



Mary Taylor, CPA
Auditor of State

LORAIN CITY SCHOOL DISTRICT
PERFORMANCE AUDIT

JULY 15, 2008



Mary Taylor, CPA
Auditor of State

To the Residents and Board of Education of the Lorain City School District:

The Ohio Department of Education (ODE) placed Lorain City School District (Lorain CSD) in fiscal caution on June 23, 2007 due to anticipated deficits. Pursuant to ORC §3316.031 and ORC §3316.042, a performance audit was initiated of Lorain CSD. The functional areas assessed in the performance audit were financial systems, human resources, facilities, transportation, and food services. 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 Lorain CSD's financial situation and a framework for its financial recovery plan. While the recommendations contained in the audit report are resources intended to assist in developing and refining the financial recovery plan, the District is 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 noteworthy accomplishments, recommendations, issues for further study, assessments not yielding recommendations, and financial implications. This report has been provided to Lorain CSD, 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. In addition, this performance audit can be accessed online through the Auditor of State of Ohio website at <http://www.auditor.state.oh.us/> by choosing the "On-Line Audit Search" option.

Sincerely,

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

Mary Taylor, CPA
Auditor of State

July 15, 2008

Executive Summary

Project History

ORC § 3316.042 permits the Auditor of State (AOS) to conduct a performance audit of any school district in a state of fiscal caution, watch, or emergency, and review any programs or areas of operation in which it believes that greater operational efficiency, effectiveness, and accountability can be achieved. The Ohio Department of Education (ODE) placed the Lorain City School District (Lorain CSD or the District) in fiscal caution on June 23, 2007 due to anticipated deficits. The deficit was projected to be \$4,585,000 for fiscal year (FY) 2006-07. In accordance with ORC § 3316.031(C), Lorain SCD submitted a financial recovery plan to address the anticipated deficits. ODE accepted the District's financial recovery plan on November 20, 2007.

Pursuant to ORC § 3316.031 and 3316.042, AOS initiated a performance audit of LCSD, which included some follow-up on the 1998 performance audit. Based on a review of Lorain CSD information and discussion with District administrators, the following five functional areas were included in the performance audit:

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

District Overview

Lorain CSD operates under a locally elected Board of Education (the Board) consisting of five members and is responsible for providing public education to the residents of the District. Lorain CSD is located in Lorain County. In FY 2006-07, the District received approximately 68 percent of its revenues from the State and 20 percent from local property taxes. In FY 2006-07, the District's per pupil expenditures were \$10,863 for all governmental funds. Lorain CSD met 4 of the 30 performance standards (13 percent) outlined in the District report card issued by ODE for FY 2006-07, which resulted in a continuous improvement designation.

The District is undergoing an Ohio Schools Facility Commission (OSFC) project to build new school buildings and demolish old school buildings. During FY 2006-07, Lorain CSD operated 16 schools, which included 2 high schools, 3 middle schools, and 11 elementary schools. The District served 8,842 students in FY 2007-08, which is 4.6 percent lower than in FY 2006-07.

The District's October 2007 forecast shows deficits of at approximately \$2.7 million in FY 2009-10, \$10.8 million in FY 2010-11, and \$22.3 million in FY 2011-12. Lorain CSD residents have not passed a levy for new funding since 1992.

Objectives

Performance audits are defined as engagements that provide assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements or measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability. The overall 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 following were major assessments conducted in this performance audit:

- District-wide revenues and expenditures, forecasting, planning, budgeting, purchasing, and payroll were reviewed in the financial systems section.
- District-wide staffing levels, salaries and benefits, data reporting procedures, collective bargaining agreements, sick leave use, and technology were assessed in the human resources section.
- Custodial and maintenance staffing levels, facility-related expenditures, building capacity, energy management, and the work order process were examined in the facilities section.
- Policies and procedures, operating efficiency and expenditures, and the contracting processes were reviewed in the transportation section.
- Revenues and expenditures, contracting, technology and meal participation were examined in the food service section.
- Follow-up on the recommendations in the 1998 Performance Audit.

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

Scope and Methodology

This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that AOS plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Audit work was primarily conducted between August 2007 and April 2008, and data was drawn from FY 2005-06, FY 2006-07 and FY 2007-08. To complete this report, the auditors gathered a significant amount of data pertaining to the District; conducted interviews with numerous individuals associated internally and externally with the various departments, and reviewed and assessed available information. 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.

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

Ten school districts were selected to allow for comparisons in the areas assessed for the performance audit, based on demographic information, spending levels, performance on State report cards, and discussions with the District. The ten districts consist of five districts classified as Type IV (Urban-low median income, high poverty) and five districts classified as Type V (Major Urban-very high poverty) by ODE. The Type IV districts consist of Boardman Local School District, Girard City School District, New Philadelphia City School District, Dover City School District, and Canton Local School District. The Type V districts consist of Akron City School District, Canton City School District, Euclid City School District, Hamilton City School District, and Warren City School District. Furthermore, external organizations and sources were used to provide comparative information and benchmarking, such as the following:

- Government Finance Officers Association (GFOA);
- American Institute of Certificated Public Accountants (AICPA);
- State Employment Relations Board (SERB);
- Ohio Department of Education (ODE);
- American School and University (AS&U); and
- National Center for Education Statistics (NCES).

The Auditor of State and staff express appreciation to Lorain CSD for its cooperation and assistance throughout this audit.

Noteworthy Accomplishments

This section of the executive summary highlights specific Lorain CSD accomplishments identified throughout the course of the audit.

- **Cost Reductions:** Lorain CSD made significant staffing reductions to help address its financial condition, even after accounting for the staff subsequently recalled by the District. More specifically, the October 2007 forecast shows that salaries and benefits are projected to decline by approximately \$10.2 million (14.9 percent) in FY 2007-08.
- **Healthcare:** Lorain CSD proactively controls healthcare costs through the establishment of a Trust. The Trust's primary function includes managing premiums through cost containment provisions, such as adjustments to coverage and the sharing of premium increases between the District and employees. For example, effective January 1, 2008, the Trust increased the physician office co-pay from \$20 to \$25 for both health plans; the employee monthly contribution in Plan A from \$45 to \$54 for the single plan; and the employee monthly contribution in Plan A from \$113 to \$134 for the family plan. Lastly, the District offers health management programs, with the objective of improving quality of care and reducing related incidents (e.g., hospital admissions and emergency visits), thus reducing costs.

Conclusions and Key Recommendations

The performance audit contains several recommendations pertaining to Lorain CSD. The following are the key recommendations from the report:

In the area of Financial Systems:

- Lorain CSD should analyze and use the financial recovery plan outlined in **Table 2-5** to evaluate the impact of the recommendations presented in the performance audit and determine the impact of the related cost savings on its financial condition. The District should also consider implementing the recommendations in this performance audit along with other strategies to improve its current and future financial condition. Furthermore, the District should update its financial recovery plan on a continual basis, as critical financial issues are addressed and circumstances change.

Because the District is projected to have negative ending fund balances in FY 2010-11 and FY 2011-12 even when including all of the savings associated with performance

audit recommendations, it should consider various options to further reduce expenditures or increase revenues. This could include reducing regular education and educational service personnel staffing levels closer to State minimum requirements. The District should discuss such options with the community to determine stakeholder needs and desires regarding service levels. In addition, Lorain CSD should continually monitor enrollment trends. In particular, the District should begin to plan for staffing reductions that correspond to a potential decline in future student enrollment.

- The District should update its strategic plan to include meaningful performance measures to gauge progress and results, assist in evaluating past decisions and making future decisions, allocating resources, and communicating results to the public. In addition, the District should link the strategic plan to the budget and five-year forecast.
- Lorain CSD should prepare a budget document containing detailed information and supporting materials that highlight the District's key goals, objectives and issues for the upcoming fiscal year. In developing a budget document, the District should obtain input from key administrators. This would ensure the District considers relevant factors in the budget and increase accountability for department budgets. Furthermore, Lorain CSD should hold principals and department heads responsible for budget performance.
- The District should consider lowering the minimum requirement threshold for obtaining multiple price quotes and monitor purchases using the new threshold. 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 the operational units. Furthermore, Lorain CSD should continue to expand its membership in consortiums to increase the pool of products and prices to compare.
- Lorain CSD should eliminate its warehouse operation by implementing a just-in-time (JIT) process. This would eliminate the costs related to maintaining a warehouse and the system for tracking warehouse inventory, and avoid maintaining unnecessary supplies.
- Lorain CSD should pay its employees on a two week delay. This would lessen the chances of paying employees for hours that they did not work. In addition, the District should consider purchasing an automated time and attendance system at each building, which would document the actual hours worked by staff on a daily basis and could potentially aid in effectively implementing the two week delay. However, prior to purchasing such a system, the District should review the current substitute calling system to ensure that it can not be used to document actual hours worked per day for all staff. In order to eliminate duplication of effort, the District should link the automated substitute calling system for teachers to the Treasurer's office. Once fully implemented and coupled with linking the substitute calling system to the Treasurer's office, the automated time and attendance system could potentially allow for a reduction in staffing levels within the

payroll function¹. When considering an automated time and attendance system for each building, the District should determine whether it can purchase such a system as a component of an overall Human Resource Information System (see **human resources**).

