideally include timeframes. Performance measures provide information on whether goals and objectives are being met, and are an important link between the goals in the strategic plan and the activities funded in the budget.

Without an updated comprehensive strategic plan that includes detailed objectives, performance measures, and estimated costs, FHEVSD may have difficulty evaluating the relationship between its spending decisions and program outcomes. This, in turn, increases the risk of ineffectively addressing District needs.

R2.2 The Board should adopt a policy that specifies the process to be used in developing the financial forecast and defines the involvement of other District administrators. To better understand the forecast and its components, Board members should require that the document present more detailed historical and projected information, supporting schedules, and additional explanations.

FHEVSD does not have a Board policy that stipulates the process to be used in preparing the financial forecast, the specific roles of other administrators, or the supporting materials to be used in developing the forecast. In practice, the Treasurer is primarily responsible for preparing the forecast document and presenting it to the Board for adoption. The Treasurer prepares the forecast based on historical information, trend analyses, and knowledge of current legislative requirements. Although the Treasurer includes assumptions to explain how forecasted amounts were calculated, the notes to the forecast generally do not provide adequate disclosure concerning issues that could have a significant impact on FHEVSD. For example, the notes lack any kind of disclosure concerning the following:

- Historical and projected inflation rates;
- Historical and projected enrollment;
- Historical and projected number of open enrollment students;
- Information regarding technology, building and equipment needs;
- Historical and projected staffing levels;
- Historical and projected property tax information, such as levy history and scheduled property reappraisals and updates; and
- Historical cost of living adjustments and specific percentages used to project salary schedule step increases.

According to *The Guide for Prospective Financial Information* (The American Institute of Certified Public Accountants (AICPA), 2006), financial forecasts may be prepared as the output of a formal system. A formal system consists of a set of related policies, procedures, methods, and practices that are used to prepare financial forecasts, monitor attained results relative to the forecasts, and prepare revisions to, or otherwise update, the forecasts. Financial forecasts may also be prepared via a formal work program. If such a program is used in place of a formal system, it should adequately define the procedures, methods, and practices to be employed. This publication identifies numerous guidelines for preparing and reviewing financial forecasts, including the following:

- Forecasts should be prepared in good faith, using the best information available at the time to develop appropriate assumptions.

- Forecasts should be prepared with care by qualified personnel using appropriate accounting principles. Procedures should be established to facilitate the prevention, detection, and correction of errors.

- The process used to develop financial forecasts should allow users to identify the best information that is available at that time.

- Key factors should be identified as a basis for assumptions. Assumptions used in preparing the financial forecasts should be appropriate, reasonable and well-supported, and could include the following components: market surveys, general economic indicators, trends and patterns developed from the entity's operating history (historical trends), and internal data analysis (union contracts and labor rates).

- The process used to develop financial forecasts should provide adequate documentation of both the financial forecast and the process used to develop them. Documentation should also include recording the underlying assumptions as well as summarizing the supporting evidence for the assumptions. As a result of well supported documentation, users can trace forecasted results back to the support for the basic underlying assumptions.

- The process used to develop financial forecasts should include, where appropriate, the regular comparison of the financial forecasts with the attained results. Comparing prospective financial results with actual fiscal numbers provides a historical measure of success and can be an indicator of the reliability of future forecasts.

- The process used to prepare financial forecasts should include adequate review and approval by the responsible party at appropriate levels of authority. The responsible party should have access to the financial forecasts and supporting documentation in order to adequately review and approve the financial forecasts.

Without a policy to help define the process used in developing the five-year forecast, the District increases the potential for unrealistic expectations and projections about future expenditures and revenues (see **R2.3** and **R2.4**). This subsequently increases the risk of inaccurately detecting future problems and devising appropriate solutions in a timely manner.

R2.3 The Treasurer should review the methodology and assumptions used in projecting the key revenue line-items in the forecast. Specifically, the Treasurer should ensure that the projections are consistent with existing legislation and historical trends, with notes in the forecast to fully explain any deviations from legislation and trends.

Taking these actions will help ensure that consideration is given to all known factors that could impact the revenues. Further, the additional note disclosures will help report users better understand the issues impacting the District.

As indicated in **Table 2-1**, the Treasurer is projecting that total revenues will increase less than one percent annually from FY 2007-08 through FY 2011-12. A summary analysis of the revenue line-items includes the following:

- **Real Estate Property Taxes: Table 2-1** shows that the Treasurer projected real estate property taxes to decline 2.4 percent in FY 2007-08, and then increase approximately 0.5 percent annually thereafter, assuming the levy renewal passes in FY 2008-09 (levy renewal and real property tax projection are combined for this analysis). The Treasurer's forecast notes indicate that the 0.5 percent growth rate is based on the District's historical collections. The projected decline in FY 2007-08 is due to the District collecting approximately $95,000 in property tax delinquencies the prior year.

  The projection for FY 2007-08 appears reasonable as it is approximately equal to the Lake County Auditor's certificate of estimated resources. However, the projected increase of 0.5 percent annually from FY 2008-09 through FY 2011-12 is inconsistent with the District's historical trends since FY 1998-99. For example, the average annual increase in property tax collections from FY 1998-99 to FY 2006-07 was approximately six percent. However, the six percent growth rate is partially inflated due to property reappraisals/updates in FY 2000-01, FY 2003-04 and FY 2006-07, and new tax levies, which impacted FY 1999-00, FY 2000-01, and FY 2005-06. When excluding these years to identify trends in "normal" years, the property taxes increased 0.8 percent in FY 2001-02, 2.7 percent in FY 2002-03, and 4.9 percent in FY 2004-05, or an average of 2.8 percent. In addition, the Treasurer's projection does not account for the property update that is scheduled to take place in FY 2009-10. The last property update occurred in FY 2003-04, which resulted in a 2.9 percent increase in property tax collections. Lastly, a representative from the Lake County Auditor's Office and the Treasurer both indicated that FHEVSD has not experienced significant housing growth in recent years and while there have been some discussions regarding future development, nothing has been finalized.

- **Tangible Property Tax:** This line-item includes taxes paid by businesses on the assessed value of machinery, furniture, fixtures, and inventories used in conducting their business. Until the signing of H.B. 66 on June 30, 2005, ORC §5711.22 slowly phased out the tangible property tax by reducing the assessed property valuation rates by one percent in tax years 2002 through 2004. The phase-out then increased to two percent annually, beginning in tax year 2005, and was scheduled to continue at that rate until the tax was eliminated. However, H.B. 66 accelerated the phase-out period. Under H.B. 66, the tangible tax on general business and railroad property will be eliminated by Tax Year (TY) 2009, and the tax on telephone and telecommunication property will be eliminated by TY 2011. At the same time, the legislation replaces the revenue lost due to the accelerated phase out of the tax (portion attributed to H.B. 66). In the first five years, school districts and local governments are reimbursed fully for lost revenue (through FY 2010-11); in the following seven years, the reimbursements are phased-out. Additionally, Auditor of State Bulletin 2006-004 (AOSB 2006-04) indicates that school districts should account for the tangible property tax reimbursements within the property tax allocation line-item.

Based on the impact of H.B. 66 and AOSB 2006-04, school district forecasts should reflect a decline in tangible property taxes and a subsequent increase in the property tax allocation line-item. However, **Table 2-1** shows that the Treasurer projected tangible property taxes to increase 0.5 percent annually from FY 2008-09 through FY 2011-12. Additionally, the property tax allocation line-item is projected to decline by varying amounts through FY 2011-12. Therefore, it does not appear that the Treasurer accurately accounted for the impact of HB 66 on the District's tangible property taxes.

- **State Funding (Unrestricted and Restricted Grants in Aid): Table 2-1** shows the Treasurer projected the unrestricted grant-in-aid to increase 1.2 percent annually from FY 2007-08 through FY 2011-12, which appears reasonable based on the District's historical receipts (FY 1998-99 through FY 2006-07), the final SF-3 for FY 2006-07, the December 2007 SF-3 for FY 2007-08, and the uncertainty associated with State funding levels beyond FY 2008-09. **Table 2-1** also shows that the Treasurer projected the restricted grants-in-aid to decline approximately 24 percent in FY 2007-08 and then increase one percent each year thereafter. The decline in FY 2007-08 is due to the receipt of nearly $90,000 in catastrophic special education reimbursements the prior year. The Treasurer indicated that this is likely a one-time receipt and did not include this revenue in the forecast projections. Additionally, the Treasurer indicated the District uses the restricted grants-in-aid line-item to account for the tangible property tax reimbursements (see tangible property tax line-item above), and this is the primary revenue source for this line-item. As noted in the tangible property tax assessment, this methodology is inconsistent with AOSB 2006-004.

- **Property Tax Allocation:** This line-item represents reimbursements received from the State to account for property tax credits granted through the homestead exemption program (elderly or disabled homeowners), the rollback program (10 percent credit for all real property owners), and a $10,000 exemption for businesses. According to AOSB 2006-04, this line-item should also account for the tangible property tax reimbursements beginning in FY 2006-07.

Table 2-1 shows the District's property tax allocation receipts declined significantly in FY 2006-07 and are projected to continue declining by varying amounts through FY 2011-12. The Treasurer's forecast notes indicate that declines are due to the State phasing-out the 10 percent rollback reimbursement. According to *Property Tax and School Funding* (Ohio Department of Education, June 2006) all owners of real property that is not used in any business other than farming have their tax bills reduced by 10 percent. The cost of this credit is reimbursed to local governments by the State. However, prior to tax year 2005, this credit and the subsequent reimbursement applied to all real property, including property used in businesses. After tax year 2005, businesses no longer receive this credit, which causes school districts to receive more money locally through real property taxes than through State reimbursements. As a result, FHEVSD's real estate property taxes increased by nearly 13 percent in FY 2006-07, while the property tax allocations decreased by approximately 21 percent. Although this change in tax structure should be a one-time adjustment, the Treasurer's projections carry this assumption through FY 2011-12. Auditor of State Bulletin 98-015 indicates that because of their relationship to real property taxes, the property tax allocation receipts may be calculated as a fixed percentage of property tax receipts. The District's property tax allocation receipts represented approximately 14 percent of the real property tax collections from FY 1998-99 through FY 2005-06. This rate declined to 10 percent in FY 2006-07, due to the structural change in the 10 percent rollback.

- **All Other Operating Revenue:** Open enrollment tuition represents nearly 90 percent of the District's other revenues. The number of students attending FHEVSD through open enrollment has fluctuated since FY 1998-99, which has had a direct impact on the District's other revenues. For example, **Table 2-1** shows that the District's other revenues declined by approximately 18 percent in FY 2006-07. This can be attributed to FHEVSD's open enrollment students declining from 134 in FY 2005-06 to 110 in FY 2006-07. The Superintendent said the District expects to have approximately 150 open enrollment students in FY 2007-08. **Table 2-1** shows that the Treasurer projected the other revenues to increase approximately 7.0 percent in FY 2007-08 and one percent annually thereafter. These projections appear reasonable considering the projected increase in open enrollment students in FY 2007-08, the traditional increases in per pupil funding levels by the State legislature, and the District's historical fluctuations in this line-item since FY 1998-99. Furthermore, the projections appear somewhat conservative as the Treasurer uses FY 2006-07 as the base year. This can help account for the potential unpredictability in open enrollment. For instance, other revenues totaled approximately $918,000 in FY 2004-05 and $937,000 in FY 2005-06, which are higher than Treasurer's projections that reach approximately $852,000 in FY 2011-12.

Based on the issues outlined above, the real estate property taxes will be adjusted to reflect a 1.8 percent growth rate in normal years and a 2.9 percent growth rate in FY 2009-10, which is the scheduled property update. The 1.8 percent is based on the average growth rate experienced in FY 2001-02 (0.8 percent) and FY 2002-03 (2.7 percent), which are the most recent non-update/reappraisal years and most recent years not impacted by new levies. FY 2004-05 was excluded from consideration because it increased at a much higher rate (4.9 percent) and could not be easily explained. The 2.9 percent growth rate in FY 2009-10 is based on the results of the last property update (FY 2003-04). Tangible property taxes will be adjusted to reflect the phase-out associated with H.B. 66. Additionally, the hold harmless reimbursements associated with the tangible property tax phase-out will be shown as part of the property tax allocation line-item rather than restricted grants-in-aid. Lastly, the Homestead and Rollback reimbursements within the property tax allocation line-item will be adjusted to represent 10 percent of the projected real estate taxes based on the adjusted collection rate in FY 2006-07. The tangible property tax reimbursement will be added to this figure to determine the total property tax allocation receipts. **Table 2-2** shows the impact these revisions will have on FHEVSD's forecast.

Table 2-2: Revised Revenue Projections (in 000's)

	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
District Projections:					
Real Estate	$2,465	$2,477	$2,489	$2,499	$2,510
Tangible	$137	$137	$138	$139	$139
State Funding [1]	$1,423	$1,444	$1,465	$1,486	$1,507
Property Tax Allocation	$236	$237	$225	$216	$198
Other	$819	$827	$836	$844	$852
Total	**$5,080**	**$5,122**	**$5,153**	**$5,184**	**$5,206**
AOS Projections:					
Real Estate	$2,465	$2,509	$2,582	$2,628	$2,676
Tangible	$130	$34	$5	$0	$0
State Funding [1]	$1,250	$1,269	$1,288	$1,307	$1,327
Property Tax Allocation	$416	$513	$547	$557	$509
Other	$819	$827	$836	$844	$852
Total	**$5,080**	**$5,152**	**$5,258**	**$5,336**	**$5,364**
Difference	**$0**	**$30**	**$105**	**$152**	**$158**

Source: District Forecast and AOS Analysis
[1] Includes both Unrestricted Grants-in-Aid and Restricted Grants-in-Aid

R2.4 The Treasurer should review the methodology and assumptions used to project the key expenditure line-items in the forecast. Specifically, the Treasurer should consider developing separate assumptions for the major components within the employee benefits and purchased services line-items, with notes in the forecast to fully explain any deviations from historical trends. This will help improve the reliability of the forecast by ensuring that major cost drivers have been considered.

Additionally, the Treasurer should ensure the forecast complies with the textbook and instructional material spending requirements. This will provide the Board with a more reliable assessment of the District's financial condition, which subsequently could impact the strategies for achieving financial recovery. This will also ensure that the District provides students with regularly updated instructional materials. However, if the District determines that it can not achieve the spending requirements because of its fiscal caution designation, it should obtain approval from ODE for a waiver of the requirements and update its projections accordingly.

As shown in **Table 2-1,** the Treasurer is projecting that total expenditures will increase an average of 4.5 percent annually from FY 2007-08 through FY 2011-12. A summary analysis of the expenditure line-items includes the following:

- **Personnel Services:** This line-item represents employee salaries and wages, including extended time, severance pay and supplemental contracts. The Treasurer projected personnel services to increase 1.3 percent in FY 2007-08 and 5.5 percent each year thereafter to account for negotiated wage and salary schedule step increases. The lower growth rate in FY 2007-08 is due to the District not replacing one teacher who retired, and replacing two teachers who resigned with less experienced teachers at lower salaries. The Treasurer's projection for FY 2007-08 appears reasonable based on the year-to-date expenditures through September 2007. The projections for FY 2008-09 through FY 2011-12 also appear reasonable. FHEVSD has negotiated 2.5 percent wage increases for certificated and classified staff through FY 2008-09. Furthermore, the average annual step increase in the certificated salary schedules is 3.8 percent, while the average annual step increase for classified staff is 3.0 percent. The classified average annual step increase is based on review of salary schedules for the custodial and educational aide classifications, which comprised 5 of the 9.54 classified FTEs in FY 2006-07. Although the combined percentages for negotiated wage and step schedule increases (6.3 percent) for certificated staff is higher than the Treasurer's projection (5.5 percent), some of the staff will not be eligible for step increases during the forecast period, partially accounting for the difference.

- **Benefits:** This line-item consists of FHEVSD's contributions for employee retirement, health insurance, workers compensation and Medicare. In FY 2006-07, the District's health insurance costs represented approximately 56 percent of the total benefit expenditures. The Treasurer projected the District's employee benefits to equal approximately $1.1 million in FY 2007-08 and then increase by 12 percent each year thereafter. The projection for FY 2007-08 appears reasonable based on the year-to-date expenditures through September 2007. However, the Treasurer's projections for FY 2008-09 through FY 2011-12 appear overstated due to using one rate (12 percent) to project all the components of employee benefits. For example, FHEVSD's total benefit costs have only increased at an average annual rate of 6.6 percent from FY 1998-99 to FY 2006-07. Additionally, although FHEVSD's health insurance costs increased 10.6 percent in FY 2006-07, the other benefits (retirement, Medicare, workers compensation) declined slightly due to staffing reductions.

- **Purchased Services:** This line-item reflects the amounts paid for contracted services such as legal services, maintenance agreements, utilities, and tuition for students attending other school districts. For FY 2007-08, the Treasurer estimated that purchased services would decline by approximately 20 percent. This can be attributed to the District taking several steps to reduce the cost of contracted special education services through the Lake County Educational Service Center (see **Table 2-4** for additional discussion). Furthermore, the Treasurer's projection for FY 2007-08 appears reasonable based on the year-to-date expenditures through September 2007.

  The Treasurer projected purchased services to increase two percent annually from FY 2008-09 through FY 2011-12. However, this growth rate is inconsistent with the District's historical trends. For example, total purchased service costs increased an average of 14 percent annually from FY 1998-99 to FY 2006-07. In addition, the Treasurer's assumption does not consider utility costs independent of the other purchased services expenditures. The District's utility costs increased 61 percent in FY 2003-04, declined 40 percent in FY 2004-05, increased 82 percent in FY 2005-06, and declined 22 percent in FY 2006-07, for a five-year average increase of 20 percent. Furthermore, FHEVSD's utility costs comprised approximately 23 percent of its total purchased services expenditures in FY 2006-07. Lastly, although the District has taken action to reduce the cost of special education contracted services in FY 2007-08, this represents a variable cost that is partially dependent on the number and needs of the special education students. As a result, the District may experience years during the forecast period when the contracted costs increase more than two percent, despite the anticipated success in FY 2007-08.

- **Supplies and Materials:** This line-item includes the following expenditures: general supplies, instructional materials including textbooks and media materials, bus fuel and tires, and all other maintenance supplies. The Treasurer projected supply and material expenditures to increase by 11 percent in FY 2007-08 and two percent each year thereafter. The Treasurer's projection for FY 2007-08 appears reasonable based on the District's year-to-date expenditures (through September 2007) and purchasing practices (purchase most items early in the year). Additionally, the two percent increase from FY 2008-09 through FY 2011-12 appears reasonable based on the District's historical trends. For example, the average annual increase in the District's supply and material expenditures from FY 1998-99 through FY 2006-07 was approximately 2.2 percent.

  However, while the District met instructional spending requirements in FY 2004-05, it did not meet the instructional materials spending requirements specified in ORC §3315.17 for FY 2005-06. This is based on the notes the District created for its financial statements (see **R2.2**). Additionally, the notes to the financial statements do not indicate the District applied to ODE to waive the spending requirements based on the fiscal caution designation. Consequently, the District had an accrued liability of approximately $47,000 for instructional materials that was carried forward to FY 2006-07. Despite the accrued liability, the District does not project any significant spending increases during the next five years, which will make it difficult to comply with the spending requirements. It should be noted that financial statements for FY 2004-05 and FY 2005-06 are still subject to a financial audit.

- **Capital Outlay**: This line-item includes expenditures which have at least a five-year life expectancy. Expenditures in this category include the following: improvements to land, buildings, and grounds; new equipment; computers/technology; furnishings; buses; and vehicles. The Treasurer indicated that General Fund capital outlay purchases are made only when there is a critical need. **Table 2-1** supports this by showing that the District spent less than $5,000 on capital outlay the last three years. FHEVSD has a 2.0 mill permanent improvement levy that is used to meet the capital improvement spending requirements specified in ORC §3315.18. **Table 2-1** shows the Treasurer projected the District's general fund capital outlay expenditures to equal $5,000 in FY 2007-08 and to remain fixed at this level through the remainder of the forecast period. This appears reasonable based on the District's historical expenditure levels and the proceeds from the permanent improvement levy.

- **Other Objects:** The components of this line-item include the following: membership dues and fees, ESC contract deductions, County Auditor/Treasurer fees, audit expenses, and election costs. **Table 2-1** shows the Treasurer projected other expenditures to equal $140,620 in FY 2007-08, which is an increase of 6.2 percent from the prior year. In addition, the Treasurer projected a one percent annual increase in other expenditures from FY 2008-09 through FY 2011-12. As of September 30, 2007, FHEVSD had spent $31,500 on other expenditures and is on pace to incur $126,000 in costs for this line-item. The District has experienced large fluctuations in the other expenditures since FY 1998-99 with no clear trend. In consideration of these issues, the Treasurer's projections for FY 2007-08 through FY 2011-12 appear reasonable.

In light of the issue noted above, FHEVSD's benefit projections will be adjusted to include a 10 percent annual increase for health insurance based on the District's rate of increase in FY 2006-07 and information from the State Employment Relations Board (SERB). Specifically, the *2006 Report on Health Insurance Costs in Ohio's Public Sector* (SERB, March 2007) indicates the average family premium increased by approximately eight percent for public sector employers in 2006. In addition, the payroll related benefits (retirement, workers compensation, and Medicare) will be calculated separately by applying the appropriate percentages to the Treasurer's salary projections. Furthermore, the utilities portion of the purchased service line-item will be calculated assuming a 3.5 percent annual increase. Because of the large fluctuations in the District's historical utility costs, the 3.5 percent annual increase is based on the *Annual M&O Cost Study* [(American Schools & University, 2002-2006)], which indicates the average annual increase in the national median utility costs from FY 2001-02 through FY 2005-06 was nearly 3.5 percent. The other components of the purchased service line-item are projected to increase 12.5 percent annually, based on the District's average growth rate from FY 2002-03 through FY 2006-07. Lastly, the supplies and materials line-item will be adjusted in FY 2007-08 to equal $160,000, which would allow the District to eliminate the accrued liability for textbooks and instructional materials. The remaining years will be projected to increase two percent annually to ensure that the District has the ability to meet the instructional materials spending requirements throughout the forecast period. **Table 2-3** shows the impact these revisions will have on the five-year financial forecast.

Table 2-3: FHEVSD Expenditure Forecast Revisions (in 000's)

	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
District Projections:					
Personnel Services	$2,559	$2,700	$2,849	$3,005	$3,171
Retirement/Insurance Benefits	$1,128	$1,263	$1,415	$1,584	$1,775
Purchased Services	$1,045	$1,065	$1,087	$1,108	$1,131
Supplies and Materials	$101	$103	$105	$107	$109
Capital Outlay	$5	$5	$5	$5	$5
Other Objects	$141	$142	$143	$145	$146
Total	**$4,979**	**$5,278**	**$5,604**	**$5,954**	**$6,337**
AOS Projections:					
Personnel Services	$2,559	$2,700	$2,849	$3,005	$3,171
Retirement/Insurance Benefits	$1,128	$1,227	$1,336	$1,456	$1,586
Purchased Services	$1,045	$1,153	$1,274	$1,409	$1,561
Supplies and Materials	$160	$163	$166	$170	$173
Capital Outlay	$5	$5	$5	$5	$5
Other Objects	$141	$142	$143	$145	$146
Total	**$5,038**	**$5,390**	**$5,773**	**$6,190**	**$6,642**
Difference	**($59)**	**($112)**	**($169)**	**($236)**	**($305)**

Source: District Forecast and AOS Analysis

Revenue and Expenditures Analysis

R2.5 FHEVSD should closely examine the spending patterns discussed in Tables 2-4 and 2-5, and recommendations in the general operations section of this report to identify potential cost savings. In addition, the District should review the impact of changes made in the special education program on costs and outcomes. The District should determine whether it can expand upon the recent changes implemented for the special education program and identify additional strategies to save costs while providing a quality program. Likewise, the District should further review spending in other instruction, dues and fees, and communication to identify potential cost-saving strategies. Furthermore, by developing a strategic plan (see R2.1), improving the forecasting process (see R2.2), and increasing stakeholder communication (see R2.8), the District would better ensure that it plans and allocates its resources in a manner that best aligns with its educational and operational needs.

Table 2-4 compares the FHEVSD's General Fund revenues by source and expenditures by object to the peer average for FY 2006-07. The data is presented on a per student basis to account for differences in student population.

Table 2-4: Revenues & Expenditures per Student: FY 2006-07

	Fairport Harbor EVSD	Peer Average
Property & Income Taxes	$5,291	$3,748
Intergovernmental	$3,375	$3,935
Other Revenues	$1,472	$1,049
Total Revenues	**$10,137**	**$8,733**
Wages	$4,908	$4,579
Fringe Benefits	$1,976	$1,649
Purchased Services	$2,552	$1,002
Supplies and Textbooks	$177	$263
Capital Outlays	$7	$131
Debt Service	$0	$72
Miscellaneous	$257	$163
Other Financing Uses	$58	$280
Total Expenditures	**$9,934**	**$8,139**

Note: Actual numbers may vary from total due to rounding
Source: FY 2006 and FY 2007 Fairport Harbor EVSD 4502.

Table 2-4 shows that FHEVSD's total revenues per student in FY 2006-07 were higher than the peer average by $1,404. The higher property tax collections and lower intergovernmental revenues are attributed, in part, to the assessed property values within the District. More specifically, FHEVSD's average assessed property value per student was approximately $161,000 in FY 2006-07, while the peer average was $131,000. As a result, a one mill levy generates more property tax revenue in FHEVSD than in the peer districts. The higher property values also contribute to lower intergovernmental revenues as the State's share of school funding is partially offset by the assessed valuation in a school district. Despite lower intergovernmental revenues, the District's combination of local property taxes and intergovernmental revenues ($8,666 per student) is still $983 higher than the peer average ($7,683). FHEVSD's property tax collections are based on 37.2 effective mills, with the last levy being passed in 2005 (6.3 mills). FHEVSD's higher other revenues are due to the District accepting more open enrollment students than the peers. In FY 2006-07, 27 percent of FHEVSD's total enrollment came through the open enrollment program while the peer average was approximately eight percent.

Table 2-4 also indicates that FHEVSD's total expenditures were greater than the peer average in several categories. Explanations include the following:

- **Wages** – FHEVSD spent $329 more per student on wages than the peer average. The higher wages are primarily due to the District's higher salary levels. Specifically, the average salary for certificated staff was $50,843 in FY 2006-07 while the peer average was $48,745. Likewise, the average salary for classified/professional staff was $38,604 while the peer average was $28,826. See **R3.4** in the **general operations** section for further discussion.

- **Fringe Benefits** – FHEVSD spent $327 more per student on fringe benefits than the peer average. The higher costs are due to the higher salary levels (see above) which directly tie to certain benefits (e.g., retirement), provision of an expensive Traditional benefit plan, and not requiring employee contributions towards the healthcare premium costs. See **R3.4** and **R3.6** in the **general operations** section for additional information.

- **Purchased Services** – FHEVSD spent $1,550 more per student on purchased services when compared to the peer average. The higher expenditures can be attributed to the lack of a formal energy management program, contracting with the Lake County Education Service Center for certain special education services, and contracting for groundskeeping and certain transportation and building maintenance services. Based on the size of the District (one square mile), FHEVSD does not provide transportation services to regular education students. However, the District contracts with neighboring school districts and a private company to provide transportation services for certain special education students, athletic events, and field trips. While the contracted transportation services contribute to the higher purchased service expenditures in **Table 2-4**, **Table 2-5** shows that the District's total governmental fund expenditures per pupil for transportation are much lower than the peer average. See **R3.10** and **R3.15** in the **general operations** section for additional information concerning the District's contracted grounds and maintenance services, and utility costs. See **Table 2-5** for additional discussion of the higher special education costs.

- **Miscellaneous** – The District's spent $94 more per student on miscellaneous costs when compared to the peer average. FHEVSD's high level of expenditures in this category are the result of a 112 percent increase in dues and fees from FY 2005-06 to FY 2006-07. The dues and fees category includes insurance, judgments, taxes and assessments, awards, and miscellaneous. The Treasurer indicated that the higher expenditures are partially due to the repayment of approximately $63,000 to the Lake County Educational Service Center due to an accounting error that occurred in the prior year.

In addition, during a review of expenditures over which FHEVSD appears to have greater control, the District spent $8 more per student than the peer average on communications.

While total communication expenditures in the General Fund amounted to only $17,715 in FY 2006-07, the District did not provide an explanation for the higher expenditures. **Table 2-5** shows the amount per student and percent of expenditures posted to the various Uniform School Accounting System (USAS) function codes for FHEVSD and the peer average. Function codes report expenditures by their nature or purpose and include all funds that are classified as governmental funds.

Table 2-5: Governmental Fund Expenditures by Function – FY 2006-07

	Fairport Harbor EVSD		**Peer Average**	
USAS Function Classification	$ Per Pupil	% of Exp	$ Per Pupil	% of Exp
Instructional Expenditures:	**$6,501**	**62.5%**	**$5,435**	**60.8%**
Regular Instruction	$4,290	41.2%	$4,293	48.0%
Special Instruction	$1,826	17.5%	$861	9.6%
Vocational Education	$27	0.3%	$48	0.5%
Adult/Continuing Education	$0	0.0%	$0	0.0%
Extracurricular Activities	$0	0.0%	$0	0.0%
Classroom Materials and Fees	$0	0.0%	$0	0.0%
Miscellaneous	$0	0.0%	$0	0.0%
Other Instruction	$358	3.4%	$233	2.7%
Support Service Expenditures:	**$3,538**	**34.0%**	**$3,122**	**34.9%**
Pupil Support Services	$389	3.7%	$454	5.1%
Instructional Support Services	$150	1.4%	$358	4.0%
Board of Education	$34	0.3%	$36	0.4%
Administration	$1,135	10.9%	$675	7.6%
Fiscal Services	$519	5.0%	$270	3.0%
Business Services	$72	0.7%	$6	0.0%
Plant Operation & Maintenance	$1,143	11.0%	$906	10.2%
Pupil Transportation	$74	0.7%	$361	4.0%
Central Support Services	$22	0.2%	$55	0.6%
Non-Instructional Services Expenditures	**$14**	**0.1%**	**$54**	**0.6%**
Extracurricular Activities Expenditures	**$359**	**3.5%**	**$333**	**3.7%**
Total Governmental Fund Operational Expenditures	**$10,410**	**100%**	**$8,943**	**100.0%**
Facilities, Acquisition & Construction Expenditures	$0	N/A	$996	N/A
Debt Service Expenditures	$464	N/A	$330	N/A
Total Governmental Fund Expenditures	**$10,875**	N/A	**$10,269**	N/A

Source: District 4502 Exhibit 2

Table 2-5 shows that FHEVSD's total governmental fund operating expenditures and total fund expenditures per pupil were approximately 16 and 6 percent higher than the peer average, respectively. In addition, FHEVSD's instructional and support service expenditures per pupil exceeded the peer average by $1,066 and $416, respectively. Explanations for the line-items where the District's operating expenditures per student are higher than the peer average include the following:

- **Special Instruction** – FHEVSD spent $965 more per student than the peer average on special instruction in FY 2006-07. Similarly, when including only special education students as reported in the December Child Count reports, the District spent $15,938 per student, which more than doubles the peer average ($6,002). The higher costs are due to the contract with the Lake County Education Service Center to provide certain services for the special education program. However, the District implemented several programmatic and operational changes prior to FY 2007-08 which are projected to result in substantial savings. These changes include revising the process for identifying special needs students and developing the individual education plans (IEP), improving the review of contracted services and bringing certain functions in-house where it is cost beneficial, adjusting staffing levels based on changes in enrollment, and working with neighboring districts to provide certain services such as special education transportation.