In the area of Human Resources:

- Lorain CSD should use the EMIS Coordinator's student manual to develop similar policies and procedures for preparing and reconciling staff data for submission to the Educational Management Information System (EMIS). Lorain CSD should ensure that someone independent of the data gathering process reviews the staffing information. In addition, Lorain CSD should use the EMIS *Educational Management Information System Manual*, produced annually by ODE, to help compile and review data. The District should also seek the necessary training and assistance to meet these objectives. During the course of this audit, the Chief Human Resources Officer indicated that staff responsible for EMIS will be trained.
- Lorain CSD should establish a formal staffing plan to address current and future staffing needs. In particular, the District should begin to plan for staffing reductions that correspond to a potential decline in future student enrollment.
- Lorain CSD should consider eliminating 11.0 FTE clerical staff. This can be accomplished, in part, by consolidating and combining job duties and implementing technology improvements. Additionally, if enrollment continues to decline and as the District finalizes the OSFC project, Lorain CSD should consider additional staffing reductions. Prior to implementing these and any other staffing reductions, the District should review its staffing data and take measures to ensure data reliability.
- Although Lorain CSD's employees pay a fair amount towards the monthly premiums costs and pay relatively high co-pays for physician visits, the District should work with the Trust to consider increasing employee cost sharing for prescriptions, annual deductibles, and annual out-of-pocket maximums. Alternatively, the Trust could maintain current plan benefits and instead increase employee monthly contributions for the premiums closer to levels reported by the Kaiser Family Foundation.
- The District should negotiate to eliminate the restrictions on teacher reductions in the certificated collective bargaining agreement. Doing so would enable Lorain CSD management to ensure staffing levels best meet its needs, and alter staffing levels during times of fiscal distress. Additionally, the District should consider negotiating to lower the

¹ If the District reported payroll employees as "clerical" for the staffing assessment in the **human resources** section, these potential reductions could be a part of **R3.3** in the **human resources** section.

maximum severance payment, vacation leave, personal leave (NCFO and OEA/NEA), and paid holidays; and eliminate or at least reduce the minimum paid call-in hours.

- During future negotiations, the District should take measures to address the high compensation levels for administrators, including the following: require administrators to pay their retirement contributions and annuities, reduce educational incentives and extra time pay, and adjust salary schedules. In addition, Lorain CSD should negotiate to remove the “me-too” clauses from the administrative agreement pertaining to wages and benefits. Lastly, Lorain CSD should ensure that the clauses in the administrative collective bargaining agreement do not negatively affect its ability to manage the District.
- Lorain CSD should develop a sick leave policy that identifies pattern abuse and disciplinary actions for abusing or misusing sick leave. The District should also ensure that sick leave use is monitored and reviewed on a periodic basis. Furthermore, the District should consider negotiating for the elimination of the sick leave incentives, or at least a reduction in the incentives.
- The District should complete a formal cost benefit analysis prior to offering retirement incentives. This would ensure that offering such incentives would benefit the District and, in turn, justify their use.

In the area of Facilities:

- Based on the projected building utilization rates, the District should reevaluate the building plans with the OSFC. Specifically, the District should review the proposed building configurations for Phase II and Phase III, and make adjustments to alleviate potential overcrowding at the elementary and high schools, and to ensure that the remaining elementary schools operate at optimal capacity. To aid in this process, the District should review and update its enrollment projections.
- Lorain CSD should consider reducing staffing levels assigned to the maintenance function by 15.0 FTEs. Once Lorain CSD and OSFC agree on the final building plans, the District should use relevant performance measures and standards to ensure it maintains the appropriate custodial, maintenance and grounds keeper staffing levels.
- Lorain CSD should consider purchasing an automated work order system that tracks applicable information, including preventative maintenance tasks, and labor and supply costs. In addition, the District should train the relevant employees on all functions of the work order system.

In the area of Transportation:

- Lorain CSD should optimize routes and increase bus utilization by effectively using its current routing software, staggering bell schedules, and determining the potential of increasing its bus utilization target closer to a goal of 80 percent. At a minimum, the District should follow its guidelines for bus utilization. When reviewing these options, the District should consider student ride times and student safety, and run several simulations via its routing software. When considering changes in teachers' workdays, the District should ensure it considers the corresponding impact on transportation costs. By taking these actions along with actively monitoring the transportation service provider's (TSP) performance, Lorain CSD could eliminate at least eight buses. Moreover, Lorain CSD should consider modifying its transportation policy to eliminate the ineligible riders transported due to a lack of ridership, which would further help reduce buses.
- Lorain CSD should include performance standards, measurable outcomes, and the process used to evaluate performance in future contracts and requests for proposal (RFP) for transportation services. The District should also ensure that it allocates sufficient time for the RFP process to help increase competition. Furthermore, Lorain CSD should increase the thresholds for fuel prices that trigger additional payments from the District, and consider other alternatives for fuel (e.g., purchase fuel independently from a consortium and exclude it from the contract price). Lastly, Lorain CSD should actively monitor contract compliance and performance, including costs to ensure accurate reporting.

In the area of Food Service:

- As the District is currently contracting for food services, Lorain CSD should implement the following measures to improve current operations:
 - Lower the food service management company (FSMC) cost per meal;
 - Maximize commodity reimbursements;
 - Eliminate the use of an enrollment figure to trigger the reimbursements from the FSMC for not achieving a surplus, or at least set it at a more appropriate level;
 - Eliminate capital costs from the contract and instead include capital improvements as a part of the District's internal capital planning efforts;
 - Review the other non-service related costs in the contract for appropriateness and determine whether they can be addressed outside of the contract with the FSMC; and
 - Develop and use performance measures and standards (e.g., meals per labor hour) to objectively evaluate FSMC performance, which should help lower the price per meal.

The District should also periodically solicit multiple proposals for food service operations to ensure it receives quality services at the “best” price. In addition, the District should determine the costs of providing an in-house food service program to ensure contracted services are more cost-effective.

- To increase revenue and reflect current demographics, the District should re-establish its Provision 2 Breakfast program baseline, and review and update it periodically. Before the District pursues Provision 2 for its lunch program, it should adjust FSMC meal rates and complete an analysis that considers all related costs and benefits. This analysis should determine whether the District would increase lunch participation and related reimbursements under Provision 2. Taking such measures would ensure that operating Provision 2 for the lunch program would be cost effective for the District. Absent sufficient increases in lunch participation and reductions in meal costs, and in light of Lorain CSD’s financial condition, the District should not implement Provision 2 for the lunch program in the short term. Finally, the District should regularly evaluate the impact of Provision 2 on its educational and financial outcomes.

Issues for Further Study

Auditing standards require the disclosure of significant issues identified during an audit that were not reviewed in depth. These issues may not be directly related to the audit objectives or may be issues that the auditors do not have the time or resources to pursue. AOS has identified the following issues requiring further study. Additional detail pertaining to these issues is presented in each section of the report.

- **Financial Systems:** grant process;
- **Human Resources:** all other professional staffing; psychologist staffing; speech and language therapist staffing; and computer support staffing;
- **Facilities:** staffing data;
- **Transportation:** in-house transportation services; and
- **Food Service:** meal prices.

Assessments Not Yielding Recommendations

In addition to the analyses presented in this report, assessments were conducted on several areas which did warrant any changes or yield any recommendations. These areas include the following. Additional detail pertaining to these areas presented in each section of the report.

- **Financial Systems:** projections for real estate, state funding and fringe benefits; cross training employees; purchasing manual and technology; and internal controls and audit compliance;

- **Human Resources:** certificated and classified salaries; certificated substitute wages; and staffing for special education teachers, vocational teachers, all other educational, ESP teachers, nurses, teaching aide/instructional paraprofessional, and all other reported personnel;
- **Facilities:** energy management; training; cleaner and grounds staffing levels; and overtime use and expenditures; and
- **Food Service:** claims reimbursement submission processing; customer feedback; food service information system; participation rates and free/reduced meals; direct certification; and ODE coordinated review effort and wellness policy.

Summary of Financial Implications

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

Summary of Financial Implications

| Recommendation | Annual Cost Savings | Estimated Annual Costs | Estimated One-Time Costs | Estimated Annual Revenues |
|--|---------------------|------------------------|--------------------------|---------------------------|
| R2.7 Close Warehouse | \$65,000 | | | |
| R2.8 Purchase automated timekeeping system. | | \$4,500 | \$110,000 | |
| R3.3 Reduce clerical staff by 11 FTEs | \$222,000 | | | |
| R3.7 Reduce sick leave usage | \$136,000 | | | |
| R3.9 Purchase HRIS system | | \$32,000 | \$145,000 | |
| R4.2 Reduce maintenance staff by 15 FTEs | \$624,000 | | | |
| R4.4 Purchase work order system | | \$4,500 | \$1,200 | |
| R5.1 Eliminate 8 buses | \$450,000 | | | |
| R5.3 Improve Contract | \$116,000 | | | |
| R6.2 Update baseline for Provision 2 breakfast | | | | \$171,000 |
| TOTAL Not subject to Negotiations | \$1,613,000 | \$41,000 | \$256,200 | \$171,000 |
| R3.4 Alter health plan benefits | \$159,000 | | | |
| R3.6 Eliminate retirement payment for administrators | \$513,000 | | | |
| R3.6 Eliminate paid annuities for administrators | \$272,000 | | | |
| R3.6 Eliminate extra time pay for administrators | \$89,000 | | | |
| TOTAL Subject to Negotiation | \$1,033,000 | | | |
| TOTAL FINANCIAL IMPLICATIONS | \$2,646,000 | \$41,000 | \$256,200 | \$171,000 |

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Financial Systems

Background

This section of the performance audit focuses on the financial systems at the Lorain City School District (Lorain CSD or the District), including an assessment of the District's five-year forecast. Comparisons are made throughout the report to applicable sources, including the Government Finance Officers Association (GFOA), the American Institute of Certified Public Accountants (AICPA), and peer averages comprised of ten school districts for benchmarking purposes.¹

Financial History

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. Additionally, ORC §3316.03 was amended effective April 10, 2001 to give the Ohio Department of Education (ODE) the ability 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 board of education (BOE) 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.

ODE placed Lorain CSD in fiscal caution on June 23, 2007 due to the possibility of ending FY 2006-07 in a deficit of approximately \$4.5 million and the potential for deficits in future years. In accordance with ORC §3316.03 1(C), the District submitted a fiscal caution proposal to ODE in October 2007, which ODE accepted on November 20, 2007.

Treasurer's Office Staffing

Lorain CSD Treasurer's office has seven full time equivalent (FTE) employees, including the Treasurer, the Assistant Treasurer, two accounting clerks and three payroll clerks. In addition, one part time employee processes receipts. All employees report to the Assistant Treasurer who reports to the Treasurer. The Treasurer is Lorain CSD's chief financial officer and is responsible for the receipt, safekeeping and disbursement of all funds; directing and managing all financial accounting programs and systems; and overseeing the daily financial operations of the District.