  The District's year-to-date expenditures for special education in the General Fund as of November 2007 are on pace to total approximately $456,000 in FY 2007-08. By comparison, special education expenditures in the General Fund totaled approximately $722,000 in FY 2005-06 and $806,000 in FY 2006-07. In addition, the General Fund accounted for approximately 78 percent of total fund expenditures for special education in FY 2006-07. Despite the anticipated decrease in costs, the District's projected special education costs per special education student ($9,373) would still be much higher than the peer average in FY 2006-07 ($6,002). Even when including only General Fund expenditures, the District's projected special needs expenditures per student of $7,241 is still considerably higher than the peer average total Governmental Fund expenditures per student of $6,002. The projected expenditure ratios for FY 2007-08 are based on the number of special education students reported by the District in its December Child Count report for FY 2007-08.

- **Other Instruction** – FHEVSD spent $125 more per student than the peer average on other instruction in FY 2006-07. The District did not provide an explanation for the higher expenditures. The General Fund encompassed over 99 percent of the total governmental fund costs, with all expenditures coded as purchased services in the General Fund.

- **Administration** – FHEVSD spent $460 more per student than the peer average on administration in FY 2006-07. This is attributed to the employment of more administrators than the peer average on a per 1,000 student basis. See **R3.2** in the **general operations** section for further information.

- **Fiscal Services** – FHEVSD spent $249 more per student than the peer average on fiscal services in FY 2006-07. The higher expenditures are partially attributed to staffing and salary levels within the Treasurer's office. More specifically, staffing levels within the Treasurer's Office equate to 3.0 FTEs per 1,000 ADM, compared to the peer average of 0.9. Similarly, the District pays $81,000 in salaries to employ 1.5 Treasurer's Office FTEs while the peers pay an average of $82,000 for 1.8 FTEs. See **R3.3** in the **general operations** section for further information.

- **Business Services** – FHEVSD spent $66 more per student than the peer average on business services in FY 2006-07. The higher expenditures are attributed to the contract with the Lake Geauga Computer Association for assistance in managing the District's technology. In FY 2006-07, total business service expenditures equaled only $37,101. Furthermore, it should be noted that six of the ten peer districts did not report any business service expenditures.

- **Plant Operation and Maintenance** – FHEVSD spent $237 more per student than the peer average on plant operation and maintenance in FY 2006-07. The higher expenditures can be attributed to the lack of a formal energy management program, and contracting for grounds keeping and some building maintenance services. See **R3.10** and **R3.15** in the **general operations** section for additional information.

- **Extracurricular Activities** – FHEVSD spent $26 more per student than the peer average on extracurricular activities in FY 2006-07. The higher expenditures are attributed to the District maintaining generous salary schedules for supplemental contract positions. See **R3.5** in the **general operations** section for additional information.

Financial & Management Reporting

R2.6 FHEVSD should prepare a budget document containing detailed information and supporting materials that highlight the District's key policies, goals, objectives and issues for the upcoming fiscal year. This will help link the budget to the District's strategic plan (see R2.1). The document should be made available to the public and include a budget summary to allow the public to gain a better understanding of the budget. The budget document should also convey the District's financial outlook

and plan by including information like financial trends and factors affecting the budget, expected tax collections and state funding levels, the anticipated need for future borrowing, and significant changes in fund balances. This can be accomplished, in part, by using information contained in the five-year forecast document (see R2.2). In addition, the budget document should include key performance measures and a guide to operations that illustrates staffing levels and organizational information. Charts and graphs should be used to increase the document's readability.

FHEVSD's Bylaws and Policies indicate that the annual budget "…shall be designed to reflect the objectives of the Board of Education for the education of the students of the District. Therefore, it must be carefully organized and planned to insure adequate understanding of the financial needs associated with the educational program. This necessitates a short-term and long-term understanding of the District's financial requirements." The policy goes on to indicate that "To meet the objective of this policy, the Board directs the Superintendent and Treasurer to include the following in all studies of the educational program:

- An estimated annual cost of implementing said program;
- A long-range plan for the maintenance and replacement of facilities;
- A planning expenditure budget for one year in the future with any figures that can be estimated;
- A plan of anticipated revenues based on changes in state and federal legislation; [and]
- A report to the Board of Education of any serious financial implications arising from the budget plan."

Despite these requirements, FHEVSD did not provide a formal budget document or a supporting schedule for the appropriations measure to confirm adherence to the Board's policies. Additionally, the Superintendent indicated that past budgets were not directly linked to the strategic plan (see **R2.1**). Rather, the annual budget is based on historical costs and knowledge of student enrollment, staffing needs, negotiated agreements, and other similar factors that impact the upcoming school year.

Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting (GFOA, 1999) recommends that governments develop budgets that are consistent with approaches to achieve goals and include a description of key policies, plans and goals, key issues facing the entity, a financial overview of the short and long-term financial plan, a guide to operations, and a budget summary. This publication also indicates that performance measures, including efficiency and effectiveness measures, should be presented in the operating budget document, and should be available to stakeholders. Performance measures should be reported using actual data, where possible. In addition, some of these measures should document progress toward the achievement of the goals and objectives established in the strategic plan.

By developing a budget document, the District would provide stakeholders with a clearer and more thorough understanding of the budget and its relationship to the strategic plan (see **R2.1**) and five-year financial forecast(see **R2.2**).

R2.7 FHEVSD should prepare its annual financial statements in accordance with generally accepted accounting principals (GAAP). This will allow the District to eliminate past financial audit citations, and the costs and negative perception associated with non-compliance fines. This will also improve the reliability and readability of its financial information. To help minimize the cost of GAAP conversions, the Treasurer's Office should complete as much work in-house as possible, obtain multiple bids/quotes, and consider negotiating multi-year contracts to obtain discounted prices. Subsequent to preparing statements in accordance with GAAP, the District should consider preparing a comprehensive annual financial report and popular annual financial report.

FHEVSD is required by the Ohio Administrative Code (OAC) § 117-2-03 to issue financial statements prepared on an accrual basis in accordance with Generally Accepted Accounting Principles (GAAP). However, the financial audit for FY 2003-04 indicates that financial statements were prepared on an accounting basis (cash basis) not in accordance with GAAP. Specifically, the financial statements omitted entity-wide statements, assets, liabilities, fund equities, and other note disclosures. As a result, the financial audit expressed an adverse opinion on the reliability of FHEVSD's financial statements and classified the District as a high risk client. Additionally, the District had to pay a $750 fine for non-compliance. In a written response to this citation, the prior Treasurer indicated that the District would begin preparing the annual financial statements in accordance with GAAP by FY 2005-06. However, the current Treasurer indicated that FHEVSD has not corrected the issue and continues to prepare financial statements (FY 2004-05 and FY 2005-06) on a cash basis. The FY 2004-05 and FY 2005-06 financial audits of FHEVSD had not been publicly released during the course of this performance audit.

According to the Treasurer, it is cheaper for the District to pay the $750 fine associated with non-compliance than to incur the cost of converting its cash basis records to the accrual basis required by GAAP. Although it may cost more to prepare financial statements in accordance with GAAP, there are benefits to financial statement users in having information prepared in a standardized format for all government entities. Specifically, the Governmental Accounting Standards Board (GASB) indicates that "financial reporting plays a major role in fulfilling a government's duty to be publicly accountable. Accountability requires governments to provide credible financial information to its citizens and other readers of this information. Credibility is provided by following nationally recognized standards that are embodied in GAAP." GASB goes on to identify government finance officers, investors, creditors, taxpayers, underwriters, analysts, legislative and oversight bodies, and citizens as primary users of GAAP basis financial reports.

Recommended Practices: Government Accounting, Auditing, and Financial Reporting (GFOA, 2006) indicates that state and local governments should not be satisfied with issuing only the basic financial statements required by GAAP, but should instead publish a comprehensive annual financial report (CAFR). The CAFR would expand the financial reporting model to include information on FHEVSD's operating environment, explanations for past spending decisions and future commitments, as well as budgetary statements and statistical information. Lastly, *Recommended Practices: Preparing Popular Reports* (GFOA, 2001), encourages governments to supplement their annual financial reports with simpler, "popular" annual financial reports (PAFR) designed to assist those who need a less detailed overview of a government's financial activities. Because of the lack of compliance with GAAP, the District has not attempted to prepare a CAFR or PAFR.

Financial Implication: Based on the staffing levels within the Treasurer's office (1.5 FTEs), the District may have to contract with an entity to help convert its cash basis records to the accrual basis required by GAAP. However, the cost of this service is difficult to quantify and will depend on how much work can be completed by District personnel.

R2.8 FHEVSD should hold public meetings with citizens on a regular (e.g., quarterly) basis to discuss a wide range of topics, including the District's financial condition, proposed curriculum modifications, goals and objectives. The District should also explore other methods for obtaining stakeholder feedback, such as periodic surveys, the website (see R2.9), and newsletters. Increased communication will help inform the public about pertinent issues and allow the District to receive the feedback necessary for effective management.

The District's primary method of communicating with citizens is its public Board meetings. Although stakeholder surveys were conducted approximately three years ago, the Assistant Treasurer said this practice has been discontinued. The Assistant Treasurer also indicated the District does not use community forums, newsletters, or the website (see **R2.9**) to communicate financial information to citizens.

The Kansas State Department of Education (KSDE) identifies high levels of parent and community involvement as one tool for improving overall school district performance.

Specifically, KSDE indicates "…that school districts should participate in shared decision making with parents and community, develop formal (businesses adopt schools) and informal relationships with the community, and collaborate with the community to gather, use and disseminate information."

During the performance audit of Painesville Township Local School District (PTLSD), released in March 2007, the Treasurer indicated that PTLSD holds town hall meetings (4 in the preceding year) where discussions take place regarding issues like school funding, permanent improvement levy projects, and curriculum issues. The meeting dates and times are advertised through television, print, and online ads and notices are sent home to inform parents. In addition, PTLSD issues newsletters and administers surveys of the community and parents to determine opinions regarding district operations. For example, the survey issued in the Fall 2006 newsletter, with results published in the Winter 2007 newsletter, solicited community feedback on the level of satisfaction with educational services, fiscal management, and district communications; renaming the school district; the adequacy of facilities and equipment; and measures to alleviate building overcrowding. Separately, the district solicited feedback from parents on various areas, including their satisfaction with the curriculum, quality of teaching, and level of classroom and office discipline. Furthermore, during the performance audit of the Austintown Local School District, released in April 2007, that district provided evidence of holding an annual "State of the Schools" meeting and publishing periodic newsletters to discuss future directions.

R2.9 FHEVSD should update its website to include financial information that could be useful to local citizens and other individuals. By placing pertinent financial information on its website, the District would use a relatively inexpensive method to allow citizens to better understand its financial condition. In addition, a user friendly website could potentially reduce the time and cost associated with a public record requests.

FHEVSD includes a treasurer's page on its website to communicate financial information to interested parties. However, although the treasurer's page lists the five-year forecast, SF-3 and levy information as being available on the website, the links to these documents have not been established and therefore, the documents are not available for viewing. In addition, the Diostrict does not place other financial information on the website that could be useful to interested citizens, such as the audited financial statements and the annual budget.

According to *Using Websites to Improve Access to Budget Documents and Financial Reports* (GFOA, 2003), a government should publish its budget documents and its comprehensive annual financial reports on its website. Furthermore, this publication notes that a government effectively using its website to convey financial information can realize a number of benefits, including increased public awareness, increased public use of the information, and availability of information for use in public analyses. This publication also recommends that governments use the following guidelines when listing information on-line:

- Electronic financial statements should be identical to the printed versions;
- The website should state whether the budget document is the preliminary or approved budget;
- Historical information should be clearly identified and segregated from the current fiscal year; and
- Website security should provide protection from manipulation.

The Westerville City School District (Franklin County) uses its website to communicate key information, including detailed levy information; current budget and forecast documents; property tax, millage, and valuation information; the comprehensive and popular annual financial reports; and local report card information.

Purchasing & Payroll

R2.10 The District should develop a more comprehensive purchasing policy that establishes a minimum threshold for obtaining price quotes. The Treasurer's office should help devise the new threshold with the intent of subjecting more items to competitive pricing without being overly cumbersome for operational units. In addition, the District should develop the purchasing policy to indicate when requests for proposals should be used in contracting for purchased services, and identify the overall process for developing, issuing, and evaluating proposals; dollar thresholds; and types of purchases that would be subject to competitive proposals. These policies will provide the Board with greater assurance that goods and services are being purchased at a fair price and that objective decisions are being made regarding vendor selection.

The District's purchasing policies state that competitive bidding will be used when the cost of a capital asset exceeds $25,000. Although this policy complies with ORC § 3313.46, which mandates that most purchases exceeding $25,000 must be competitively bid, it does not address procedures to be followed when making purchases costing less than $25,000. In addition, the policies do not address requests for proposals (RFPs), including when they should be used in contracting for purchased services.

The Akron City School District requires employees to obtain three price quotes on any item costing more than $6,000. Similarly, the Cincinnati City School District requires various forms of competitive pricing for goods and services costing more than $500. The Florida Office of Program Policy Analysis and Government Accountability (OPPAGA) also recommends that school districts take maximum advantage of the purchasing function by ensuring that effective price quotation policies are in place that require quotes for small purchases less than the dollar limits requiring competitive bidding.

According to *The Contract Management Manual* (Voinovich Center for Leadership and Public Affairs, 2001), an RFP is a form of a bid, and is generally used for services that cannot be summarized in written bid specifications. It recommends numerous elements for inclusion in an RFP. It also indicates that a team should be formed to conduct advanced planning for an RFP, and a team leader should be identified to manage the effort of creating an RFP and determining the evaluation process. In creating the evaluation criteria, the team should identify the significant points to be evaluated in the RFP and assign relative weights to each point. The team also needs to develop a system for scoring the proposals. Additionally, a team should be identified to evaluate the proposal submissions, which may be the same team that conducted the advanced planning. In order to aid in the evaluation process, the *Contract Management Manual* provides the following sample evaluation criteria:

- Responsiveness to all items listed in the RFP;
- Relevance of services to be provided;
- Clarity and measurability of proposal to provide services;
- Continuous improvement strategy;
- Corporate capabilities; and
- Budget and cost-effectiveness.

In the absence of more stringent competitive purchasing policies and and a well-defined RFP process, the District increases the risk of employees not obtaining fair prices for significant purchases and not objectively selecting vendors.

R2.11 The District should consider implementing an on-line requisitioning system at all schools and departments. To facilitate this, FHEVSD should work with the Lake Geauga Computer Association to ensure its current technology is able to support the requisitioning module and that all appropriate users are provided training.

FHEVSD currently uses a manual purchasing process. According to the Treasurer, employees must complete a purchase requisition prior to ordering goods. The hand written purchase requisition is then submitted to the building principal for approval and signature, then forwarded to the Treasurer and Superintendent for their approval and signature.

The District's manual requisitioning process increases the time that a staff member must wait for a purchase order to be executed, when compared to an automated process. In addition, the manual purchasing process involves duplication of effort as employees and supervisors must complete a purchase order by hand and the Assistant Treasurer must re-enter the same information into the accounting system.

An automated purchasing system with on-line requisitioning would increase the efficiency of the purchasing process by eliminating duplications of effort and speeding up the certification/approval process. *Best Practices in Purchasing* (NIGP, 2005) recommends using an automated system for processing requisitions. Specifically, this publication notes that an automated system can provide entities with a single contact, eliminate lost or misplaced documents, and can improve processing time. The District's current USAS software has the capability of on-line requisitioning; however, the District has not used this module.

Financial Implication: Although not readily quantifiable, the costs of implementing an on-line requisitioning system will depend upon several factors, such as the ability of the District's current technology to support the requisitioning module and related training needs.

R2.12 FHEVSD should consider adjusting the payroll schedule to allow for a two week delay from the time payroll information is submitted to the time when the monies are released to the employees. This would allow the District to process payroll and effectively implement direct deposit to distribute payroll. Once the payroll schedule has been modified, the District should consider negotiating a requirement that all employees be paid through direct deposit.

FHEVSD uses a manual process to pay all of its employees on a schedule of 26 pays per year. Direct deposit is not offered to employees due to timing issues associated with how the District processes the payroll. More specifically, the District processes payroll with a one week delay, which means that the District has approximately four working days to process payroll from the time employee timesheets are submitted (Friday of week 1) to the time that checks are printed and delivered to the employees (the following Friday of week 2). The Assistant Treasurer indicated that the District investigated implementing direct deposit several years ago. However, the District's bank requires that payroll information be submitted on the Wednesday before the pay date, which only allows for approximately three days of processing under the current schedule. The Assistant Treasurer also indicated that it is difficult to process the payroll under the current schedule and losing the additional day for direct deposit would make the task even more difficult.