¹ See **Table 2-2** for more information, and the **executive summary** for a list of peer districts and an explanation of the selection methodology.

Financial Condition

The five-year financial forecast presented in **Table 2-1** represents the Treasurer's future financial condition as of October 2007. The performance audit primarily tested the reasonableness of the material line items in the June 2007 forecast. Significant changes in the District's assumptions for the October 2007 forecast were also reviewed for reasonableness. See *Assessments Not Yielding Recommendations* and **R2.4** for more information.

The October forecast shows a positive fund balance of approximately \$16,000 in FY 2007-08, which declines to a negative \$2.7 million in FY 2009-10, a negative \$10.7 million in FY 2010-11 and a negative \$22.3 million in FY 2011-12. By comparison, the June forecast showed positive ending fund balances for each year after FY 2006-07. The District's recall of staff previously laid off significantly contributes to the differences in the ending fund balances. Linking the strategic plan to the budget and five-year forecast would better ensure that the District makes decisions that coincide with its financial and operational condition (see **R2.2**).

Table 2-1: Lorain CSD 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 | \$16,339 | \$16,023 | \$17,977 | \$14,691 | \$16,638 | \$17,248 | \$17,825 | \$18,003 |
| Tangible Personal Property Tax | 4,218 | 5,068 | 4,765 | 3,113 | 2,012 | 907 | 871 | 836 |
| Unrestricted Grants-in-Aid | 51,106 | 52,068 | 51,343 | 52,203 | 54,671 | 56,424 | 57,646 | 58,665 |
| Restricted Grants-in-Aid | 7,078 | 7,163 | 8,486 | 9,466 | 9,658 | 9,844 | 9,981 | 10,155 |
| Property Tax Allocation | 2,233 | 2,387 | 3,252 | 3,461 | 3,918 | 4,433 | 4,158 | 3,765 |
| Other Revenues | 1,836 | 2,438 | 2,342 | 2,516 | 2,618 | 2,700 | 2,664 | 2,738 |
| Total Operating Revenues | \$82,810 | \$85,147 | \$88,165 | \$85,450 | \$89,515 | \$91,556 | \$93,145 | \$94,162 |
| Total Other Financing Sources | 635 | 5,845 | 694 | 497 | 0 | 0 | 0 | 0 |
| Total Revenues and Other Financing Sources | \$83,445 | \$90,992 | \$88,859 | \$85,947 | \$89,515 | \$91,556 | \$93,145 | \$94,162 |
| Salaries & Wages | 49,680 | 50,769 | 51,485 | 42,635 | 43,933 | 46,429 | 49,867 | 51,732 |
| Fringe Benefits | 14,429 | 15,500 | 16,165 | 14,909 | 13,906 | 14,716 | 15,636 | 16,315 |
| Purchased Services | 15,271 | 18,423 | 20,395 | 23,878 | 26,471 | 28,763 | 30,990 | 32,882 |
| Supplies, Materials & Textbooks | 1,411 | 1,863 | 1,673 | 873 | 1,620 | 1,653 | 1,686 | 1,720 |
| Capital Outlay | 142 | 137 | 380 | 81 | 582 | 594 | 606 | 618 |
| Debt Service | 1,502 | 1,423 | 363 | 1,311 | 1,260 | 1,208 | 1,157 | 1,120 |
| Other Expenditures | 718 | 680 | 687 | 692 | 699 | 706 | 713 | 720 |
| Total Operating Expenditures | \$83,153 | \$88,795 | \$91,148 | \$84,379 | \$88,471 | \$94,069 | \$100,655 | \$105,107 |
| Other Financing Sources | 966 | 1,252 | 1 | 1,694 | 600 | 600 | 600 | 600 |
| Total Expenditures and Other Financing Sources | \$84,119 | \$90,047 | \$91,149 | \$86,073 | \$89,071 | \$94,669 | \$101,255 | \$105,707 |
| Result of Operations (Net) | (\$674) | \$945 | (\$2,290) | (\$126) | \$444 | (\$3,113) | (\$8,110) | (\$11,545) |
| Beginning Cash Balance | \$2,162 | \$1,487 | 2,432 | 142 | 16 | 460 | (2,653) | (10,763) |
| Ending Cash Balance | \$1,487 | \$2,432 | \$142 | \$16 | \$460 | (\$2,653) | (\$10,763) | (\$22,308) |
| Encumbrances | 267 | 1,016 | 1,110 | 0 | 0 | 0 | 0 | 0 |
| Ending Fund Balance | \$1,220 | \$1,416 | (\$968) | \$16 | \$460 | (\$2,653) | (\$10,763) | (\$22,308) |

Source: Lorain CSD October 2007 Five-Year Forecast

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

Revenue and Expenditure Comparisons

Table 2-2 compares Lorain CSD's General Fund revenues per student by source and expenditures by object to the peer averages² for FY 2005-06. **Table 2-2** also includes Lorain CSD's General Fund revenue by source and expenditures by object for FY 2006-07.

Table 2-2: Revenues & Expenditures per Pupil FY2005-06 Peer Comparison

| Description | Lorain CSD FY 2005-06 | Lorain CSD FY 2006-07 | Type IV Peer Average FY 2005-06 | Type V Peer Average FY 2005-06 |
|-------------------------------|--------------------------|--------------------------|---------------------------------------|--------------------------------------|
| Property & Income Tax | 2,113 | 2,335 | 4,238 | 3,368 |
| Intergovernmental Revenues | 5,566 | 5,714 | 3,289 | 4,984 |
| Other Revenues | 828 | 311 | 363 | 442 |
| Total Revenue | \$8,507 | \$8,360 | \$7,891 | \$8,795 |
| Wages | 4,597 | 4,716 | 4,615 | 5,127 |
| Fringe Benefits | 1,436 | 1,539 | 1,739 | 1,832 |
| Purchased Services | 1,846 | 2,022 | 782 | 1,308 |
| Supplies & Textbooks | 185 | 171 | 213 | 218 |
| Capital Outlays | 13 | 77 | 62 | 51 |
| Debt Service | 143 | 37 | 0 | 0 |
| Miscellaneous | 68 | 71 | 126 | 139 |
| Other Financing Uses | 125 | 0 | 133 | 216 |
| Total Expenditures | \$8,412 | \$8,633 | \$7,671 | \$8,890 |

Source: District and Peer 4502s- Statement P and Exhibit 2

Table 2-2 shows that the District's FY 2005-06 total revenues per student were 7.8 percent higher than the Type IV average, but 3.3 percent lower than the Type V peer average. However, Lorain CSD's FY 2005-06 intergovernmental revenues are 69 percent higher than the Type IV peer average and 11 percent higher than the Type V peer average. This is partially due to lower property valuations, which, in turn, lowers the amount of adjusted recognized valuation (ARV) used to determine the State funding. The District's other revenues per pupil were higher than the peer averages in FY 2005-06 due to receiving a tax anticipation note (TAN) of approximately \$5.4 million. The decline in total revenues in FY 2006-07 is attributable to this TAN and open enrollment.

² Peer districts classified as Type IV by ODE are urban districts with low median incomes and high poverty rates. Type V districts are major urban districts with very high poverty. Lorain CSD is classified as a Type V district.

Table 2-2 also shows that the District's total spending per student was higher than the Type IV average and lower than the Type V average in FY 2005-06. Despite total revenues per student decreasing in FY 2006-07, total expenditures per student increased by \$221 in FY 2006-07. Explanations for the individual expenditure categories that are higher than the peer averages in FY 2005-06 include the following:

- **Purchased Services** - The District spent approximately 136 percent and 41 percent more per student in purchased services than the Type IV and Type V peer averages, respectively. This is due primarily to tuition payments for resident students attending other schools through open enrollment and transportation expenditures. More specifically, the District spent \$1,040 per pupil in tuition expenditures, significantly higher than the Type IV (\$281) and Type V (\$645) averages. The District contracts for transportation services and spent \$211 per pupil, which is much higher than the Type IV (\$9) and V (\$76) averages. See the **transportation** section for further discussion. Furthermore, the increase in purchased service costs per pupil from FY 2005-06 to FY 2006-07 is due, in part, to increases in per pupil costs for tuition and transportation.
- **Debt Service** - Lorain CSD's debt service expenditures include current construction projects and general obligation bonds.

Table 2-3 shows the amount per pupil and percent of expenditures posted to the various Uniform School Accounting System (USAS) function codes³ for Lorain CSD in FY 2005-06 and FY 2006-07, and the peer averages for FY 2005-06.

³ Function codes report expenditures by their nature or purpose and are classified as governmental fund types.

Table 2-3: Governmental Expenditures by Function in 000's

| USAS Function Classification | Lorain CSD FY 2006 | | Lorain CSD FY 2007 | | Type IV Average FY 2006 | | Type V Average FY 2006 | |
|---|--------------------|---------------|--------------------|---------------|-------------------------|---------------|------------------------|---------------|
| | \$ Per Pupil | % of Exp | \$ Per Pupil | % of Exp | \$ Per Pupil | % of Exp | \$ Per Pupil | % of Exp |
| Instructional Expenditures: | \$6,607 | 61.5% | \$6,530 | 60.1% | \$5,012 | 60.1% | \$6,276 | 58.8% |
| Regular Instruction | \$3,884 | 36.1% | \$3,827 | 35.2% | \$3,838 | 46.0% | \$4,283 | 40.2% |
| Special Instruction | \$1,399 | 13.0% | \$1,004 | 9.2% | \$854 | 10.3% | \$1,478 | 13.8% |
| Vocational Education | \$230 | 2.1% | \$276 | 2.5% | \$158 | 1.8% | \$219 | 2.1% |
| Adult/Continuing Education | \$25 | 0.2% | \$20 | 0.2% | \$0 | 0.0% | \$30 | 0.3% |
| Extracurricular Activities | \$0 | 0.0% | \$0 | 0.0% | \$0 | 0.0% | \$0 | 0.0% |
| Classroom Materials and Fees | \$0 | 0.0% | \$0 | 0.0% | \$0 | 0.0% | \$0 | 0.0% |
| Miscellaneous | \$0 | 0.0% | \$0 | 0.0% | \$0 | 0.0% | \$0 | 0.0% |
| Other Instruction | \$1,069 | 10.0% | \$1,402 | 12.9% | \$162 | 2.1% | \$266 | 2.5% |
| Support Service Expenditures: | \$3,851 | 35.8% | \$4,022 | 37.0% | \$2,938 | 35.1% | \$4,095 | 38.4% |
| Pupil Support Services | \$421 | 3.9% | \$467 | 4.3% | \$453 | 5.4% | \$663 | 6.3% |
| Instructional Support Services | \$880 | 8.2% | \$756 | 7.0% | \$379 | 4.5% | \$746 | 7.0% |
| Board of Education | \$28 | 0.3% | \$30 | 0.3% | \$25 | 0.3% | \$17 | 0.2% |
| Administration | \$830 | 7.7% | \$953 | 8.8% | \$619 | 7.5% | \$723 | 6.8% |
| Fiscal Services | \$295 | 2.8% | \$340 | 3.1% | \$188 | 2.3% | \$162 | 1.5% |
| Business Services | \$55 | 0.5% | \$59 | 0.5% | \$36 | 0.4% | \$89 | 0.8% |
| Plant Operation & Maintenance | \$1,040 | 9.7% | \$1,040 | 9.6% | \$836 | 10.0% | \$1,138 | 10.7% |
| Pupil Transportation | \$217 | 2.0% | \$253 | 2.3% | \$374 | 4.4% | \$370 | 3.5% |
| Central Support Services | \$84 | 0.8% | \$123 | 1.1% | \$30 | 0.3% | \$186 | 1.7% |
| Non-Instructional Services Expenditures | \$95 | 0.9% | \$92 | 0.9% | \$95 | 1.2% | \$130 | 1.2% |
| Extracurricular Activities Expenditures | \$195 | 1.8% | \$220 | 2.0% | \$298 | 3.6% | \$168 | 1.6% |
| Total Governmental Fund Operational Expenditures | \$10,748 | 100.0% | \$10,863 | 100.0% | \$8,343 | 100.0% | \$10,669 | 100.0% |

Source: LCSD and Peer 4502 reports

Table 2-3 shows that the District exceeded both peer averages for total governmental fund operating expenditures per pupil in FY 2005-06. Explanations for materially higher per student expenditures include the following:

- **Special Instruction** - While the District's special education expenditures per pupil were higher than the Type IV average, they were lower than the Type V average. In addition, special education expenditures per pupil declined by 28.2 percent in FY 2006-07.
- **Vocational Education** - The District's vocational expenditures per pupil are 45.6 percent and 5.0 percent higher than Type IV and Type V averages, respectively. This is due to Lorain CSD providing in-house vocational education services, while only four of the ten peer districts provide in-house vocational education services (see **human resources** section for additional information).
- **Other Instruction** - The District significantly exceeded spending per pupil in other instruction when compared to both peer averages. This is mainly attributable to purchased services expenditures related to the tuition payments for open enrollment students, as previously discussed in the purchased services (see **Table 2-2**). Lorain CSD's increase in FY 2006-07 is primarily due to \$2.3 million in expenditures from the poverty aid fund. In FY 2005-06, no expenditures for other instruction came from the poverty aid fund.
- **Instructional Support Services** - The District spent more per student than both peer averages on instructional support services in FY 2005-06. However, expenditures per pupil declined by 14.1 percent in FY 2006-07. This line item includes the salaries and wages for librarians, library aides, and teaching aides (see the **human resources** section for further discussion).
- **Administration** - The District's administration expenditures per pupil exceeded both peer averages for FY 2005-06, and increased by 14.8 percent in FY 2006-07. The higher administration expenditures are mainly due to higher compensation levels for administrators at Lorain CSD (see the **human resources** section).
- **Fiscal Services** - In FY 2005-06, the District spent 57 percent per student in fiscal services than the Type IV average and 82 percent more than the Type V average. The District's per pupil spending in this category increased by 15 percent in FY 2006-07. This is primarily due to staffing levels within the Treasurer's office (see **R2.8**).
- **Plant Operations and Maintenance:** Although the District's expenditures per pupil for plant operation and maintenance were lower than the Type V average, they were higher than the Type IV average. The higher maintenance staffing and compensation levels contribute to the higher per pupil expenditures for plant operations and maintenance when compared to the Type IV average (see the **facilities** section for more information).

Assessments Not Yielding Recommendations

In addition to the analyses presented in this report, assessments were conducted on several areas within the **financial systems** section, which did not warrant changes and did not yield any recommendations. These areas include the following:

- **Real Estate Projections:** Based on information from the County Auditor's Office and historical trends, and when accounting for the impact of the \$1.8 million advance, the Treasurer's real estate projections appear reasonable.
- **State Funding Projections:** Based on the September 2007 SF-3 report and trends in State funding since FY 2004-05, the Treasurer's projections for State funding appear reasonable.
- **Fringe Benefits:** The Treasurer's projections for fringe benefit expenditures throughout the forecast period seem reasonable, based on historical trends, the actuarial report for the health insurance trust (June 2007), staffing reductions, and the overall forecast methodology. For instance, the Treasurer separately accounted for health care within the fringe benefits category based on historical trends in the District. As health care is independent of salaries unlike other benefit categories (e.g., retirement), forecasting health care apart from the other benefits strengthens the forecast methodology and reliability.
- **Cross training employees:** The District has taken steps to cross-train employees in the financial services unit. This will allow the District to avoid potential difficulties should one or more of the employees be absent for an extended period.
- **Purchasing Manual and Technology:** The District has an online purchasing manual that contains function definitions, policies, and procedures. In addition, the District uses its online purchasing system for proper budgetary approvals and fund certification. During the course of this audit, the District joined a purchasing cooperative through which it can use specific software that provides greater options for online catalog and price shopping, as well as increased control over the purchasing function. Furthermore, the Procurement Supervisor reviews requisitions to ensure adherence to the appropriate procedures.
- **Internal Controls and Audit Compliance:** The District has made efforts to resolve citations from previous financial audits and to improve its operations using a finance committee with advice from a business advisory committee. For example, the District received five audit citations for FY 2003-04, but only one citation for FY 2004-05. The Treasurer noted that the District is taking steps to address the four new citations in FY 2005-06 by communicating with the financial auditors. Additionally, the Treasurer,

Superintendent, and Human Resource Director are to act as a Board of Control to approve expenditures.

Issues for Further Study

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

- **Grant Process:** Lorain CSD's miscellaneous revenues, which includes grants, were higher than the Type IV average but lower than the Type V average by \$83 per student in FY 2005-06. In addition, miscellaneous revenues per pupil decreased by 8.9 percent in FY 2006-07. The District does not have a comprehensive policy for grants identifying a person responsible for actively locating, applying for, and managing the grants process. The grants coordinator position has been vacant since July 2007, but the District currently receives input from a consultant who was a federal grants coordinator for ODE. The District should further review its grant policy and process to determine whether it can generate additional revenues to support operations.

Recommendations

Strategic and Financial Planning

R2.1 The District should expand its existing financial policies to include the policies recommended by GFOA. These additional policies would help the District promote long-term financial stability and ensure effective management of its finances.

Lorain CSD has comprehensive financial policies to help guide financial decision-making relating to expenditures, budgeting, and reporting. However, the District lacks policies for the following areas, which are recommended policy areas in *Best Practices in Public Budgeting* (GFOA, 2000):

- **Stabilization 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.
- **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.
- **Unpredictable revenues:** A government should identify unpredictable revenue sources and define how these revenues may be used.
- **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.

The lack of policies for these areas increases the risk of the District having difficulty managing its finances. For example, the District obtained a tax anticipation note (TAN) of \$5,400,000 in 2006 to support operations. The Treasurer stated that the TAN was primarily due to declining enrollment.

R2.2 The District should update its strategic plan to include meaningful performance measures to gauge progress and results. This would also assist in evaluating past decisions and making future decisions, allocating resources, and communicating results to the public. In addition, the District should link the strategic plan to the budget and five-year forecast. This would shift the focus of budgetary decisions from inputs (salaries and cost of purchased goods and services) to outputs and outcomes. This, in turn, would help the District focus on accomplishing its goals and objectives. Furthermore, the District should develop and use performance measures to help gauge operations and identify potential improvements.

Lorain CSD has a five year strategic plan that was implemented in 2003 and runs through 2008. The strategic plan lists three overall goals with action steps that the District will take to achieve these goals. The goals are as follows:

- Increase student achievement;
- Close the socio-economic, ethnic, and gender gap in student achievement; and
- Build hope, trust, and respect with the community.

The strategic plan identifies several strategies that the District should pursue to accomplish each of these goals. However, Lorain CSD has not developed performance measures, which would allow the District to monitor progress. Additionally, there is no mention of the strategic plan in the current five-year forecast or budget, and there is no link between the forecast/budget and strategic plan.

The 2002 Phi Delta Kappa International (PDKI) curriculum audit, commissioned by Lorain CSD, found that the District's planning was "either outdated or lacked elements or resources required to implement the plans." PDKI identified that class sizes were shrinking, students were leaving, and the District had not made any reductions in staff or expenditures, thus jeopardizing its financial health. Curriculum Management Systems Inc. (CMSI) conducted a follow up of the PDKI audit in March 2007, which confirmed the District was still not tying facility requirements and budgeting to performance.

The lack of a comprehensive strategic plan that ties goals and strategies to the budget, coupled with recent administrative staff reductions that result in a loss of institutional knowledge related to the current strategic plan, increases the risk of the District not identifying and effectively addressing needs. This, in turn, can contribute to the District's recent financial instability.