According to *Accounting Best Practices* (Steven M. Bragg, 2005), entities should take advantage of direct deposit. Using direct deposit can help eliminate steps involved in issuing paychecks, including the following:

- Printing checks, including manual cancellation of the first batch of checks and new print runs when the initial check runs fail;
- Signing checks;
- Distributing checks; and
- Tracking checks not cashed and following up with employees.

Besides avoiding some of the steps involved with issuing paychecks, direct deposit offers the advantage of putting money in employee bank accounts without delay. However, paper notification of direct deposit payment may still need to be shared with employees. While this would require printing and distribution steps, there would not be a requirement for signing notifications or tracking pay checks not yet cashed by employees. *Accounting Best Practices* further indicates that if properly implemented, direct deposit can be a clear advantage to both the accounting department and employees.

Financial Implication: Although the savings associated with direct deposit cannot be completely quantified, the minimum financial savings is estimated to be $650 based on information provided by the National Automated Clearing House Association.

Financial Management Policies

R2.13 FHEVSD should update its existing code of ethics policy to include all District staff and cover the pertinent areas identified by the Ohio Ethics Commission's model ethics policy. Subsequently, the District should distribute and explain the policy to all employees.

The District has a comprehensive code of ethics policy in place for Board members that identifies ethical standards and basic principles and procedures. The District's code of ethics policy states that Board members should avoid conflicts of interest and the use of membership for personal gain or even the appearance of impropriety. However, the policy does not address other specific restraints identified by the Ohio Ethics Commission (OEC) in a model ethics policy. Additionally, the code of ethics policy is written solely for Board members. The District does not have a similar policy to guide the decision-making process for employees, which increases the risk that employees may unknowingly participate in activities that could be perceived as unethical (e.g., accepting small gifts, door prizes, or dinners from vendors).

The Ohio Ethics Commission (OEC) states the underlying principle for all functions of the ethics law is to uphold straight-forward standards of conduct that maintain integrity and propriety in connection with decisions and policy involving public funds. Particularly, the law prohibits conflicts of interest or personal gain in making and implementing public decisions. Additionally, the OEC offers a model ethics policy for local governments. The model ethics policy lists a number of general standards for ethical conduct as well as ethics requirements and penalties associated with compliance failure. A general summary of restraints on the conduct of all officials and employees includes, but is not limited to, those listed below. No official or employee shall:

- Solicit or accept anything of value from anyone doing business with the agency;

- Solicit or accept employment from anyone doing business with the agency, unless the official or employee completely withdraws from agency activity regarding the party offering employment, and the agency approves the withdrawal;

- Use his or her public position to obtain benefits for the official or employee, a family member, or anyone with whom the official or employee has a business or employment relationship;

- Be paid or accept any form of compensation for personal services rendered on a matter before any board, commission, or other body of the agency, unless the official or employee qualifies for the exception, and files the statement, described in ORC § 102.04(D);

- Hold or benefit from a contract with, authorized by, or approved by, the agency;

- Vote, authorize, recommend, or in any other way use his or her position to secure approval of an agency contract (including employment or personal services) in which the official or employee, a family member, or anyone with whom the official or employee has a business or employment relationship, has an interest;

- Solicit or accept honoraria;

- During public service, and for one year after leaving public service, represent any person, in any fashion, before any public agency, with respect to a matter in which the official or employee personally participated while serving with the agency;

- Use or disclose confidential information protected by law, unless appropriately authorized; and

- Use, or authorize the use of, his or her title, the name of the agency, or the logo in a manner that suggests impropriety, favoritism, or bias by the agency or the official or employee.

Although the District has developed a code of ethics for Board members, expanding the policy to cover the areas suggested by OEC and including all other employees will better define the principles to guide staff behavior.

R2.14 FHEVSD should develop policies covering stabilization of funds, fees and charges, balanced budget, use of one-time revenues, revenue diversification, and contingency planning. Addressing such areas would help guide decision-making, thereby reducing the risk of making uninformed decisions. Lastly, FHEVSD should develop a periodic schedule for reviewing policies and identifying appropriate changes, including the other policies recommended in this performance audit. This will ensure that the policies continue to be relevant.

The Board has developed comprehensive financial policies to help guide the District's financial decision making. However, the majority of Board policies were developed in 1985 and have not been updated. Additionally, the Board policies are not placed on the website for public viewing. The Treasurer indicated the District is currently reviewing each of the policies and revising them as necessary to reflect the current operations. The Treasurer estimated that the updated policies would be complete by the end of FY 2007-08.

In addition, FHEVSD lacks certain specific policies recommended in *Best Practices in Public Budgeting* (GFOA, 2000). A summary description of these policies includes the following:

- **Stabilization of funds:** A government should maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures. The policies should establish how and when a government builds up stabilization funds and the purposes for which they may be used. Once developed, the policies should be identified in other government documents, including planning and management reports.

- **Fees and charges:** A government should adopt policies that identify the manner in which fees and charges are set and the extent to which they cover the cost of the service provided. Policies that require identification of both the cost of the program and the portion of the cost that will be recovered through fees and charges allow governments and stakeholders to develop a better understanding of cost of services and consider the appropriateness of established fees and charges.

- **Balancing the operating budget:** A government should develop a policy that defines a balanced operating budget, encourages commitment to a balanced budget under normal circumstances, and provides for disclosure when a deviation from a balanced operating budget is planned or when it occurs.

- **Use of one-time revenues:** A government should adopt policies limiting the use of one-time revenues for ongoing expenditures. One-time revenues and allowable uses for those revenues should be explicitly defined. The policy should be publicly discussed before adoption and should be readily available to stakeholders during the budget process.

- **Revenue diversification:** A government should adopt policies that encourage a diversity of revenue sources. The policy should identify approaches that will be used to improve revenue diversification. An analysis of particular revenue sources is often undertaken in implementing the policy. This assessment should review the sensitivity of revenues to changes in rates, the fairness of the tax or fee, administrative aspects of the revenue source, and other relevant issues.

- **Contingency planning:** A government should have policies to guide the financial actions it will take in the event of emergencies, natural disasters, or other unexpected events. This policy should identify types of emergencies or unexpected events and the way in which these situations will be handled from a financial management perspective. It should consider operational and management impacts.

Once developed, GFOA recommends the financial policies be available to the public and reviewed on a periodic basis.

Financial Recovery Plan

R2.15 FHEVSD should analyze the financial recovery plan outlined in Table 2-6 to evaluate the effect of recommendations presented in this performance audit. FHEVSD should consider implementing the recommendations in this performance audit and taking other appropriate actions to improve its financial condition. In addition, the Treasurer should update the District's financial recovery plan on an on-going basis to address changes in critical financial issues and factors affecting the projections. The Treasurer should monitor revenue and expenditure activities, and review actual performance against budgeted and projected figures. Lastly, FHEVSD should regularly discuss potential options for reducing costs and/or increasing revenues with stakeholders to help determine future strategies for addressing the projected deficits.

Table 2-6 presents a potential recovery plan to assess the impact performance audit recommendations will have on the District's financial condition. **Table 2-6** also includes the revised projections discussed throughout this section of the audit report and the cumulative effect of the audit recommendations.

The District will need to make difficult management decisions in order to restore financial stability. The recovery plan shown in **Table 2-6** assumes the District will reduce the certificated and administrative staffing levels, negotiate reduced wage increases for all employees through FY 2011-12, and increase employee healthcare contributions. However, even when the financial implications of all the performance audit recommendations are included, **Table 2-6** projects negative ending fund balances in FY 2010-11 and FY 2011-12.

FHEVSD placed a 9.0 mill continuing levy on the ballot in March, 2008. The combination of the tax levy and the performance audit recommendations would have been sufficient to eliminate the deficits shown in **Table 2-6**. However, voters defeated this levy proposal. As a result, it will be necessary for the District to consider other methods for reducing costs that are not identified in this performance audit. It may also be necessary for the District to consider options including revised levy proposals, or pooling additional resources with other school districts. The District is encouraged to implement **R2.8** (holding regular community forums and conducting stakeholder surveys) prior to adopting the next strategy for addressing the projected deficits. This will ensure the District considers the community's desire regarding additional taxes and future support for maintaining an independent school district.

Finally, the recovery plan in **Table 2-6** will depend, in part, on the attainment of the District and AOS revised projections. Therefore, monitoring the attainment of the projections and updating the recovery plan as necessary will ensure the District bases future decisions on a reliable forecast. It should also be noted that the District may be able to surpass the conservatively estimated savings related to energy management (see **R3.15** in general operations) and reduce costs in several areas (e.g., special education) that were not quantified in this performance audit.

Table 2-6: FHEVSD Financial Recovery Plan (in 000's)

	Actual 2004-05	Actual 2005-06	Actual 2006-07	Forecast 2007-08	Forecast 2008-09	Forecast 2009-10	Forecast 2010-11	Forecast 2011-12
Real Estate Property Tax	$1,976	$2,243	$2,525	$2,465	$2,509	$2,582	$2,628	$2,676
Tangible Personal Property Tax	321	279	199	130	34	5	0	0
State Funding	1,270	1,253	1,475	1,250	1,269	1,288	1,307	1,327
Property Tax Allocation	315	332	261	416	513	547	557	509
Other Revenues	918	937	765	819	828	836	844	853
Total Operating Revenues	**$4,800**	**$5,044**	**$5,225**	**$5,080**	**$5,153**	**$5,258**	**$5,336**	**$5,365**
Salaries & Wages	2,722	2,525	2,527	2,559	2,700	2,849	3,005	3,171
Fringe Benefits	951	968	1,017	1,128	1,227	1,336	1,456	1,586
Purchased Services	1,035	1,162	1,314	1,045	1,153	1,274	1,409	1,561
Supplies, Materials & Textbooks	97	71	91	160	163	166	170	173
Capital Outlay	0	1	3	5	5	5	5	5
Other Object	62	68	132	141	142	143	145	146
Total Operating Expenditures	**$4,867**	**$4,794**	**$5,084**	**$5,038**	**$5,390**	**$5,773**	**$6,190**	**$6,642**
Net Transfers/ Advances	37	(50)	(30)	(64)	(62)	(62)	(62)	(62)
Other Sources/Use	11	(50)	7	5	5	5	5	5
Net Financing	**$48**	**($100)**	**($23)**	**($59)**	**($57)**	**($57)**	**($57)**	**($57)**
Result of Operations (Net)	**($19)**	**$150**	**$118**	**($17)**	**($294)**	**($572)**	**($911)**	**($1,334)**
Beginning Cash Balance	$42	$23	$173	$291	$274	($20)	($592)	($1,503)
Ending Cash Balance	**$23**	**$173**	**$291**	**$274**	**($20)**	**($592)**	**($1,503)**	**($2,837)**
Encumbrances	19	42	113	50	50	50	50	50
Budget Reserve	28	28	28	28	28	28	28	28
Ending Fund Balance	**($24)**	**$103**	**$150**	**$196**	**($98)**	**($670)**	**($1,581)**	**($2,915)**
Cumulative Impact of Performance Audit Recs.	0	0	0	0	$366	$794	$1,289	$1,852
Revised Ending Fund Balance	**($24)**	**$103**	**$150**	**$196**	**$268**	**$124**	**($292)**	**($1,064)**

Source: FHEVSD
Note: The performance audit recommendations are increased each year based on the Treasurer's assumptions or AOS revised assumptions.

Table 2-7 summarizes the performance audit recommendations reflected in the revised five-year forecast. Recommendations are divided into two categories, those requiring negotiation and those not subject to negotiation.

Table 2-7: Performance Audit Recommendations Included in Recovery Plan

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Recommendations Not Subject to Negotiation				
R3.1 Reduce 2.5 regular education teaching FTEs	$112,000	$118,200	$124,700	$131,500
R3.2 Reduce 1 FTE administrative position	$98,000	$103,400	$109,100	$115,100
R3.3 Reduce staffing within treasurer's office/clerical function by 0.5 FTEs	$15,800	$16,700	$17,600	$18,500
R3.9 Reduce sick leave usage through stronger contract language	$7,500	$7,700	$8,000	$8,200
R3.10 Reduce the cost of purchased services through revised staffing allocation	$4,800	$4,900	$5,100	$5,200
R3.15 Adopt formal energy management policies and procedures, and assign someone to monitor energy use	$18,000	$18,600	$19,300	$20,000
Subtotal Not Subject to Negotiations	***$256,100***	***$269,500***	***$283,800***	***$298,500***
Recommendations Subject to Negotiation				
R2.12 Negotiate mandatory direct deposit	$700	$700	$700	$700
R3.4 Negotiate reduced wage increases in the next bargaining agreement, and/or adjust salary schedules.	$0	$38,100	$77,600	$118,400
R3.6 Negotiate to have all employees contribute at least 10 percent of health insurance premiums and make the Super Med Select the base plan	$109,200	$120,100	$132,100	$145,300
Subtotal Subject to Negotiations	***$109,900***	***$158,900***	***$210,400***	***$264,400***
Total all Recommendations	***$366,000***	***$428,400***	***$494,200***	***$562,900***

Source: AOS recommendations

General Operations

Background

This section of the performance audit focuses on certain aspects of Fairport Harbor Exempted Village School District's (the District or FHEVSD) human resources, facilities, and technology operations. District operations were evaluated against best or recommended practices, industry benchmarks, operational standards, and selected peer school districts[1] for the purpose of developing recommendations to improve efficiency and business practices. Recommendations also identify potential cost savings to assist the District in its efforts to address projected deficits. Best or recommended practices and industry standards were drawn from various sources, including the American Society for Public Administration (ASPA), the State Employment Relations Board (SERB), the Ohio Department of Administrative Services (ODAS), the American Schools and University (AS&U) *Maintenance & Operations Cost Study*, the National Center for Educational Statistics (NCES), and E-Tech Ohio, and the Texas School Performance Review's *Helping Schools Make Technology Work* (TSPR, 2003).

Organizational Structure

FHEVSD does not have a separate department dedicated to human resource functions. The District's Treasurer, Assistant Treasurer, Superintendent, and two secretaries complete the major human resource functions, including hiring, terminating, managing and evaluating employees; negotiating collective bargaining agreements; administering the health insurance programs; processing payroll; and reporting information through the Education Management Information System (EMIS).

The custodial and maintenance staff is responsible for the operation and upkeep of FHEVSD's facilities. The custodial staff is responsible for cleaning the buildings and completing minor repairs. The work is performed by 3.5 full-time equivalent (FTE) custodial staff consisting of one full-time cleaner, a tradesmen who splits time equally between custodial and maintenance duties, and two full-time custodians. The tradesman completes more extensive repairs and routine maintenance involving plumbing, electrical, HVAC, boilers, carpentry, and masonry tasks. The District uses a local contractor to complete the grounds keeping function. The custodial and maintenance staff and the local contractor report to the Superintendent.

FHEVSD operates two school buildings: one elementary school (kindergarten through 5th grade) and one high school (6th grade through 12th grade). Both school buildings were originally constructed in 1922, and received additions in 1953. The most recent addition to the high school

[1] See **executive summary** for a list of the peer districts and an explanation of the selection methodology.

building was completed in 1963. Voters in the District passed a 2.0 mill permanent improvement levy in 1997 that generates approximately $88,000 annually, which is used to complete the majority of building repairs.

FHEVSD does not have any full-time employees dedicated to managing its acquisition, support and training for new technology. Rather, the District contracts with the Lake Geauga Computer Association (LGCA), which is one of 23 information technology centers licensed by the Ohio Department of Education (ODE) to provide a technician one day per week. The technician performs all network and computer maintenance and repair duties, and works with the Superintendent and Treasurer to develop the District's long-term technology plan and coordinate technology purchases.

Financial Data

Table 3-1 compares FHEVSD's FY 2006-07 General Fund custodial and maintenance related expenditures on a per square foot basis to the peer average and the American Schools and Universities (AS&U) national median for FY 2006-07.