Recommended Practice on the Establishment of Strategic Plans (GFOA, 2005) recommends that all governments develop a strategic plan in order to provide a long-term perspective for service delivery and budgeting, thus establishing logical links between spending and goals. 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 development of measurable objectives and inclusion of performance measures. Objectives should be quantifiable or at least verifiable statements, and should ideally include timeframes. Performance measures provide information on whether goals and objectives are being met, and provide an important link between the goals in the strategic plan and the activities funded in the budget. Performance measures should:

- Be based on program goals and objectives that tie to a statement of program mission or purpose;
- Measure program outcomes;
- Provide for resource allocation comparisons over time;
- Measure efficiency and effectiveness for continuous improvement;
- Be verifiable, understandable, and timely;
- Be consistent throughout the strategic plan, budget, accounting and reporting systems and to the extent practical, be consistent over time;
- Be reported internally and externally;
- Be monitored and used in managerial decision-making processes;
- Be limited to a number and degree of complexity that can provide an efficient and meaningful way to assess the effectiveness and efficiency of key programs; and
- Be designed in such a way to motivate staff at all levels to contribute toward organizational improvement.

GFOA also encourages all governments to utilize performance measures to at least report on the outputs of each program. The measures should relate to the objectives of each department. As governments gain experience with these measures, they are encouraged to use a variety of performance measures to report on the achievements, impacts, and outcomes of key programs.

R2.3 The Board should consider updating the policy on financial forecasting to specify the process used in developing the financial forecast, including timetables and mandated deadlines, and the involvement of other District administrators. For example, the Board could consider requiring that the key forecast assumptions be developed jointly by the District finance committee, the Treasurer, and the Superintendent. This would enable each party to provide functional expertise and oversight in order to produce a reliable and cohesive forecast that presents the actual direction of Lorain CSD.

The FY 2006-07 Financial Audit indicated that the District did not submit its updated and approved five-year forecast to ODE by May 31, as required by OAC 3301-92-04. According to the Treasurer's job description, the Treasurer should prepare a long-range financial projection with assistance from the Superintendent and the Board. However, the District lacks a policy that specifies the process used in preparing the forecast, the participation of other administrators, or the supporting materials to be used in developing significant assumptions. In practice, the Treasurer stated that he receives input from the Board and key administrators in regards to the forecast. For example, the recent financial difficulties of the District made it a priority to implement strategies designed to lower costs. The Treasurer worked in collaboration with the Board and administrators to identify such strategies. These discussions were considered when the forecast was updated in June 2007.

According to the *Guide for Prospective Financial Information* (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.

By requiring timely submission of the forecast and formally defining the process, the District can better monitor the spending plan and ensure the development of a reliable forecast.

- R2.4 Since employee salaries and wages represent 57 percent of the District's total expenditures, the Treasurer should consider plotting all employees based on salary schedules for the next five years. This would strengthen the forecast methodology and reliability, and allow the Treasurer to easily adjust salaries to address issues like retirements and new hires. At a minimum, the Treasurer should determine the actual step increases for classified and administrative staff in the base year of the forecast, and carry forward the increase in future years. This would be similar to the current methodology used for teacher salary projections. Furthermore, the Treasurer should ensure that the forecast notes accurately convey the methodology used in the projections, and consider projecting encumbrances based on historical trends.**

The forecast assumptions used by the Treasurer appear reasonable⁴, with the exception of the methodology used for projecting classified and administrative step increases, and the assumption for negotiated wage increases for classified and administrative staff. In projecting step increases, the Treasurer prepared the forecast using a 1.5 percent annual growth rate for all employees. However, this step increase only applies to certificated staff. The 1.5 percent increase was supported by a spreadsheet grouping the number of certificated staff members by step level and calculating the average step increase. As a result, the Treasurer assumes classified and administrative staff will receive an average of 1.5 percent for step increases. Certificated salaries made up 80.5 and 78.5 percent of total salary expenditures in FY 2005-06 and FY 2006-07, respectively. However, by not including a step schedule analysis of classified and administrative staff similar to certificated staff, the Treasurer may not be accurately projecting salary and related benefit costs. In addition, the supporting spreadsheet for the certificated staff only showed one year of the step schedule and was not carried forward to show the progression of the employees throughout the forecast.

AOS analyzed the most recent classified contracts and attempted to calculate an average step increase. However, due to the timing of the audit and some contracts not being finalized, the most recent (FY 2005-06) figures were used. The analysis showed that the average classified step increase in FY 2005-06 was 3.4 percent, which is significantly higher than the Treasurer's projection of 1.5 percent. Furthermore, some annual step increases exceed 10 percent. In order to achieve the Treasurer's projection of only a 1.5 percent step increase for classified staff, a considerable number of classified staff will need to have achieved the maximum step and thus, no longer be eligible for future step increases.

The Treasurer assumes only a one percent NWI for classified and administrative staff. However, the certificated staff will receive NWIs of 3 percent in FY 2008-09 and 4.4 percent in FY 2009-10, and the Treasurer assumes NWIs for certificated staff of 2.8 percent in both FY 2010-11 and FY 2011-12. When including steps, the Treasurer assumes certificated salaries to increase by approximately 4.8 percent per year. When excluding FY 2009-10 because it contains a much higher NWI, the average combined increase drops to 4.4 percent. By comparison, the combined NWI and step increase for classified and administrative staff amounts to only 2.5 percent per year. In addition, the forecast notes state the Treasurer did not forecast any NWIs for classified and administrative staff, despite actually using an NWI of 1.0 percent to calculate the projected figures.

⁴ The October 2007 forecast shows an additional 2.0 million projected in FY 2010-11, which is not explained in the forecast notes.

Based on the above, AOS will increase classified and administrative salaries by 4.4 percent per year. **Table 2-4** shows the net impact of these adjustments to the forecast, including adjustments to salary-driven benefits. Lastly, despite historical encumbrances, the Treasurer did not forecast encumbrances. Therefore, encumbrances will be forecasted at 1.0 million, based on the last two years.

Table 2-4: Impact of Forecast Adjustments (in 000s)

| | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| Salaries | | | | | |
| Lorain CSD Projections | \$42,635 | \$43,933 | \$46,429 | \$49,867 | \$51,732 |
| AOS Revised Projection | \$42,838 | \$44,142 | \$46,650 | \$50,104 | \$51,978 |
| Net impact on forecast | \$203 | \$209 | \$221 | \$237 | \$246 |
| Benefits | | | | | |
| Lorain CSD Projections | \$14,981 | \$13,906 | \$14,716 | \$15,636 | \$16,314 |
| AOS Revised Projection | \$15,014 | \$13,941 | \$14,753 | \$15,675 | \$16,355 |
| Net impact on forecast | \$33 | \$34 | \$36 | \$39 | \$41 |
| Encumbrances | | | | | |
| Lorain CSD Projections | \$0 | \$0 | \$0 | \$0 | \$0 |
| AOS Revised Projection | \$1,000 | \$1,000 | \$1,000 | \$1,000 | \$1,000 |
| Net impact on forecast | \$1,000 | \$1,000 | \$1,000 | \$1,000 | \$1,000 |

Source: AOS analysis

Budgeting

R2.5 Lorain CSD should prepare a budget document containing detailed information and supporting materials that highlight the District's key goals, objectives and issues for the upcoming fiscal year. This will help link the budget to the District's strategic plan (see R2.2). The document should be made available to the public and include a budget summary to allow the public to gain a quick and easier understanding of the budget. The budget document should also convey the District's financial outlook and plan by including information like expected tax collections and state funding levels, anticipated need for future borrowing, and significant use of, and changes in, fund balances. This can be accomplished, in part, by using information contained in the five-year forecast document (see R2.3). The budget document should also provide a guide to operations that illustrates staffing levels and organizational information, and include key performance measures.

In developing a budget document, the District should obtain input from key administrators. This would ensure the District considers relevant factors in the budget and increase accountability for department budgets. Furthermore, Lorain CSD should hold principals and department heads responsible for budget performance.

Lorain CSD's budget process is highly centralized and controlled by the Treasurer's office. The Treasurer prepares the budget by primarily using a formula that allocates funds to budget line items based on historical spending patterns, rather than performance or achievement of specified goals and objectives in a strategic plan (see **R2.1**). As a result, the District may not be aligning the budget to address critical needs. The Treasurer also allocates any remaining account balances to each building on a per student basis. The budget is presented to the Superintendent and the BOE for final approval. The District does not prepare, publish, or circulate a formal budget document other than the appropriations resolution in Board minutes. Principals and department heads are not responsible for managing their budgets, but instead submit spending proposals to the Treasurer for approval throughout the year. This diminishes accountability for department budgets.

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 that they include and include the following items:

- **Description of key policies, plans and goals:** The identification of key programmatic and financial policies, plans, and goals assists stakeholders in determining the appropriateness of a district's direction. This also allows stakeholders to develop their own opinions as to whether the entity's programs and decisions conform to, or are likely to achieve, those policies, plans, and goals.
- **Identification of key issues:** The identification of key issues focuses attention on critical areas, improves the likelihood that an appropriate level of deliberation will occur regarding decisions, provides accountability to stakeholders, and promotes trust.
- **A financial overview of the short and long-term financial plan:** Stakeholders need to have the financial plan of the district clearly identified in order to make the best budgetary decisions. A financial overview typically consists of financial statements and accompanying narrative, charts, and graphics. The overview should clearly describe the current and projected financial position, fund balances, financial activities and expectations for the budget period, and the expected implications for future periods.
- **A guide to operations:** This information provides a context for allocations of resources in the budget, which helps to enable reasoned decision making about the use of resources. It also provides readers with a guide to the government's programs and the organizational structure in place to provide those programs and services.

- **A budget summary:** A concise summary of the key issues, choices, and financial trends is needed to inform and direct the reader to the appropriate location for additional information, because most stakeholders do not want to take the time to read and understand all of the details in a budget.

This publication also indicates that performance measures should be included in the budget document, including efficiency and effectiveness measures, and be available to stakeholders. At least some of these measures should document progress toward achievement of previously developed goals and objectives as defined by a strategic plan (see R2.2).