Table 3-1: FY 2006-07 Expenditures per Square Foot

Object Code	Fairport Harbor EVSD	Peer Average	AS&U National Median
Salaries/Benefits	$3.33	$2.42	$2.56
Purchased Services	$0.59	$0.53	$0.01
Utilities	$2.21	$1.18	$1.71
Supplies, Materials, and Equipment	$0.40	$0.47	$0.32
Miscellaneous	$0.00	$0.03	$0.49
Total General Fund	**$6.53**	**$4.63**	**$5.09**
All Fund Utilities	$2.21	$1.30	$1.71
All Funds	**$7.23**	**$5.14**	**$5.09**

Source: Fairport Harbor EVSD, the Similar Districts (ODE) and AS&U
Note: AS&U expenditures represent budgeted expenditures for FY 2006-07, which do not distinguish between General Fund and other funds.

Table 3-1 shows the District's total General Fund custodial and maintenance expenditures per square foot are 41 percent higher than the peer average and 28 percent higher than the AS&U national median. When including all funds, the District's expenditures per square foot are approximately 41 to 42 percent higher than the peer average and AS&U national median. The higher expenditures are due to the District's salaries and benefits, purchased services and utilities. These areas exceeded both the peer average and the AS&U national median. The higher expenditures for salaries and benefits can be attributed to generous salary levels and not requiring employees to contribute towards the cost of the health insurance premiums (see **R3.4** through **R3.6**). The purchased service costs can be attributed to outsourcing certain functions, such as grounds maintenance and some building maintenance activities (see **R3.10**). Lastly, the higher utility expenditures can be partially attributed to the District's lack of formal energy management policies and procedures (see **R3.15**).

Staffing

Table 3-2 compares FHEVSD's full-time equivalent (FTE) employees per 1,000 students to the peer average.

Table 3-2: FHEVSD Staffing Comparison (FTEs per 1,000 Students)

Staffing Category	Fairport Harbor EVSD	Peer Average	FTE Differences from Peer Average
Students Educated (FTE)[1]	502	1,889	(1,387)
Administrators	9.96	6.00	3.96
Educational Staff	66.73	65.77	0.96
Professional Staff	2.85	1.61	1.24
Technical Staff	0.00	2.60	(2.60)
Office/Clerical Staff	9.96	8.67	1.29
Crafts & Trades Workers	0.00	1.12	(1.12)
Custodians/Groundskeepers	7.97	6.28	1.69
Bus Drivers[2]	0.00	6.22	(6.22)
Food Service Workers[2]	0.00	5.46	(5.46)
All Other Reported Personnel	1.08	3.69	(2.61)
Total FTEs	**98.55**	**107.42**	**(8.92)**

Source: FY 2006-07 EMIS data reported to ODE

Note: The District's staffing and enrollment reports for FY 2007-08 became available during the course of this performance audit. Due to the reported increase in students, the District's reported number of FTEs per 1,000 students declined to 88.40 in FY 2007-08. However, the FY 2007-08 data does not affect the recommendations in this performance audit.

[1] Includes students receiving educational services from the district and exclude the percent of time students are receiving educational services outside the district.

[2] The District does not provide transportation or food services through in-house operations. Rather, the District outsources the transportation for certain special education students, field trips and athletic events. Similarly, students must either provide their own lunch or purchase a lunch from an outside vendor that brings daily meals to the school buildings.

Table 3-2 shows that FHEVSD employs fewer FTEs per 1,000 students when compared to the peer average. However, the District employs more FTEs per 1,000 students than the peer average in the following areas: administrators (see **R3.2**), educational staff (see **R3.1**), professional and clerical (see **R3.3**), and custdians/groundskeepers (see **R3.10**).

Salaries

Table 3-3 compares FHEVSD's average salaries for administrative, certificated, and classified staff to the peer average for FY 2006-07.

Table 3-3: FHEVSD Salary Comparison

Classification	Fairport Harbor EVSD	Peer Average	Percentage Difference
Administrative	$65,740	$66,958	(1.8%)
Certificated	$50,843	$48,745	6.2%
Classified & Professional	$38,604	$28,826	33.9%
Total Average Reported Salary	$48,842	$40,693	20.0%

Source: FHEVSD and peer 2006-07 school year EMIS reports

Table 3-3 shows that FHEVSD's average certificated and classified/professional salaries are higher than the peer average (see **R3.4**).

Negotiated Agreement

The District's has one collective bargaining agreement (CBA) that covers all certificated staff and support personnel. The agreement took effect on July 1, 2006 and runs through June 30, 2009. The CBA will be open for negotiation during FY 2008-09. As part of the performance audit, certain contractual and employment issues were assessed and compared to Ohio law and industry benchmarks. See **R3.4**, **R3.5**, **R3.6**, **R3.8** and **R3.9** for more information.

Recommendations

Staffing

R3.1 FHEVSD should continually monitor student-to-teacher ratios and regularly evaluate the impact of potential staffing changes on the District, both financially and educationally. If the District does not implement the performance audit recommendations, identify other strategies to reduce costs, and/or experience increases in student population, it should review its regular teacher staffing levels and consider reducing them by 2.5 to 8.0 FTEs. The number of reductions would depend on the enrollment by grade level at the time of implementing this recommendation. However, the District should evaluate decisions to reduce regular teacher staffing levels against the impact the reductions may have on the District's education levels and student achievement.

For regular education staffing levels, FHEVSD is required by Ohio Administrative Code (OAC) § 3301-35-05 to employ at least one FTE classroom teacher for every 25 regular education students on a district-wide basis. FHEVSD's regular student to regular teacher ratio of 16.8:1 is lower than the peer average (18.6:1) and the minimum requirements stipulated in OAC § 3301-35-05 [2]. Likewise, when including all students, the District's ratio of 18.9:1 is lower than the peer average of 21.3:1.

Based on the FY 2006-07 enrollment, the District could reduce staffing by approximately 8 regular education teacher FTEs and still comply with State minimum requirements. However, it may be difficult for FHEVSD to achieve this reduction based on the enrollment in certain grade levels. **Table 3-4** shows FHEVSD's FY 2006-07 enrollment and staffing requirements (FTEs and minimum number of teachers) assuming the District achieved at least a 25:1 student-to-teacher ratio at each grade level. **Table 3-4** reflects all students because the enrollment report does not separately report regular students by grade. As a result, this presents a conservative estimate of teacher staffing requirements.

[2] OAC 3301-35-05 also requires that school districts employ a minimum of five education service personnel for every 1,000 regular education students. ESP positions are classified as art, music, and physical education teachers; counselors; registered nurses; social workers; and library/media specialists. Based on the ESP staffing levels and regular student enrollment in FY 2006-07, the District exceeds the State minimum requirements by only 0.7 FTEs.

Table 3-4: FHEVSD 2006-07 Enrollment by Grade

Grade Level	Enrollment	Teachers Required to Achieve 25:1 Ratio	Minimum # of Teacher FTEs Required
Kindergarten	21.50	0.86	1.00
1st Grade	37.00	1.48	2.00
2nd Grade	29.00	1.16	1.00
3rd Grade	39.00	1.56	2.00
4th Grade	44.00	1.76	2.00
5th Grade	37.00	1.48	2.00
6th Grade	34.00	1.36	2.00
7th Grade	48.00	1.92	2.00
8th Grade	51.00	2.04	2.00
9th Grade	49.00	1.96	2.00
10th Grade	47.00	1.88	2.00
11th Grade	43.50	1.74	2.00
12th Grade	32.25	1.29	2.00
Total	**512.25** [1]	**20.49**	**24.00**

Source: FHEVSD 2006-2007 school year EMIS reports
[1] This is slightly higher than enrollment count in **Table 3-2** (502) because the EMIS report does not exclude the student time instructed elsewhere by grade level.

As shown in **Table 3-4**, the District would be required to employ a minimum of 20.5 regular teaching FTEs in order to achieve a 25:1 student-to-teacher ratio at each grade level. However, because it may be difficult to allocate teachers across multiple grade levels to account for the partial FTEs shown in **Table 3-4**, the District would likely need to employ a minimum of 24 FTEs. FHEVSD employed 26.5 regular education teacher FTEs in FY 2006-07.

Open enrollment comprised 21 percent of the District's total enrollment in FY 2006-07. The Superintendent indicated the District will only accept open enrollment students until it achieves 50 students per grade level, which would allow for efficient use of current building capacities and staffing resources. The District's teacher staffing levels (26.5 FTEs) could accommodate 50 students per grade level and still comply with the minimum staffing requirements stipulated in OAC § 3301-35-05. Additionally, with the exception of FY 2006-07, total enrollment has been fairly stable during the last five years, averaging approximately 540 students (119 open enrollment students), or 42 students per grade level. In FY 2006-07, the total enrollment declined to 515 students (110 open enrollment students)[3].

[3] These historical enrollment figures come from the District's SF-3 reports. The open enrollment student counts reflect a net figure because they account for the students leaving the District via open enrollment.

Financial Implication: Eliminating 2.5 regular education teacher FTEs is estimated to save the District approximately $112,000 annually in salaries and benefits, based on the teachers with the lowest salaries.

R3.2 If the District does not implement the performance audit recommendations or identify other strategies to help eliminate the projected deficits (see Table 2-6 in financial systems), it should consider eliminating one principal FTE. However, prior to eliminating a principal FTE, the District should ensure that taking such action is feasible based on licensure requirements for principals. The District should also evaluate the option of eliminating a principal position against the impact the elimination may have on the District's ability to effectively manage the operations at each school. Furthermore, the District should ensure staffing information is correctly reported in EMIS.

Table 3-5 compares the staffing levels of all administrative personnel at FHEVSD with the peer average.

Table 3-5: Administrative Staffing Summary

	Fairport Harbor EVSD			Peer Average			Differences		
Position Titles	FTEs Reported	Percent of Total FTE	Per 1,000 Students	FTEs Reported	Percent of Total FTE	Per 1,000 Students	FTEs Reported	Percent of Total FTE	Per 1,000 Students
Total Administrators	**5.0**	**10.1%**	**10.0**	**11.3**	**5.6%**	**6.0**	**(6.3)**	**4.5%**	**3.8**
Site Based Administrators	2.0	4.0%	4.0	5.0	2.4%	2.6	(3.0)	1.6%	1.3
Central Administrators	3.0	6.1%	6.0	6.3	3.3%	3.4	(3.3)	2.8%	2.5

Source: FY2006-07 FHEVSD and peer EMIS reports

Table 3-5 shows that the District's central administrative staffing levels are higher than the peer average on a per 1,000 student basis. The central administrative staffing levels consist of 1.0 full-time Superintendent, a part-time Treasurer (0.5 FTE), and 1.5 coordinator FTEs. The higher staffing levels are partially due to the District miscoding the coordinator position. Specifically, one District employee serves as a full-time principal and receives supplemental pay to serve as a special education coordinator. Although this employee receives only $5,000 for the supplemental position, the District reported the employee as 1.0 FTE in the site based classification (principal) and 1.0 FTE in the central administration classification (coordinator). When removing this position from central administration, the District's revised central administrator FTEs per 1,000 students declines to 3.9, which is more comparable to the peer average (3.4). The remaining 0.5 FTE in the District's coordinator classification represents a contracted service through the LGCA to assist in preparing and filing EMIS reports. Additionally, each of the peers employs a full-time superintendent and treasurer.

The District's site based administrators consist of 2.0 building principal FTEs. Although **Table 3-5** shows the District employs more principal FTEs per 1,000 students (4.0 FTEs) than the peer average (2.6 FTEs), the District has one principal per building, which is similar to the peer average. Additionally, OAC § 3301-35-05 indicates that "every school shall be provided the services of a principal, and every school with fifteen or more full-time equivalent classroom teachers shall be assigned the services of a full-time principal. No principal shall be assigned to more than two schools." In FY 2006-07, the District employed 26.5 regular (classroom) teacher FTEs for its two buildings. As a result, the District has the ability to eliminate a principal position and still comply with OAC § 3301-35-05.[4] However, OAC § 3301-24-05 (G)(1) includes the professional administrator licensure requirements for principals, which can impact the District's ability to eliminate one principal position. OAC § 3301-24-05 (G)(1) states the following: "The principal license shall be added to a valid professional teacher license after successful completion of the entry year program for principals and shall be valid for working with:

- Ages three through twelve and pre-kindergarten through grade six with an early childhood, middle childhood, multi-age, or intervention specialist license;

- Ages eight through fourteen and grades four through nine for those with a middle childhood, multi-age, adolescence to young adult, intervention specialist license, or career-technical license; and

- Ages ten through twenty-one and grades five through twelve for those with a middle childhood, multi-age, intervention specialist, adolescence to young adult, or career-technical license."

The performance audit did not review the impact of the aforementioned licensure requirements on the District's ability to operate with only one principal position. If the District's K-6 grade building principal possessed only an early childhood license and the 7-12 grade building principal possessed only a career-technical license and/or adolescence to young adult license, it appears that OAC § 3301-24-05 (G)(1) would prevent the District from using only one of its current principals to be responsible for both school buildings. In addition, OAC § 3301-24-11 provides the requirements for a one-year alternative principal license (renewable two times), which can be obtained prior to the professional license for principals.

[4] The District reported 27.38 regular teacher FTEs for FY 2007-08.

Lastly, the Treasurer indicated that several years ago, under the prior Superintendent, the District made a decision to eliminate the high school principal position and have the Superintendent function in this capacity since the administration building is in the secondary school building. However, the Board felt that it was difficult for the Superintendent to fill this role on a daily basis and still effectively manage the District. As a result, upon the departure of the prior Superintendent, the District made the decision to separate these positions by hiring a full-time principal and full-time Superintendent. The District has been operating in this fashion since August 2006.

Financial Implication: The annual savings associated with eliminating 1.0 principal FTE are estimated to be approximately $98,000 in salary and benefits, based on the lower-salaried principal.

R3.3 The Board of Education (the Board) should consider reducing staffing levels in the Treasurer's Office and clerical function by 0.5 FTE. When considering this reduction, the Board should review the internal control structure to ensure a proper segregation of duties for key accounting functions such as payroll, purchasing, and banking, which may require training the remaining staff. Automating the purchase requisition system and using direct deposit to process payroll could help the District eliminate 0.5 FTE (see R2.12 and R2.13 in financial systems). The Board should also review salary levels in the Treasurer's office to ensure they are appropriate.

Table 3-6 compares expenditures per student for fiscal services to the peer average in FY 2006-07, as well as the portion of total governmental fund expenditures attributable to fiscal services. The fiscal services function code includes operating costs for the Treasurer's office.

Table 3-6: Peer Comparison of Fiscal Services

	Fairport Harbor EVSD		Peer Average	
USAS Function Classification	**$ Per Pupil**	**% of Exp**	**$ Per Pupil**	**% of Exp**
Fiscal Services	$519	5.0%	$270	3.0%

Source: FHEVSD and peer 4502s, Exhibit 2s

Table 3-6 shows that FHEVSD's cost per student for fiscal services was approximately 92 percent higher than the peer average. The higher expenditures are primarily attributable to the staffing level in the Treasurer's office. **Table 3-7** compares FHEVSD's Treasurer's Office staffing level to the peer average. Staffing for the treasurer's office is assumed to consist of the Treasurer, Accounting (other professional staff for FHEVSD), and the Bookkeeping EMIS classifications.

Table 3-7: Peer Comparison of Total Treasurer's Office Employees

	Fairport Harbor EVSD	Peer Average
Total Treasurer's Office FTEs	1.5	1.8
FTEs Per 1,000 Students	3.0	1.1

Source: FHEVSD and peer EMIS Reports from FY2006-2007

Table 3-7 shows that the District's total Treasurer's Office staffing levels are higher than the peer average on a per 1,000 student basis. FHEVSD's Treasurer's Office consists of a part-time Treasurer (0.5 FTE) and a full-time Assistant Treasurer (1.0 FTE). By comparison, of the ten school districts that comprise the peer average in **Table 3-7**, six reported employing one full-time treasurer (1.0 FTE) and no accounting or bookkeeping employees. It is possible that the peers reported some Treasurer's Office employees as clerical staff in EMIS. When accounting for the transfer of 1.0 clerical FTE to the teaching aide classification in FY 2007-08, the District employs 6.0 clerical FTEs per 1,000 students. This is close to the peer average of 5.8 clerical FTEs per 1,000 students. However, when combining Treasurer's Office and clerical FTEs, the District employs 9.0 combined FTEs per 1,000 students, which is higher than the combined peer average of 6.6. If the District eliminated 0.5 to 1.0 FTE within the Treasurer's Office/clerical function, it would employ 7.0 to 8.0 combined FTEs per 1,000 students[5]. These ratios would still be higher than the combined peer average. Furthermore, the District would have 3.5 to 4.0 remaining FTEs that could be involved in completing Treasurer's Office and clerical functions.

Salary levels for the Treasurer's Office employees also contribute to the higher operating costs shown in **Table 3-6**. In FY 2006-07, the District spent approximately $81,000 in salaries to employ 1.5 FTEs within the Treasurer's Office. By comparison, the peers spent an average of $82,000 to employ 1.8 FTEs. Furthermore, the average salary expenditure for the six school districts that only reported a treasurer was approximately $70,000.

Financial Implication: In order to be conservative, reducing staffing levels by 0.5 FTE would result in an estimated savings of $15,800 in salaries and benefits, based on the lower-salaried clerical staff. .

[5] Based on the FY 2007-08 enrollment which became available during the course of this performance audit, the District would employ 6.4 to 7.3 combined FTEs per 1,000 students. The combined peer average of 6.6 FTEs per 1,000 students falls within this range.

Compensation

R3.4 FHEVSD should address its high certificated and classified salaries by negotiating new salary schedules for all positions and/or granting lower negotiated wage increase (NWIs) to base salaries in the future. Taking these measures would help to bring compensation more in line with peer districts.

Table 3-3 shows that FHEVSD's average employee salary for certificated staff is approximately six percent higher than the peer average while the average classified/professional salary is approximately 34 percent higher. The higher salaries equate to $2,098 more per certificated employee or approximately $70,283 annually in additional salary expenses, and $9,778 per classified/professional employee or approximately $92,891 annually in additional salary expenses. The higher certificated salaries are due to generous negotiated step schedules rather than employee longevity. For instance, the District's teachers average approximately 12 years of experience while the peers average 16 years. Furthermore, **Table 3-8** compares FHEVSD's certificated salary schedules for employees with a bachelors and masters degree to Girard City School District, Lowellville Local School District, and Columbiana Exempted Village School District. These districts were chosen based on their proximity and size in comparison to FHEVSD.

Table 3-8: Certificated Salary Schedule Analysis for the 2007-08 School Year

Salary Schedule Step	Fairport Harbor EVSD	Three Peer Average	$ Difference from Peer Average	% Difference from Peer Average
Bachelor's Degree				
Beginning Step	$31,058	$27,942	$3,115	11.1%
Step 10	$46,586	$41,301	$5,285	12.8%
Last Step	$54,351	$50,160	$4,190	8.4%
Master's Degree				
Beginning Step	$33,542	$30,720	$2,822	9.2%
Step 10	$52,177	$46,190	$5,986	13.0%
Last Step	$70,811	$57,309	$13,502	23.6%

Source: FHEVSD and peer negotiated agreements.

Table 3-8 shows that the beginning, middle, and ending steps of FHEVSD's salary schedules are all significantly higher than the respective peer averages. In addition to a higher ending salary, FHEVSD teachers obtain their maximum salary in fewer years than the peers. Specifically, the District earns the maximum salary at step 20, compared to the peer average of 24.3. The District's current contract stipulates wage increases of 3.0 percent in FY 2006-07, 2.5 percent in FY 2007-08, and 2.5 percent in FY 2008-09. If the District does not renegotiate the salary schedules, it would have to negotiate annual wage increases of one percent from FY 2009-10 through FY 2011-12 before the average certificated salary would be lower than the peer average, assuming the peers negotiate three percent annual wage increases during this timeframe.

The higher classified/professional salaries are also due to generous step schedules. **Table 3-9** compares FHEVSD's hourly pay rates for custodial and teaching aide employees to Girard City School District, Lowellville Local School District, and Bath Local School District. These employee classifications were chosen because they represent a majority of the classified staff at FHEVSD. Additionally, Bath Local School District was used for this comparison because Columbiana Exempted Village School District does not include the salary schedules within the classified bargaining agreements.

Table 3-9: Classified Hourly Rate Analysis for the 2007-08 School Year

	Fairport Harbor EVSD	Three Peer Average	$ Difference from Peer Average	% Difference from Peer Average
Custodians				
Beginning Step	$16.18	$12.99	$3.19	24.5%
Step 3	$17.68	$15.02	$2.66	17.7%
Last Step	$19.32	$19.33	($0.01)	0.0%
Teaching Aides				
Beginning Step	$11.01	$9.91	$1.10	11.1%
Step 3	$12.03	$11.39	$0.64	5.6%
Last Step	$13.14	$12.39	$0.75	6.1%

Source: FHEVSD and peer negotiated agreements.

Table 3-9 shows that with the exception of the last step on the custodial salary schedule, the District's hourly pay rates for custodial and teaching aide employees are significantly higher than the three peer average. Additionally, FHEVSD's salary schedules for classified employees only consist of 6 steps while the peers range from 8 to 35 steps. Consequently, the District's employees reach the maximum pay rate faster than the peers. The District's current contract stipulates wage increases of 3.0 percent in FY 2006-07, 2.5 percent in FY 2007-08, and 2.5 in FY 2008-09. If the District does not renegotiate the salary schedules, it would have to negotiate annual wage increases of one percent from FY 2009-10 through FY 2022-23 before the average classified salary is comparable to the peer average, assuming the peers negotiate three percent annual wage increases during this timeframe.

It should be noted that the District negotiated a reduced salary schedule for custodial employees hired after 2006. Under the new salary schedule, employees at the beginning step are paid $14.21 per hour, employees at step 3 are paid $15.53 per hour and employees on the last step are paid $16.97 per hour. Although these are significantly lower than the rates paid to custodial employees hired before 2006, the revised rates for the beginning step and step 3 are still higher than the peer average shown in **Table 3-9**. Additionally, the District's salary schedule still only consists of 6 steps. All of the

District's custodial employees were hired before 2006 and are on the last step of the salary schedule.

Financial Implication: Although the District should try to renegotiate the certificated and classified salary schedules, it may be difficult to apply new schedules for current employees and cannot be easily quantified. However, if the District negotiated a one percent wage increase for both certificated and classified staff during the next contract period (assumed to be three years), the estimated savings would be $38,100 in FY 2009-10, $77,600 in FY 2010-11, and $118,400 in FY 2011-12. This assumes that the District would otherwise have continued to grant 2.5 percent wage increases, based on the Treasurer's five-year forecast (see **financial systems**). Over the three-year period, the District would save a total of $234,100.

R3.5 FHEVSD should negotiate to reduce the base salary used in determining the compensation for its supplemental contracts. The District should also negotiate to eliminate the longevity bonuses that are included in the supplemental pay schedules. Taking these actions will help the District reduce the cost of its extracurricular activities without eliminating student programs.

Table 3-10 compares FHVSD's expenditures for extracurricular activities on a per student basis to the peer average for FY 2006-07, as well as the portion of total governmental fund expenditures attributable to extracurricular activities. The extracurricular activities function code includes the cost of the District's supplemental contracts.

Table 3-10: Extracurricular Activity Expenditures

	Fairport Harbor EVSD		Peer Average	
	$ Per Pupil	**% of Exp**	**$ Per Pupil**	**% of Exp**
Extracurricular Activity Expenditures	$359	3.5%	$333	3.7%

Source: Fairport Harbor EVSD and peer 4502s

Table 3-10 shows that while the District allocated a slightly lower percentage of governmental funds to extracurricular activities, FHEVSD spent $26 more than the peer average on extracurricular activities in FY 2006-07. The higher extracurricular expenditures are due to the structure of FHEVSD's supplemental contracts. For example, the base salary used by FHEVSD to calculate the supplemental contracts was $30,300 in FY 2006-07, which is approximately 10 percent higher than the average base salary used by Girard City School District, Lowellville Local School District, and Columbiana Exempted Village School District ($27,448).

Additionally, FHEVSD structures its supplemental contracts to reward employees for years of service within a position. For example, in FY 2006-07, FHEVSD's average supplemental contract equaled 6.7 percent of the base salary for employees with 0 to 3 years of service, 8.2 percent for 4 to 6 years of service, and 10.0 percent for more than 7 years of service. By comparison, the average supplemental contract for Girard City School District, Lowellville Local School District, and Columbiana Exempted Village School District equaled approximately 8.0 percent of the base salary and does not include bonuses for longevity.

Financial Implication: The District could save approximately $14,400 annually if reductions in supplemental pay resulted in achieving the peer average expenditure per pupil for extracurricular activities.

Benefits

R3.6 The District should negotiate to require all employees receiving health benefits to contribute at least ten percent towards monthly health care premiums. This would make the District's contribution levels slightly higher than the State Employee Relations Board (SERB) and Ohio Education Association (OEA) averages, but still significantly lower than the Kaiser Foundation Survey (KFS) averages. Furthermore, the District should negotiate to establish the Super Med Select plan as the base plan. Employees choosing to enroll in the Traditional plan should be required to pay the difference in the premiums between the Super Med Select plan and the Traditional plan.

The District offers medical, prescription, dental, vision, and life insurance coverage to all employees through its membership in the Lake County Council of Governments Insurance Consortium (LCCGIC). District employees have a choice between two Medical Mutual plans: Super Med-Select (Select plan) and a Medical Mutual Traditional plan (Traditional plan).
In FY 2006-07, FHEVSD spent $3,927, or 52.3 percent, more per FTE ($11,437) on health insurance than the peer average ($7,510). A summary analysis of the District's major health benefit programs includes the following:

- **Medical and Prescription Insurance**: The District's FY 2007-08 premiums for the Traditional plan equal $542.28 for single coverage and $1,382.85 for family coverage (premiums include prescription). The FY 2007-08 premiums for the Select plan equal $380.80 for single coverage and $971.09 for family coverage (includes prescription). By comparison, SERB reported that the average single and family medical premiums for all health care plans in 2006 were $404.08 and $1,040.28, respectively. Assuming an 8.0 percent increase in premiums to account for inflation, which is the average rate of increase reported by SERB in 2006, the average SERB single premium for FY 2007-08 is estimated to be $436.41 while the family premium is estimated to be $1,123.50. FHEVSD's higher premiums within the Traditional plan can be attributed to offering more generous coverage levels. Despite having favorable premiums in the Select plan, the District allows employees to enroll in the Traditional plan without contributing towards the cost difference between the two plans. Approximately 40 percent of the District's insured employees are enrolled in the Traditional plan.

- **Employee Contributions:** The majority of FHEVSD's full-time employees do not contribute towards the cost of the monthly premiums. Under the current collective bargaining agreement, employees hired after FY 2000-01 contribute $20.00 a month for single coverage and $40.00 per month for family coverage. These rates increase to $30.00 per month for single coverage and $50.00 per month for family coverage for all employees hired after FY 2006-07. However, because of the phase-in period, these contribution rates apply to less than 20 percent of the District's full-time insured employees. Additionally, the $50.00 contribution rate represents approximately five percent of the Select plan family premium. By comparison, the OEA reported that the average employee contribution in FY 2005-06 was 6.8 percent for single coverage and 8.9 percent for family coverage. Similarly, the 2006 KFS reports that the average medical contribution rates were 16.0 percent for single coverage and 27.0 percent for family coverage, while SERB reported the average contribution rates to be 7.3 percent for single coverage and 8.6 percent for family coverage.

- **Dental, Vision and Life[6]:** The District's single dental plan premium ($25.58) is lower than the estimated SERB benchmark ($41.63) for FY 2007-08 while the District's family plan premium ($82.08) is comparable to SERB ($82.04). Similarly, the District's vision plan premiums ($3.67 single, $9.34 family) are significantly lower than the estimated FY 2007-08 SERB averages ($11.93 single, $23.03 family). Lastly, the District pays $6.50 per month to provide $30,000 of life insurance coverage to each employee, which equates to a cost of $0.22 per $1,000 of coverage. By comparison, SERB reports that the median face value for life insurance policies was $32,661 in 2004 and the average cost for $1,000 of coverage was $0.19. Assuming a three percent inflation factor over three years, the average SERB cost for FY 2007-08 is estimated to be $0.21 per $1,000 of coverage, which is comparable to FHEVSD.

Financial Implication: The District would experience an annual cost savings of approximately $36,000 by requiring a 10 percent employee contribution towards the cost of health insurance premiums. Additionally, the District would save approximately $73,200 by establishing the Super Med Select plan as the base plan and requiring

[6] SERB reported premium data for dental and vision was increased to allow for a reliable comparison to FHEVSD.

employees to pay the difference in premium costs if they choose to enroll in the Traditional plan.

R3.7 For both plans, the District should review its employee co-payments for physician visits, prescription co-pays, average annual deductibles, hospital cost sharing, and annual out-of-pocket maximums. Doing so would help determine if additional savings can be generated by modifying these plan provisions. This would be particularly important if the District is unsuccessful in negotiating increases to monthly contributions towards premium costs (see R3.6).

FHEVSD's benefit coverage for employees enrolled in the Super Med-Select plan is more generous based on comparisons to the 2006 SERB, 2006 OEA, and the 2007 KFS surveys. It should be noted that this performance audit only reviewed FHEVSD's Super Med-Select plan because **R3.6** indicates that the District should establish Super Med-Select as the base plan that is provided to all eligible employees. In addition, this provides a conservative comparison as the Traditional plan contains more generous coverage levels than the Super Med-Select plan. The specific areas where the District's benefits under the Super Med-Select plan are higher than the aforementioned surveys include:

- **Physician Visit Co-Pays:** FHEVSD employees enrolled in the Super Med-Select plan pay $10 for a physician visit. By contrast, the KFS shows that 87 percent of employers required the employees to pay more than $10 for a physician office visit. SERB and OEA did not report this type of data.

- **Prescription Co-Pays:** FHEVSD has $5 co-pay for brand name drug prescriptions. The District does not have co-pays for generic drug prescriptions. The KFS reports that the average co-pays were $11 for generic, $25 for preferred, and $43 for non-preferred prescriptions. Similarly, the OEA reports the average co-pay is $10 for generic, $15 for formulary, and $30 for non-formulary prescriptions; while SERB reports $9.46 for generic, $19.68 for formulary, and $32.54 for non-formulary. SERB and OEA also separately reported co-pays for mail order prescriptions.

- **Average Annual Deductible:** FHEVSD employees enrolled in the Super Med-Select plan do not have deductibles. Conversely, SERB reports that the State-wide average deductible for in-network single coverage is $319 and family coverage is $677. KSF and OEA also reported employers requiring annual deductibles.

- **Average Hospital Cost Sharing:** FHEVSD employees do not share the cost of in-network hospital visits while the cost of non-network hospital admissions is $250 per occurrence with a maximum of $750 per person. According to SERB, the State-wide average deductible for in-network coverage is $149 for single and

$157 for family. The State-wide average deductible for non-network coverage is $175 for single and $185 for family. KSF reported an average hospital deductible/co-pay of $192 for a PPO and $208 for all plans, and an average hospital co-insurance of 17 percent for both PPO and all plans[7].

- **Annual Out-of-Pocket Maximums:** FHEVSD employees have a maximum out-of-pocket expense for the single and family coverage of $750. The KFS indicates that approximately 92 and 89 percent of workers in PPO plans face annual out-of-pocket maximums of more than $999 for single coverage and $1,999 for family coverage, respectively.

Although the District's health insurance premium costs for the Super Med-Select plans are lower than the SERB estimates for 2008 (see **R3.6** above), periodically reviewing and altering its health plan benefits would help the District control and possibly reduce costs while still providing health benefits that are similar to other entities.

R3.8 In future bargaining agreements, the District should consider negotiating to reduce the severance payout provisions. This would help limit FHEVSD's long-term liability. Additionally, the District should negotiate to decrease the number of vacation days and holidays that are provided to employees. Doing so would allow the District to reduce the amount of time employees are away from work, which subsequently should increase productivity and limit the need for substitutes and/or overtime.