Purchasing

R2.6 The District should consider lowering the minimum requirement threshold for obtaining multiple price quotes and monitor purchases using the new threshold. 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 the operational units. Furthermore, Lorain CSD should continue to expand its membership in consortiums to increase the pool of products and prices to compare. These practices will provide the Board with more assurance that the District's goods and services are purchased at a fair price.

Lorain CSD's purchasing policies are broad and only require competitive pricing in the following instances:

- The District will comply with state laws regarding competitive bidding requirements (anything exceeding \$25,000 as noted in ORC 3313.46).
- The Director of Procurement should attempt to obtain three price quotations on any and all single item purchases of more than \$10,000; and
- The District may use request for proposals (RFP) for expenditures in excess of \$25,000.

These policies permit employees to make purchases of single items costing up to \$10,000 without securing multiple price quotes beforehand, as long as the Board approves the purchase. By contrast, Akron Public Schools requires district employees to obtain three price quotes on anything costing more than \$6,000. Lowering the threshold would better ensure that the District obtains competitive pricing.

The District is a member of the Lorain County Cooperative Purchasing Association (LCCPA), which is part of the Lake Erie Educational Computer Association (LEECA).

During the course of the performance audit, Lorain CSD expanded its participation in Ohio Schools Council (OSC) programs by joining its cooperative purchasing program. However, further exploration of memberships in other relevant consortiums could help the District ensure it purchases of products at the most economical price. For example, the U.S. Communities: Government Purchasing Alliance (USC) is a nonprofit entity that assists public agencies in reducing the cost of purchased goods by pooling their purchasing power nationwide. Key advantages of participating in USC include the following:

- Savings through the lack of user fees or costs to participate, saves time and money, and frees resources for other public priorities, programs and services;
- Competitively solicited contracts;
- Nationally sponsored by leading associations and purchasing organizations (e.g., Association of School Business Officials International);
- Directed by public purchasing professionals; and
- Aggregation of purchasing power through the following:
 - Combines potential purchasing power of up to 87,000 local agencies;
 - Expands purchasing choices beyond state boundaries; and
 - Includes over 8,000 public agencies in 50 states.

USC offers technology products, office and school supplies, janitorial supplies, maintenance and hardware supplies, office and school furniture, and office machines.

R2.7 Lorain CSD should eliminate its warehouse operation by implementing a just-in-time (JIT) process. This would eliminate the costs related to maintaining a warehouse and the system for tracking warehouse inventory, and avoid maintaining unnecessary supplies.

The District operates a warehouse out of two different buildings: Lorain Middle School (LMS) and the 21st Street facility. During the course of this performance audit, the District eliminated the use of LMS with the intent of going to a just-in time operation. The District used the LMS warehouse to store furniture, equipment, copy paper and janitorial supplies such as chemicals. Most items are shipped directly to the warehouse where a warehouseman breaks up the shipments before they are sent to each operating unit. Along with functioning as a warehouse, the 21st Street facility also serves as a maintenance and vehicle storage facility.

The Procurement Officer indicated Lorain CSD has not effectively evaluated its warehouse function. There are no formal policies or procedures related to warehouse operation including physical inventory counts. In addition, the District discarded old supplies that went unnoticed in the warehouse.

Implementing a JIT system instead of operating a warehouse could be more cost-effective for the District. According to Rockford Consulting Group (RCG)⁵, JIT techniques provide the cost effective production and delivery of only the necessary quality parts in the right quantity, at the right time and place, while using a minimum of facility, equipment, material, and human resources. JIT techniques can be applied to the full cycle of procurement, manufacturing, and delivery. RCG notes that improved work place organization and visibility of operations are characteristics of JIT techniques. Furthermore, material-related costs are reduced by decreasing the number of suppliers with which a company deals through the use of long-term contracts. This eliminates the need to count individual parts and stock inventory, reduces order scheduling, eliminates expediting, simplifies receiving systems, and eliminates inspection at receiving.

According to *Just-In-Time Inventory Management Strategy and Lean Manufacturing* (Broyles, Beims, Franko, Bergman, Kansas State University, 2005), “JIT is lowering costs and inventory, reducing waste, and raising the quality of products... In most cases, the benefits outweigh the risks to the JIT enabled company. Planning for and recognizing when things may go wrong with the JIT system are vital for the success of JIT implementation across all areas of supply chains.” This article also notes that the risks of JIT are mainly due to the high level of interdependence, which include communication breakdown with suppliers, labor strikes, and increased demand due to the season or emergencies.

Financial Implication: Closing the warehouse operations of the 21st Street facility would save the District approximately \$65,000 in annual salary and benefit costs by eliminating the warehouseman position. This is based, in part, on benefits comprising 31 percent of salaries, similar to the total General Fund percentage for benefits in FY 2005-06 and FY 2006-07.

Payroll

R2.8 Lorain CSD should pay its employees on a two week delay. This would help reduce the number of edits required for errors and adjustments, and allow adequate time to verify payroll information. This, in turn, would lessen the chances of paying employees for hours that they did not work. In addition, the District should consider purchasing an automated time and attendance system at each building, which would document the actual hours worked by staff on a daily basis and could potentially aid in effectively implementing the two week delay. However, prior to purchasing such a system, the District should review the current substitute calling system to ensure that it can not be used to document actual hours worked per day for all staff. In

⁵ RCG is a firm that specializes in manufacturing, distribution, and supply chain management consulting that includes purchasing and distribution,

order to eliminate duplication of effort, the District should link the automated substitute calling system for teachers to the Treasurer's office.

If Lorain CSD purchased an automated time and attendance system, the District should train employees on the system to ensure staff uses all of the functions. Once fully implemented and coupled with linking the substitute calling system to the Treasurer's office, the automated time and attendance system could potentially allow for a reduction in staffing levels within the payroll function⁶. When considering an automated time and attendance system for each building, the District should determine whether it can purchase such a system as a component of an overall Human Resource Information System (see R3.9 in human resources).

With the exception of employees like custodians and substitutes who must fill out time cards and are paid on a two-week lag, LCSD pays its employees at the end of the pay period without any lag time. This increases the risk of not correctly verifying hours worked, overtime, and scheduled or unscheduled use of leave. The result of this practice leads to payroll clerks making adjusting entries after the pay period in question and, in some cases, paying employees for time not worked. Lorain CSD uses a manual process for tracking time and attendance information as financial problems in the District have limited its ability to purchase the necessary software to automate payroll. This also, in some cases, has led to lax oversight and approval when documenting hours worked and leave time.

The District uses two methods for employees to report leave usage. Teachers use an automated substitute calling system, while all other employees must directly call their supervisors and then submit the appropriate written documentation for the absence. The automated substitute calling system is located in the Human Resources (HR) Department. The District does not fully utilize its capabilities and duplicates efforts when reporting to payroll, which increases the potential for errors or omissions. More specifically, the system calls substitutes from a phone tree established in a database when a teacher calls off. The District has a part-time secretary pull information from the call off system and enter it in a report, which is then submitted to payroll for data entry. However, the system could directly upload data to payroll if linked to the Treasurer's office.

The remaining employees file a written request for scheduled leave with their respective supervisor. Once approved, the request is sent to the HR Department who then sends a final summation report to the Payroll Department for data entry. Due to the timing and nature of this reporting, the Payroll Supervisor stated that efforts are duplicated and, in

⁶ If the District reported payroll employees as "clerical" for the staffing assessment in the **human resources** section, these potential reductions could be a part of **R3.3** in the **human resources** section.

some cases, leave goes unreported. In one case, an employee on extended sick leave went unnoticed for several weeks.

The performance audit of Painesville Township Local School District, released in March 2007, found that the district processes payroll on a two-week delay. In addition, the Painesville Township's Treasurer indicated that the district is able to minimize the number of special payroll runs and overtime that occurs throughout the year due to mistakes and other factors.

One company cites the following benefits of an automated time and attendance system:

- Reduces the risk of costly payroll errors and inflated labor costs;
- Provides managers with real-time labor data along with tools to control costs and improve productivity;
- Eliminates paper timesheets and opportunities for human error;
- Delivers pay accurately and on-time with consistent pay participates; and
- Frees managers to focus on higher value strategic activities.

In addition to the above benefits, an automated system would provide the District with an objective mechanism to pay employees only for time actually worked

Financial Implication: Based on a quote from one company, the installation of an automated timekeeping system would result in an initial cost of \$110,000 and an annual cost of \$4,500 thereafter for software updates and maintenance.

R2.9 The District should expand the use of direct deposit and consider negotiating mandatory direct deposit in future bargaining unit agreements. The use of direct deposit reduces the cost of processing payroll checks, streamlines bank reconciliations, and helps minimize security risks associated with lost or stolen checks.

Lorain CSD offers its employees the option to be paid through direct deposit to the financial institution of their choice. The District encourages all employees to enroll in the direct deposit program; however, direct deposit is not mandatory due to bargaining unit resistance. According to the Payroll Supervisor, approximately 85 percent of staff members use direct deposit. The District's bank does not charge Lorain CSD for direct deposit transactions nor do they charge a fee to process a payroll check.

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

- Printing checks, including manual cancellation of the first batch of checks and new print runs when initial check runs fail;
- Signing of checks by an authorized individual, who may have questions about payment amounts that require additional investigation;
- Distributing checks; and
- Tracking checks not cashed and following up with employees.

Besides avoiding some of the steps involved with issuing paychecks, direct deposit carries the additional advantage of putting money in employee bank accounts immediately. However, paper-based notifications of direct deposit payments may still need to be sent to employees. While this would require printing and distribution steps, there would be no need for signing the notifications or tracking paychecks 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.

Recovery Plan

R2.10 Lorain CSD should analyze and use the financial recovery plan outlined in Table 2-5 to evaluate the impact of the recommendations presented in the performance audit and determine the impact of the related cost savings on its financial condition. The District should also consider implementing the recommendations in this performance audit along with other strategies to improve its current and future financial condition. Furthermore, the District should update its financial recovery plan on a continual basis, as critical financial issues are addressed and circumstances change.