Since contractual and employment issues directly affect the operating budget, an assessment was conducted to compare FHEVSD's CBA to State requirements and other applicable benchmarks. The following provisions within FHEVSD's CBA were identified as being comparable to these benchmarks: length of school year, work week and number of contract days for teaching staff, amount of instructional time per week, reduction-in-force provisions, frequency of employee evaluations, sick leave accrual rates, Board pension contributions, the number and use of personal days, and the minimum call-in pay rates for classified staff. The following areas exceeded State requirements:

- ***Maximum Sick Leave Payout:*** The District's CBA allows for a maximum severance payout upon retirement of 65 sick days. ORC § 124.39 stipulates that if an individual retires from active service with ten or more years of service, they are entitled to be paid 25 percent of the value of accrued but unused sick leave, up to 30 days. However, a policy can be adopted allowing an employee to receive

[7] Only three percent of covered workers in the KFS survey face both a deductible/co-pay and co-insurance for hospital visits; 25 percent face only a deductible/co-pay only; 22 percent face only coinsurance; 2 percent face a charge per day; and 49 percent have no separate cost sharing for hospital visits.

payment for more than one-fourth the value of the unused sick leave, for more than the aggregate value of 30 days of the employee's unused sick leave, or allowing the number of years of service to be less than ten.

- ***Vacation Accrual:*** The District's CBA allows for vacation accrual rates that are higher than the minimum requirements stipulated in ORC § 3319.084. For example, an employee with five years of service receives 15 days of vacation per year at FHEVSD. In contrast, ORC § 3318.084 does not require the District to grant 15 vacation days per year until employees have reached ten years of service. Similarly, FHEVSD employees receive 20 days of vacation annually after 11 years of service while ORC § 3318.084 does not require 20 vacation days until an employee has achieved 20 years of service. Providing employees with more vacation time can potentially increase the District's operating costs if substitutes and/or overtime are needed to cover the absence.

- ***Holidays:*** Pursuant to ORC § 3319.087, 11 and 12 month employees are entitled to a minimum of seven holidays and nine or ten month employees are entitled to six holidays. FHEVSD's 12 month employees receive 12 holidays per year while all other employees receive nine holidays. Providing employees with more holidays can reduce productivity since there are fewer days devoted to District operations.

Financial Implication: If the District reduced the maximum severance payout to 30 days (35 day savings), the savings would be approximately $10,400 for every teacher retiring, assuming they retire with a salary that corresponds to the last step of the bachelors degree salary schedule (step 20). Similarly, the savings would be $5,530 for every custodian retiring, assuming they retire with a salary that corresponds to last step of the salary schedule (step 6). However, the actual savings will vary depending on each employee's classification, pay rate, level of education and other factors.

R3.9 FHEVSD should strive to reduce the amount of sick leave used by its employees by developing a policy to ensure its proper use. More specifically, the District should include prohibitions against "pattern abuse" within a policy. These prohibitions should indicate that if employees engage in "pattern abuse," they may be subject to discipline. To identify potential abuse and misuse of sick leave, the District should begin actively monitoring the use of sick leave through management reports prepared on a monthly basis. The District should also consider following the American Society for Public Administration's (ASPA) suggestions for effectively controlling sick leave abuse.

Table 3-11 compares the District's average sick leave use for FY 2006-07 to the State average reported by the Ohio Department of Administrative Services (DAS).

Table 3-11: FHEVSD Sick Leave Comparison to DAS Average

Average Sick Hours per FHEVSD Employee	72.0
State Average Number of Sick Hours per Employee [1]	52.0
Difference	**20.0**
Percent Difference	**38.5%**

Source: FHEVSD sick leave reports and sick leave information provided to AOS by DAS
[1]Sick hours were from the DAS State Average for FY 2006, which is the last year available.

Table 3-11 shows that on average, FHEVSD's employees used 20 more sick leave hours than the DAS average. Furthermore, the rate of sick leave usage does not vary significantly among the District's employee classifications. For example, the certificated staff averaged approximately 74 hours of sick leave per employee in FY 2006-07 while the classified staff averaged 67 hours per employee. Likewise, according to the local report cards published by the Ohio Department of Education, FHEVSD's average attendance rate for teaching staff was 93.8 percent in FY 2006-07 while the peer average was 95.1 percent.

The District's CBA includes a sick leave provision that states "Upon return from sick leave, each employee of the Board of Education shall furnish a satisfactorily signed statement indicating that the employee was absent for just cause and shall, upon request, give the name and address of an attending physician if medical attention was required." The CBA continues to explain that "If a review of sick leave usage indicates that an employee's use of sick leave is excessive, the District shall have the right to request a written statement from the employee's physician." However, the CBA does not define when the use of sick leave is considered excessive nor does it specify possible consequences when sick leave abuse is suspected. In addition, the District does not formally monitor the use of sick time through management reports or regularly require physician signatures for extended absences. Likewise, the District lacks a policy that addresses sick leave use.

According to the article: *Sick Leave Abuse: A Chronic Workplace Ill* (American Society for Public Administration, April 2002), determining if and why an employee exploits leave policies is important. Just as an employer analyzes turnover, organizations should also look at sick leave trends. Doing so would help determine if sick leave is higher in one department, or under a particular supervisor, and if workplace policies and procedures affect absences. Finding the root causes of the problems helps address core issues. Methods for monitoring sick leave abuse vary from one organization to another, but the following explains common guidelines all employers can follow to manage sick leave effectively:

- Recognize the problem and intervene early before it escalates. Managers need to enforce leave policies and take appropriate action.
- Find out why the employee is abusing leave. Talk to employees who are abusing leave and see if their behavior stems from personal problems.
- Learn to say "no." Employers should not let employees get away with abusing leave policies
- Use procedures, regulations, practices and knowledge to benefit management as well as the employee.
- Document everything to learn from past mistakes.

The State of Ohio has collective bargaining agreements with the State Council of Professional Educators, Ohio Education Association (SCOPE) and the Ohio Civil Service Employees Association (OCSEA), Local 11[8]. Teachers, librarians and educational specialists comprise the majority of positions represented by SCOPE. OCSEA Local 11 represents numerous classifications including clerks, administrative assistants, custodial workers, electricians, equipment operators, food service workers, and maintenance repair workers. Both of these collective bargaining agreements contain provisions for disciplining employees for sick leave abuse and provisions for pattern abuse, defined as consistent periods of sick leave use. The agreements provide the following as examples of pattern abuse:

- Before, and/or after holidays;
- Before, and/or after weekends or regular days off;
- After pay days;
- Any one specific day;
- Absence following overtime worked;
- Half days;
- Continued pattern of maintaining zero or near zero balances; and
- Excessive absenteeism.

By developing a policy that identifies guidelines for pattern abuse and communicating them to the staff along with monitoring sick leave use, District would better ensure the appropriate use of sick leave and minimize the potential of misuse and abuse.

Financial Implication: A reduction in certificated sick leave use to the DAS average would result in savings of approximately $7,500 per year, based also on the District's substitute rate. A reduction in classified sick leave usage could not be quantified because substitutes are not consistently used to cover absences, though the District should experience gains in productivity.

[8] Reviewed the contracts in effect from 2003 to 2006 as sick leave data for these staff was taken from FY 2005-06.

R3.10 FHEVSD should consider reallocating 0.5 FTE from the custodial function to the maintenance function. This would make the District's staffing allocation more consistent with NCES and AS&U benchmarks. This should also help improve the District's building maintenance efforts and could potentially reduce the cost of FHEVSD's contracted building maintenance services, depending on the expertise level of the additional 0.5 FTE dedicated to this function. If additional expertise is required, the District should consider providing the necessary training (see R3.11).

Table 3-12 shows the District's custodial and maintenance staffing levels in comparison to the peer average, as reported though EMIS. The information is also presented on a per 1,000 student basis to account for differences in student population.

Table 3-12: Custodial and Maintenance Staffing Comparison

Classification	Fairport Harbor EVSD		Peer Average	
	Actual FTE	Per 1,000 Students	Actual FTE	Per 1,000 Students
Maintenance Workers	0.00	0.0	2.62	1.12
Custodians	4.00	7.96	13.10	6.28
Total	**4.00**	**7.96**	**15.72**	**7.40**

Source: District and peer 2006-07 EMIS reports

Table 3-12 shows that the District's total staffing level is approximately 0.5 FTE higher than the peer average on a per 1,000 student basis. However, FHEVSD reports all of their employees as custodians for EMIS purposes and does not separately account for the maintenance employee that splits time evenly between maintenance and custodial duties. If **Table 3-12** was revised to account for the cross-functionality of the maintenance employee, the District's maintenance staff would equal 1.00 FTE per 1,000 students while the custodial staffing level would equal 6.97 per 1,000 students. Based on the revised figures, FHEVSD is slightly understaffed in the maintenance function and overstaffed in the custodial classification when compared to the peer average on a per 1,000 student basis.

Table 3-13 compares certain key statistics and performance indicators for FHEVSD various benchmarks from the 36th AS&U *Maintenance and Operations Cost Study,* and statistics from the NCES *Planning Guide for Maintaining School Facilities* (February 2003). **Table 3-13** represents the District's building configurations and square footage at the conclusion of FY 2006-07.

Table 3-13: Key Statistics and Indicators

Number of Buildings	**2**
• Elementary School	1
• High School[1]	1
Total Square Feet Cleaned by Custodians	**81,464**
• Elementary School	30,732
• High School	50,732
Total Square Feet Maintained by Maintenance Workers	**81,464**
• Elementary Schools	30,732
• High Schools	50,732
Total Number of Custodial FTEs	**3.5**
Square Feet Cleaned Per Custodial FTE	**23,276**
NCES Benchmark for Custodial FTE[2]	**29,500**
Total Number of Maintenance FTEs	**0.5**
Square Feet Maintained Per FTE Maintenance Staff Member	**162,928**
AS&U 36th Annual Cost Survey National Median	**86,194**

Source: FHEVS, AS&U and NCES
[1]The high school houses students in grades 7 through 12. In addition, the high school houses the District's administrative offices.
[2]The NCES level 3 cleaning standard (the normal standard for most school facilities) is 28,000 to 31,000 square feet per custodian.

Table 3-13 shows that FHEVSD's custodial staff is responsible for 23,276 square feet per FTE while the NCES average ranges from 28,000 to 31,000 square feet per custodian (average of 29,500). In addition, the District's maintenance employee is responsible for the equivalent of 162,928 square feet per FTE while the AS&U national median for similar sized districts is 86,194 square feet. Based on NCES and AS&U benchmarks, the District needs to reduce approximately 0.7 custodial FTEs and add 0.5 maintenance FTEs. In addition to having a maintenance employee, the District contracts for some building maintenance activities.

Financial Implication: Assuming the District could either re-allocate existing custodial staff or increase the hours of the maintenance employee (dedicate less hours to custodial function), there would be minimal costs associated with increasing the maintenance staffing levels. It is difficult to quantify the savings associated with reducing the purchased service expenditures without conducting an in depth review of the District's maintenance agreements. However, as shown in **Table 3-1**, the District's purchased service expenditures per square foot were 11.3 percent higher than the peer average in FY 2006-07. If the District achieved a 10 percent reduction in its purchased service expenditures from the FY 2006-07 level, the cost savings would be approximately $4,800 per year.

R3.11 FHEVSD should develop a comprehensive professional development plan for its custodial and maintenance staff based on relevant industry sources (e.g., NCES and the National Education Association). To facilitate this, the District should establish a formal mentoring and training program that allows new employees to learn from

existing staff. Additionally, the District should strive to consistently plan and implement ongoing training programs for all custodial and maintenance employees. This training should be designed to cover all new, updated, and revised procedures, and appropriate techniques for using new and existing equipment. Vendors could be used to provide this type of training. Lastly, the training sessions should be documented and included in employee files.

FHEVSD conducts annual asbestos training for the custodial and maintenance employees. In addition, the District's maintenance employee recently received training on electrical troubleshooting and mercury management. However, the District does not have a formal new employee training or continual professional development program for all custodial and maintenance employees.

The *Planning Guide for Maintaining School Facilities* (NCES, February 2003) recommends newly hired personnel should receive the following types of training as soon as possible after joining the organization:

- *Orientation (or tour) of the organization's facilities*: including the payroll division (where timecards are punched and submitted), emergency locations (such as the nurses' office), the cafeteria, and the supervisor's offices.

- *Orientation (or tour) of the person's work area*: including the primary location where he or she reports to work and all areas where he or she might be expected to perform job-related tasks (e.g., a plumber should be shown the organization's plumbing headquarters and all campuses he or she will be servicing).

- *Equipment instructions*: including an introduction to all tools, machinery, and vehicles the individual will be expected to use (e.g., industrial floor sweepers, lawn cutting equipment, power tools, and district trucks).

- *Task-oriented lessons*: including instructions on how to best perform the individual's work tasks (e.g., how to clean a carpet, repair a roof, or service a school bus).

- *Expectations*: including a clear description of precisely what the individual must do to meet the requirements of a job (what, where, when, and to what extent).

- *Evaluation information*: including an explanation of all criteria on which the individual will be evaluated, such as the tasks that will be evaluated, all relevant performance standards and expectations, who will do the evaluating, what mechanisms will be used to perform the evaluations (e.g., random checks or daily assessments), and the potential ramifications of the evaluations.

The ESProfessionals: An Action Guide to Help in Your Professional Development (National Education Association (NEA), 2006) indicates that custodians and maintenance employees are "guardians of the school environment" for students, staff and the community, and their workloads continue to grow as new technology and equipment requires new skills, increased duties and responsibilities. One of the most important responsibilities is to ensure the proper indoor air quality, uniform temperatures, and healthful ventilation. And often with little, if any specific or meaningful training, the custodian must also deal with dangerous materials such as laboratory spills, toxic materials, and asbestos. That is why a lack of meaningful, multi-tiered professional development programs is a real health and safety issue for the public school custodian and the entire school community. This publication goes on to indicate that ongoing professional development for custodians and maintenance employees should include the following elements:

- Building security, including neighborhood watch programs;
- Asbestos training, including information about state and federal regulations pertaining to the handling and removal of such material;
- Bloodborne pathogen training, including the potential risks of blood and human waste cleanups. This should include information about the Bloodborne Pathogen Standard drafted by the U.S. Occupational Safety and Health Administration;
- Hazardous equipment, including how to operate all machinery;
- Hazardous chemicals, including extensive training in the use of cleaning chemicals to reduce injuries to students and staff;
- Ergonomics, including how to properly lift to avoid back injury and information about new cleaning tools and products that can minimize back strain; and
- Time management, including how workers can prioritize their tasks so they can accomplish them efficiently and effectively.

R3.12 FHEVSD should develop a policies and procedures manual and job descriptions for the custodial and maintenance staff. Once the manual is complete, the Superintendent should work with the Board to establish a schedule to regularly review the policies and procedures and update them as needed. Updated policies should include a "last updated" field to ensure users have the most up-to-date information. Developing a policies and procedures manual would better ensure that all personnel are familiar with work expectations and employment protocols.

Although requested, the District did not provide a formal policy and procedures manual or custodial and maintenance job descriptions for review during this performance audit. In the potential absence of a procedure manual and updated job descriptions to guide employee decision-making, staff may not consistently or effectively carry out job duties or follow District-approved procedures.

Custodial Methods and Procedures Manual (Association of School Business Officials International (ASBO), 2000), indicates that school boards of education should establish policies for custodial service and building and grounds maintenance. Policies in these areas provide standards for custodial and maintenance employees to maintain the school buildings, and provide a good setting for the instructional program. This publication also states that it is important for school district to have job descriptions for each position in the district. Job descriptions provide an employee with a description of what is expected and forms the basis for that employee's performance review.

R3.13 FHEVSD should develop a facilities master plan that reflects the future direction of the District. In carrying out the process, the District should work with a cross-section of school personnel, parents, students, and community members to ensure all stakeholders have input regarding the District's facility needs and future plans. In addition, the District should ensure that the master plan reflects current building configurations and student demographics, as well as incorporating student enrollment projections, a capital improvement plan (see R3.14) and a formal preventative maintenance schedule (see R3.14). Once developed, the District should update the facilities master plan regularly to reflect building improvements that have been made, changes in demographics, and other educational directions.