Because the District is projected to have negative ending fund balances in FY 2010-11 and FY 2011-12 even when including all of the savings associated with performance audit recommendations, it should consider various options to further reduce expenditures or increase revenues. This could include reducing regular education and educational service personnel staffing levels closer to State minimum requirements. The District should discuss such options with the community to determine stakeholder needs and desires regarding service levels. In addition, Lorain CSD should continually monitor enrollment trends. In particular, the District should begin to plan for staffing reductions that correspond to a potential decline in future student enrollment (see R2.2 and R3.2 in human resources).

Table 2-5 presents a potential financial recovery plan for Lorain CSD, and includes the revised projection of salaries, benefits and encumbrances (see R2.4), and the impact of the recommendations in the performance audit.

Table 2-5: Lorain CSD 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 | \$16,339 | \$16,023 | \$17,977 | \$14,691 | \$16,638 | \$17,248 | \$17,825 | \$18,003 |
| Tangible Personal Property Tax | 4,218 | 5,068 | 4,765 | 3,113 | 2,012 | 907 | 871 | 836 |
| Unrestricted Grants-in-Aid | 51,106 | 52,068 | 51,343 | 52,203 | 54,671 | 56,424 | 57,646 | 58,665 |
| Restricted Grants-in-Aid | 7,078 | 7,163 | 8,486 | 9,466 | 9,658 | 9,844 | 9,981 | 10,155 |
| Property Tax Allocation | 2,233 | 2,387 | 3,252 | 3,461 | 3,918 | 4,433 | 4,158 | 3,765 |
| Other Revenues | 1,836 | 2,438 | 2,342 | 2,516 | 2,618 | 2,700 | 2,664 | 2,738 |
| Total Operating Revenues | \$82,810 | \$85,147 | \$88,165 | \$85,450 | \$89,515 | \$91,556 | \$93,145 | \$94,162 |
| Total Other Financing Sources | 635 | 5,845 | 694 | 497 | 0 | 0 | 0 | 0 |
| Total Revenues and Other Financing Sources | \$83,445 | \$90,992 | \$88,859 | \$85,947 | \$89,515 | \$91,556 | \$93,145 | \$94,162 |
| <i>Salaries & Wages-Revised</i> | \$49,680 | \$50,769 | 51,485 | 42,838 | 44,142 | 46,650 | 50,104 | 51,978 |
| Fringe Benefits | 14,429 | 15,500 | 16,165 | 15,014 | 13,941 | 14,753 | 15,675 | 16,355 |
| Purchased Services Supplies, Materials & Textbooks | 15,271 | 18,423 | 20,395 | 23,878 | 26,471 | 28,763 | 30,990 | 32,882 |
| Capital Outlay | 1,411 | 1,863 | 1,673 | 873 | 1,620 | 1,653 | 1,686 | 1,720 |
| Debt Service | 142 | 137 | 380 | 81 | 582 | 594 | 606 | 618 |
| Other Expenditures | 1,502 | 1,423 | 363 | 1,311 | 1,260 | 1,208 | 1,157 | 1,120 |
| Total Operating Expenditures | \$83,153 | \$88,795 | \$91,148 | \$84,687 | \$88,715 | \$94,327 | \$100,931 | \$105,393 |
| Other Financing Sources | 966 | 1,252 | 1 | 1,694 | 600 | 600 | 600 | 600 |
| Total Expenditures and Other Financing Sources | \$84,119 | \$90,047 | \$91,149 | \$86,381 | \$89,315 | \$94,927 | \$101,531 | \$105,993 |
| Result of Operations (Net) | (\$674) | \$945 | (\$2,290) | (\$434) | \$200 | (\$3,371) | (\$8,386) | (\$11,831) |
| Beginning Cash Balance | \$2,162 | \$1,487 | \$2,432 | \$142 | (\$292) | (\$92) | (\$3,463) | (\$11,849) |
| Ending Cash Balance | \$1,487 | \$2,432 | \$142 | (\$292) | (\$92) | (\$3,463) | (\$11,849) | (\$23,680) |
| Encumbrances | 267 | 1,016 | 1,110 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Ending Fund Balance | \$1,220 | \$1,416 | (\$968) | (\$1,292) | (\$1,092) | (\$4,463) | (\$12,849) | (\$24,680) |
| Cumulative Impact of AOS Recommendations | N/A | N/A | N/A | N/A | \$2,437 | \$5,214 | \$8,082 | \$11,047 |
| Revised Ending Fund Balance | \$1,220 | \$1,416 | (\$968) | (\$1,292) | \$1,345 | \$751 | (\$4,767) | (\$13,633) |

Source: Lorain CSD October 2007 Forecast

Although the performance audit recommendations reduce the projected deficit by 45 percent in FY 2011-12, **Table 2-5** shows that the District is still projected with deficits in the last two years even when including the performance audit recommendations. As a result, the District will need to identify additional measures to save costs and increase revenues. Additional cost saving strategies could include reducing regular teacher and educational service personnel (ESP) staffing levels closer to State minimum requirements. By reducing regular and ESP staffing levels to State minimum requirements, it is estimated that the District would eliminate the projected negative ending fund balance in FY 2010-11 but still finish FY 2011-12 with a negative ending fund balance⁷. Regardless of State minimum requirements, continued declines in student enrollment could enable the District to reduce more staff. Lorain CSD's enrollment declined by an average of 1.5 percent (152 students) annually since FY 1997-98. Additionally, the District's enrollment has declined each year after FY 2001-02. See **facilities** for more information on enrollment trends. Lastly, it should be noted that Lorain CSD voters have not passed a levy for new money since 1992.

⁷ This is based, in part, on staffing information that is of undetermined reliability. See **R3.1** in **human resources** for more information.

Financial Implications Summary

The following table presents a summary of estimated cost savings and implementation costs in this section. For purposes of this table, only recommendations with quantifiable impacts are listed.

Financial Implication Summary

| Recommendation | Estimated Annual Cost Savings | Estimated One-Time Implementation Costs | Estimated Annual Implementation Costs |
|---|--------------------------------------|--|--|
| R2.7 Close Warehouse | \$65,000 | | |
| R2.8 Purchase automated timekeeping system | | \$110,000 | \$4,500 |
| Total | \$65,000 | \$110,000 | \$4,500 |

Source: AOS Recommendations

Appendix 2-A: 1998 Performance Audit Recommendations and Implementation Status

Table 2-A summarizes the 1998 Performance Audit recommendations and status of each recommendation: implemented, partially implemented, not implemented, or no longer applicable. Of the 33 recommendations issued in the 1998 Performance Audit, Lorain CSD fully implemented 11; partially implemented 4, did not implement 16, and 2 are no longer applicable. The 2007 Performance Audit addresses the recommendations in the 1998 Performance Audit that were partially implemented or not implemented if the related issues fell within the scope of the 2007 Performance Audit.

Table 2-A: 1998 Performance Audit Recommendations

| Recommendation | Implemented | Partially Implemented | Not Implemented | Does not Apply Anymore |
|--|-------------|-----------------------|-------------------|------------------------|
| R4.1 The District should prepare a broad, comprehensive strategic plan. (F4.2) | X | | | |
| R4.2 Meaningful performance measures should be developed to assist in identifying financial and program results, evaluating past decisions, reallocating resources, making future allocation decisions and communicating service and program results to the community. (F4.2 and F4.19) | | | X-see R2.2 | |
| R4.3 The District has made progress in developing a comprehensive capital improvements plan. It should continue to expand and refine the extensive listing of capital needs already identified by McDonald, Cassell and Bassett and drawing on the results of other studies and analyses. (F4.3) | X | | | |
| R4.4 The multi-year financial forecast developed by the Treasurer should be expanded to present more detailed historic and projected financial information, as well as the inclusion of accompanying assumptions, explanatory comments, and the methodology used in deriving the financial estimates. (F4.4, F4.5, F4.6, F4.7, F4.8, and F4.13) | X | | | |
| R4.5 The Board and the Superintendent should work with the Treasurer to prepare | X | | | |

| Recommendation | Implemented | Partially Implemented | Not Implemented | Does not Apply Anymore |
|--|-------------|-----------------------|--------------------------------------|------------------------|
| a revised five-year forecast which incorporates the items noted in R4.4, as well as the financial implications of acting upon the various recommendations made throughout this report and the impact of recent legislation. (F4.4, F4.5, F4.6, F4.14, and F4.15) | | | | |
| R4.6 The District should comply both with the intent as well as the letter of the provisions of the Emergency Loan program. (F4.6, F4.9, and F4.10) | | | | X |
| R4.7 The District should continue with its plan to establish a dedicated position concentrating on grant writing and coordination, presumably within the Educational Services Division. The Operations Division should be closely involved regarding external funding for the District's estimated \$51 million of capital needs, such as the state Emergency Repair program. (F4.11, F4.12, and F4.14) | | | X-see Items for Further Study | |
| R4.8 Medicaid reimbursement should be maximized and an assessment done on billing to ensure District is receiving all funds possible. (F4.13) | | | | X |
| R4.9 The practice of maintaining a contingency balance in the fund used for Medicaid reimbursements should be discontinued. (F4.13) | X | | | |
| R4.10 LCSD should attempt to reestablish its Business Advisory Council, providing another avenue for civic and business leaders to maintain their involvement in District affairs. In the absence of an active Business Advisory Council, LCSD should establish a Business Planning Committee (the Committee). The Committee should be composed of the Superintendent, the Treasurer, one Board member, and a representative from each of the following groups: principals, department administrators, union leaders, parents and the business community.. (F4.2, F4.3, F4.5, F4.15, and F4.15) | X | | | |
| R4.11 LCSD should put into place a structure for involving parents in the planning and budgeting process at the | | X | | |