FHEVSD has Board policies that state that the "Board of Education recognizes that careful, prudent planning is essential to the efficient operation of the schools and that planning must be grounded on accurate data. In order to assure that future District construction supports the educational program and responds to community needs, the Board will prepare a capital plan and will revise that plan periodically thereafter. The plan shall include a thorough description and analysis of local and regional demographic factors which influence general population growth and public school enrollments." However, despite this policy, the District does not have a facilities master plan (or a similar planning tool) to help assess the condition of its buildings, evaluate enrollment trends, and guide decision-making regarding preventative maintenance schedules and proposed capital improvement projects (**R3.14**). The lack of a comprehensive facilities master plan increases the risk of FHEVSD ineffectively planning for the long-term, including for future enrollment and potential changes in financial conditions. As such, FHEVSD may be investing funds in a manner which is not conducive to effective facilities management.

According to *Creating a Successful Facilities Master Plan* (DeJong, 2001), school districts should develop a long-term facilities master plan. The plan should contain information on capital improvements and financing, preventative maintenance/work orders, overall safety and condition of buildings, enrollment projections, and capacity analyses. The plan should be developed on a foundation of sound data and community input. As a roadmap, the facilities master plan should specify the projects that have been identified, the timing and sequence of the projects, and their estimated costs. A district-wide facilities master plan is typically developed for a ten-year period and should be updated periodically to incorporate improvements that have been made, changes in demographics, or other educational directions. A facilities master plan, if developed appropriately, has the potential to significantly impact the quality of education in a school district.

R3.14 FHEVSD should establish a formal preventative maintenance program that addresses all routine, cyclical, and planned building maintenance functions. The District should also develop a comprehensive five-year capital improvement plan that is updated on an annual basis to ensure that critical repair work is completed and equipment is replaced. The capital improvement plan should include a project categorization and prioritization system that provides management with a breakdown between of capital projects and related costs.

The Board policies indicate that "The Board of Education recognizes that the fixed assets of this District represent a significant investment of this community, and their maintenance is of prime concern to the Board. The Board directs the conduct of a continuous program of inspection, maintenance and rehabilitation for the preservation of all school buildings and equipment. Wherever possible and feasible, maintenance shall be preventive." However, despite this policy, the District did not provide documentation to demonstrate that it has a formal preventative maintenance program in place for maintaining the buildings and equipment. Based on the Maintenance Employee's job duties, it appears that the District completes some preventative maintenance tasks throughout the year. However, without a formal preventative maintenance program, it is difficult to determine the specific timing and types of projects that are taking place (including contracted work).

The Planning Guide for Maintaining School Facilities (NCES, 2003) indicates that regularly scheduled equipment maintenance prevents sudden and unexpected equipment failure, and reduces the overall life-cycle costs of the building. *The Planning Guide* also notes that once the items that should receive PM are identified, entities need to decide on the frequency and type of inspections. When developing a PM schedule, manufacturers' manuals are a good place to start.

In addition, FHEVSD lacks a capital improvement plan to prioritize and address maintenance and capital needs. The District has a 2.0 mill permanent improvement levy that generates approximately $89,000 annually. The District uses this levy to purchase new textbooks, make building repairs, and upgrade computers. The Treasurer indicated that the planning for the levy proceeds is usually informal and certain projects are identified on an as-needed basis. The Government Finance Officers Association (GFOA) indicates that a government should have a process in place for evaluating proposed capital projects and financing options, and developing a long-range capital improvement plan that integrates projects, time frames, and financing mechanisms. The capital plan should project at least five years into the future and should be fully integrated into the government's overall financial plan. The process for developing the plan should allow ample opportunity for stakeholder involvement in prioritizing and reviewing projects. When developed, GFOA further recommends that districts have the capital plan approved by the governing body.

R3.15 FHEVSD should develop formal energy management and conservation policies and procedures. Once in place, the District should distribute and discuss the policies and procedures with the administration, faculty, and staff in an effort to educate and train them about energy conservation and related practices. In conjunction with developing policies and educating staff, the District should assign an employee to monitor District-wide and building-level energy consumption. For example, centrally tracking energy use as reported on monthly invoices would provide trend comparisons that could be used to identify potential issues of waste and/or inefficient equipment and practices. To ensure that appropriate monitoring is taking place, the District should consider requiring that the Superintendent be provided with copies of the building level energy usage reports on a monthly basis.

Table 3-14 compares the District's utility expenditures per square foot for FY 2006-07 to the peer average and the American Schools & University's (AS&U) 36th Annual Cost Study.

Table 3-14: Utility Costs per Square Foot

	Fairport Harbor EVSD	Peer Average	AS&U Median per Square Foot
General Fund Utility Cost Per Square Foot	$2.21	$1.18 [1]	$1.71
All Fund Utility Cost Per Square Foot	$2.21	$1.30	$1.71

Source: ODE and AS&U 36th annual cost study
Note: AS&U expenditures represent budgeted expenditures for FY 2006-07, which do not distinguish between General Fund and other funds.
[1] When excluding the one peer which had a significantly lower level of General Fund expenditures per square foot ($0.29), the peer average increases to $1.28.

Table 3-14 shows that the District's FY 2006-07 utility cost per square foot is significantly higher than the peer average and the AS&U national median, for the General

Fund and all funds. To help manage the cost of utilities, the District purchases its natural gas and electricity at discounted rates through the Ohio Schools Council purchasing consortium. Additionally, the District has undertaken several projects in recent years that should allow for energy savings, including installing control panels at each school building that allow for central management of building temperatures, purchasing a new heating system at the elementary building, and installing electronic ballasts on fluorescent light fixtures.

While the District has some measures to control utility costs, it does not have formal energy management policies, procedures, or guidelines for staff to follow. Furthermore, the District does not have an employee that is responsible for monitoring energy use as a means to identify trends and possible waste.

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 accomplish more efficient energy management.

- Establish an energy policy with specific goals and objectives;
- Assign someone to be responsible for the District's energy management program and give this energy manager access to top-level administrators;
- Monitor each building's energy use;
- Conduct energy audits in all buildings to identify energy-inefficient units;
- Institute performance contracting when replacing older, energy-inefficient equipment;
- Reward schools that decrease their energy use;
- Install energy-efficient equipment, including power factor correction units, electronic ballasts, high-efficiency lamps, right setbacks and variable-speed drives for large motors and pumps; and
- Install motion detectors that turn lights on when a room is occupied.

The Groveport-Madison Local School District (Franklin County) has implemented some of the practices identified by the NCES. For example, Groveport-Madison LSD has adopted formal energy management policies and conducts in-service training before the start of every school year to educate the employees about the importance of conserving energy. Additionally, Groveport-Madison LSD has assigned one employee the responsibility of monitoring utility invoices and usage trends to identify possible malfunctions in equipment (i.e. water main breaks) and/or erroneous meter readings.

By developing formal energy management policies, procedures and guidelines for staff, as well as instituting mechanisms to monitor energy usage, the District would be in a better position to control and potentially reduce utility costs.

Financial Implication: The District could save approximately $40,800 annually if it were to reduce its utility costs per square foot to $1.71, similar to the AS&U national median but still higher than the peer average. However, this level of savings may be difficult for the District to immediately achieve based on factors like the age of the District's buildings (both buildings originally constructed in 1922). Furthermore, FHEVSD has experienced wide-ranging fluctuations in annual utility costs, which could not be explained by the District (see **R2.4** in **financial systems**). If the District achieved a 10 percent reduction in utility costs, the savings would be approximately $18,000.

Technology Management

R3.16 FHEVSD should ensure that its technology plan is presented to, discussed with, and approved by the Board. The Board should also require an annual update on the District's progress in implementing the plan. This will foster accountability and help ensure that the technology plan remains a high priority for the District. The District should also adopt a computer replacement cycle and work to identify specific funding sources that can be dedicated to achieving the goals and objectives outlined the technology plan. One potential option would be to dedicate a fixed percentage of the permanent improvement levy towards implementing the upgrades and replacements identified in the technology plan. Furthermore, FHEVSD should identify a specific employee to be responsible for coordinating the District's technology grant activities. Obtaining additional grants would help facilitate repairs and upgrades that are outside the constraints of the normal operating budget.

In addition to updating the technology plan, the District should consider implementing a formal technology training program and developing a disaster recovery plan. The disaster recovery plan should specify the procedures to be followed, and the roles and responsibilities of key employees in the event of a disaster or emergency. Taking these actions would assist staff in fully using the functions available in the software and help ensure consistent delivery of services in the event of a disaster.

The District's current technology plan was approved by the contracted technology employee from LGCA, the former and current Superintendents, and former Treasurer. The plan covers school years 2006-07 through 2008-09 and details curriculum alignment and instructional technology, technology leadership and administration, and technology infrastructure. Upon completion, the technology plan was submitted to eTech Ohio, where it was approved and certified on June 28, 2006. School districts are required to have their technology plans approved by eTech Ohio in order to receive E-rate funding.

Although the District's technology plan was approved by eTech Ohio, there is no indication that it was approved by the Board before it was submitted. The technology plan also fails to identify a staff member that will be responsible for overseeing and updating the Board on the implementation of the plan. In addition, the District does not link its annual budget to funding the initiatives in the technology plan. According to the plan, technology expenditures are determined on a yearly basis and the District does not have an established computer replacement cycle due to funding issues. As a result, the District may be using equipment that is beyond its intended life cycle. For example, the District's 2006-07 BETA Survey results show that 63 percent of FHEVSD's computers were classified as older (pre-Pentium 3) while the peer average was 22 percent and the State average was 16 percent.

Although the District mentions grant funding throughout the technology plan as a strategy for procuring additional training and equipment, FHEVSD does not identify a specific staff member for coordinating the District's grant seeking activities and does not project any substantial increase in staff time for locating grants. As a result, the District may not be actively pursuing available grant funding for technology purchases. Lastly, although requested, the District did not provide a documented professional development program or a disaster recovery plan for review during this performance audit. The potential lack of technical training limits the ability of staff to troubleshoot their own problems and may limit the use of instructional technology. The potential lack of a disaster recovery plan may limit the District's ability to respond to a disaster in an organized fashion.

In contrast to FHEVSD, the Board of Education for the Marietta City School District formally approves the technology plan as a means to ensure that the Board shares the District's technology vision. Similarly, *Helping Schools Make Technology Work* (Texas School Performance Review (TSPR), 2003), indicates that while a school district's technical personnel can develop the vision for a technology plan, that vision must be shared and understood by the Board, or it will remain unfunded. This publication goes on to indicate that school districts should commit direct funding to each goal in a technology plan. Funds may have to be shifted, or timelines stretched, but these decisions should be the result of collaboration between the Board, technical, and managerial personnel. This publication also indicates that aggressive pursuit of grants and other financial support is critical to funding comprehensive technology programs and that centralized coordination of the grant process is an important step to successfully locating and receiving grant monies. Lastly, this publication indicates that without adequate training, teachers and administrators will let expensive hardware and software go unused. To facilitate the training, many school districts use a "train the trainer" approach because they feel they can achieve more for a lower price. *Safeguarding Your Technology* (National Center for Education Statistics, 1998) recommends the following steps for developing a contingency (i.e., disaster recovery) plan: build a recovery team, obtain and/or approximate key information, perform and/or delegate duties, specify details within the plan, test the plan frequently, and update the plan regularly.

R3.17 FHEVSD should develop a separate account code within USAS that can be used to track District-wide technology expenditures. This would allow the District to generate more detailed information and management reports that can be used to allocate resources and demonstrate progress in implementing the technology plan. In addition, tracking technology expenditures would allow FHEVSD to better plan for future maintenance and replacement of technology.

FHEVSD does not appear to track District-wide technology expenditures. Although the District can identify some technology related costs, the District could not easily provide a complete listing of all technology expenditures the past three fiscal years upon request by AOS. The Uniform School Accounting System (USAS) is capable of tracking technology activities either through the 2960 function code series which relates to data processing or through the assignment of a specific job code for technology. A job code is an extra field contained in USAS that school districts can use to capture further detail within their accounting structure.

Financial Implications Summary

The following tables represent a summary of estimated annual cost savings identified in this section of the report. The financial implications are divided into two groups: those that are, and those that are not subject to negotiation.

Table 3-15: Recommendations Not Subject to Negotiation

Recommendation	Annual Cost Savings
R3.1 Reduce 2.5 teaching FTEs	$112,000
R3.2 Reduce 1.0 principal FTE	$98,000
R3.3 Reduce staffing within Treasurer's office/clerical function by 0.5 FTEs	$15,800
R3.9 Reduce the amount of sick leave taken by employees	$7,500
R3.10 Reduce purchased service costs through staff reallocation	$4,800
R3.15 Develop formal energy management policies and procedures, and assign someone to monitor energy use	$18,000
Total	**$256,100**

Source: AOS recommendations

Table 3-16: Recommendations Subject to Negotiation

Recommendation	Annual Cost Savings
R3.4 Renegotiate both certificated and classified salaries schedules, and/or negotiate lower future NWIs.	$38,100
R3.5 Negotiate to reduce base salary for supplemental contracts and eliminate longevity bonuses in the supplemental pay schedules.	$14,400
R3.6 Negotiate to have all employees contribute at least 10 percent of health insurance premiums and make the Super Med Select the base plan	$109,200
R3.8 Reduce the severance payouts	Savings will depend on amount of retirements
Total	**$161,700**

Source: AOS recommendations

DISTRICT RESPONSE

District Response

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

As noted in the response, FHEVSD indicates that the District has three administrators and a part-time Treasurer, rather than five reported in the performance audit. However, the District reported 5.00 and 5.05 administrative FTEs in the Educational Management Information System reports filed with the Ohio Department of Education for FY 2006-07 and FY 2007-08, respectively. The District miscoded an administrative position, which accounts for the discrepancy. When completing the administrative staffing assessment, an adjustment was made to account for the miscoded position (see **R3.2** in the **general operations** section). As a result, this had no impact on the final conclusions identified in the performance audit. The District's response also indicates that the full time clerical position in the Treasurer's office (the Assistant Treasurer position) is necessary and implies that the performance audit recommends eliminating this specific position. However, **R3.3** in the **general operations** section demonstrates that the District's combined staffing for the Treasurer's office and clerical functions is higher than the peer average and suggests reviewing both areas in an effort to reduce 0.5 FTEs. The performance audit does not specifically recommend eliminating the Assistant Treasurer position.

RECEIVED

JUN 26 2008

MARY TAYLOR, CPA
AUDITOR OF STATE

June 4, 2008

Honorable Mary Taylor, Auditor of State
P.O. Box 1140
Columbus, Ohio 43216-1140

Dear Auditor Taylor,

I would like to thank state audit team on the behalf of the Fairport Harbor Board of Education for its efforts in relation to the completion of our recent financial audit.

I believe the audit brought to light a variety of interesting information that can be used to improve the fiscal well-being of our school district. There are several suggestions that the Fairport Harbor Exempted Village School District will try to address immediately. Other suggestions cannot be implemented until negotiations.

There are a few points that are brought up in the performance audit that I believe need to be clarified:

We have three administrators and a part-time treasurer not the five administrators as listed in the report. Our starting pay for teachers is lowest in the county in which we operate. It is however, offset by the middle and later portions of the pay scale. Further reduction in this starting pay relative to other schools in the county would likely make it more difficult to hire quality teachers. It seems more practicable that we address the latter portions of the salary scale in negotiations. The full time clerical position in the treasurer's office is a necessity due to some degree to the part-time nature of our treasurer's employment. This position is necessary to maintain the proper degree of checks and balances. Her duties extend beyond the typical assistant treasurer to include technology, communications, accounts payable, health care benefits, purchasing, and additional board office functions. Energy management policies and procedures are being developed and their implementation will be incorporated into the Head Custodian supplemental position.

The suggested staffing reductions (2.5 teachers, 1 administrator, .5 BOE Clerical) would leave us with a shell of the original staff and would almost certainly have a detrimental impact on the educational program.

Suggestions for the reduction of sick leave seem reasonable, however as of yet heightened culpability has yielded less than the desired results.

In closing I would like to thank you for the thought provoking nature of this report and look forward to implementing as many of the suggestions as possible to ensure the financial health of our school district.

Domenic Paolo (superintendent)

Mike Patrizi (Treasurer)