| Recommendation | Implemented | Partially Implemented | Not Implemented | Does not Apply Anymore |
|---|-------------|-----------------------|-------------------|------------------------|
| school level. This could take the form of a network of School Community Councils. (F4.17, and F4.18) | | | | |
| R4.12 Although it is commendable that the Board recognizes the value in longer term planning by requiring budget projections to extend out at least three years, numerical projections alone are not sufficient. Effective budgeting must reflect the goals and priorities of the entity. (F4.2, F4.19, and F4. 20) | | | X-see R2.5 | |
| R4.13 The Treasurer should look for ways to increase the utilization of technology in the budgeting process. | | X | | |
| R4.14 The District should either acquire its own comprehensive human resources information system or solicit the support of other districts and approach the LEECA about enhancing the payroll personnel system. The software should allow multiple funding sources for a position This application would permit the Treasurer to develop the budget more easily and the Human Resources Department to manage the positions in the District with more flexibility. (F4.21.) | | | X-see R3.9 | |
| R4.15 The annual budget should be built upon operational unit performance plans rather than formulated centrally. All responsibilities and authority pertaining to an operational unit should be delegated to those who will be held accountable for performance. Performance indicators should be incorporated in the budget requests. Resources should be allocated based on priorities, levels of service and standards of performance as set and approved in the strategic plan. (F4.2, F4.3, F4.18, F4.19, and F4.21) | | | X-see R2.5 | |
| R4.16 The Board should examine its legal level of control to ensure that it is being set at a level that is both appropriate and manageable, and which facilitates the finalization of the budget as early as possible. The annual appropriation resolution which sets the operating budget should be prepared at a level which would | X | | | |

| Recommendation | Implemented | Partially Implemented | Not Implemented | Does not Apply Anymore |
|---|-------------|-----------------------|-------------------------|------------------------|
| preserve Board oversight, but which would also allow the Treasurer and the Superintendent to transact District business in an efficient manner. (F4.22, F4.23, F4.25 and F4.26) | | | | |
| R4.17 The budget presents revenue-raising and spending decisions made by the Board and District's management. To be effective, it should communicate how and why these decisions were made. The budget can serve not only as a policy document, but also as a financial plan, an operations guide and a communication device. (F4.24) | | | X-see R2.5 | |
| R4.18 LCSD should prepare its GAAP basis financial statements in-house to avoid the cost now charged by an outside accounting firm, to better utilize its accounting its accounting software, which has the capability of preparing such statements, and to improve understanding and control over its finances. (F4.28) | | | X | |
| R4.19 New management reports should be designed to provide principals, department heads, administrators and the Board with additional management information. Performance measures should be presented in the reports to enable users to monitor progress toward achievement of financial, service and program goals. (F4.21, F4.26, F4.27, and F4.31) | | | X-see R2.2, R2.5 | |
| R4.20 It should be a stated priority of the Board that the District will issue its financial statements in a timely manner. The issuance of audited statements which are years late should be unacceptable. Specific minimum standards should be established regarding reportable internal control weaknesses and instances of noncompliance found in the audit report. (F4.29, F4.57, and F.4.58) | X | | | |
| R4.21 The Board should establish an Audit Committee. (F4.29, F4.30 and F4.58) | | X | | |
| R4.22 LCSD should develop and make available to its employees, either in print | X | | | |

| Recommendation | Implemented | Partially Implemented | Not Implemented | Does not Apply Anymore |
|---|-------------|-----------------------|----------------------|------------------------|
| form or on-line, a purchasing procedures manual. This document should contain information to help employees understand current purchasing practices, regulations and compliance requirements. The manual should formalize purchasing thresholds, delineate approval paths, reiterate statutory requirements for competitive bidding, blanket purchase orders and certification of funds, describe emergency purchasing procedures and illustrate the effective use of JIT and warehoused inventories. (F4.32, F4.33, F4.34, F4.35, F4.39, 4.40, F4.41, and F4.42) | | | | |
| R4.23 LCSD should work with LEECA to effectively utilize the newest version of the state purchasing software and to explore additional technological enhancements to its procurement practices.(F4.34) | | | X-different software | |
| R4.24 LCSD should thoroughly reexamine its decision to reopen its warehouse. Most, if not all, of the items stored at the warehouse could be procured through a IIT vendor. (F4.42) | | | X -see R2.7 | |
| R4.25 The District should discourage the general practice of ordering items directly from vendors having supply contracts with the state for those same items. If, in a specific situation, the District is convinced that making a direct purchase is truly advantageous, it should have procedures in place to ensure that it is, indeed, receiving the state contracted price. (F4.37) | | | X | |
| R4.26 LCSD should reclaim ownership and control over its fixed asset records by maintaining the database in-house rather than contracting with an outside vendor. (F4.4.44) | | | X | |
| R4.27 The District is not properly encumbering funds in all cases where the amount of the invoice exceeds that of the purchase order. (F4.4.47) | | | X | |
| R4.28 The District should attempt to maximize cash flow and take advantage of | | | X | |

| Recommendation | Implemented | Partially Implemented | Not Implemented | Does not Apply Anymore |
|---|-------------|-----------------------|-------------------|------------------------|
| prompt pay discounts. It should maintain a record of discounts taken and discounts lost to help assess the effectiveness of its payment procedures. (F4.48 and F4.49) | | | | |
| R4.29 The District should expand the use of its automatic call-in attendance system to include all regular employees, thereby providing a consistent district-wide means of identifying the individual, date(s), duration and reason for absences and eliminate the time associated with manually capturing, verifying and processing this type of information. However, the practice of paying substitutes based solely on the automated call-in report should be eliminated. Payment of substitutes should not be made without the approval of the operating unit manager. (F4.50) | | X – See R2.8 | | |
| R4.30 The District should immediately develop and implement procedures which will allow it to fully and accurately monitor all forms of absences it has established. (F4.50 and F4.51) | | | X-see R2.8 | |
| R4.31 LCSD should eliminate the printing of paychecks by making direct deposit mandatory. (F4.52, F4.53, and F4.54) | | | X-see R2.9 | |
| R4.32 A payroll position within the Treasurer's Office had been vacant since April 1997 and its duties absorbed by other Payroll Department personnel. Although a new employee has recently been hired to fill this vacancy, the District should reevaluate the necessity of this particular position. (F4.55) | | X | | |
| R4.33 The employee information within the Payroll Department and Human Resource Department data bases should be periodically reconciled. (F4.56) | X | | | |

Source: 1998 Performance Audit

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Human Resources

Background

This section of the performance audit focuses on the human resource functions of the Lorain City School District (Lorain CSD or the District). Lorain CSD's operations are evaluated against selected peer districts¹, best or recommended practices and operational standards from applicable sources. These sources include the Ohio Revised Code (ORC), the Ohio Administrative Code (OAC), the Ohio Department of Education (ODE), the Ohio Department of Administrative Services (ODAS), and the State Employment Relations Board (SERB). In addition, **Appendix 3-A** summarizes the implementation status of the recommendations in the previous performance audit of Lorain CSD, released in 1998.

Organizational Structure

Lorain CSD employs a Superintendent and a Treasurer who report directly to the Board of Education (the Board). Lorain CSD also employs a Human Resource Director. In July 2007, the Human Resource Director resigned after five years of service. The District hired a new Human Resource Director in August 2007 (current title of Chief Human Resources Officer), who served as the prior Associate Director of Human Resources for Lorain CSD from 2003 to 2005. Other positions involved in human resources functions include supervisors, administrators, clerical staff, and the EMIS Coordinator. The District's human resource functions encompass the following: recruit and hire employees; help negotiate and administer the District's six collective bargaining agreements²; monitor compliance with minimum employment standards; administer the Education Management Information System (EMIS); and manage the workers' compensation program.

¹ See **Table 3-1** for more information, and the **executive summary** for a list of peer districts and an explanation of the selection methodology.

² **Certificated:** Lorain Education Association (LEA); **Classified:** Local 103 National Conference of Firemen and Oilers (NCFO), Lorain City Schools Association of Classified Employees OEA/NEA, Ohio Association of Public School Employees Chapter 120 (OAPSE aides); Ohio Association of Public School Employees Chapter 377 (OAPSE cafeteria); **Administration:** Lorain Administrators' Association (LAA)

Staffing

Table 3-1 compares Lorain CSD's full-time equivalent (FTE) employees per 1,000 students to the Type IV and Type V peer district averages³. For Lorain CSD, staffing represents FY 2007-08 staffing levels as of October 1, 2007, whereas for the peers staffing represents FTEs reported in EMIS for FY 2005-06. Due to the unreliability of the EMIS staffing information at Lorain CSD, AOS sought an alternative data source, which was provided by the Treasurer based on employees on payroll as of October 1, 2007. Although AOS reviewed the information with the Treasurer in an effort to ensure that the data appears more reliable than the original EMIS staffing information, the reliability of the data ultimately rests with Lorain CSD. Consequently, AOS asserts that the staffing data is of undetermined reliability (see **R3.1**).

Table 3-1: Comparison of Staffing per 1,000 Students

| | Lorain CSD FY 2007-08 | | Type IV Average FY 2005-06 | | Type V Average FY 2005-06 | |
|---|------------------------------|-----------------------|-------------------------------|-----------------------|------------------------------|-----------------------|
| Students Educated | 9,261 ¹ | | 2,824 ¹ | | 11,999 ¹ | |
| | FTE Reported ² | Per 1,000 Students | FTE Reported ² | Per 1,000 Students | FTE Reported ² | Per 1,000 Students |
| Administrators: | 45.00 | 4.86 | 16.15 | 5.76 | 75.15 | 6.19 |
| Site Based Administrators | 23.00 | 2.48 | 8.00 | 2.85 | 41.40 | 3.31 |
| Central Administrators | 22.00 | 2.38 | 8.15 | 2.91 | 33.75 | 2.87 |
| Educational Staff: | 479.50 | 51.78 | 195.03 | 69.55 | 932.53 | 75.33 |
| Curriculum Specialist | 1.00 | 0.11 | 0.40 | 0.17 | 4.60 | 0.46 |
| Counselors | 12.50 | 1.35 | 5.36 | 1.84 | 23.36 | 1.98 |
| Librarian / Media | 1.00 | 0.11 | 1.40 | 0.48 | 6.40 | 0.51 |
| Remedial Specialist | 2.00 | 0.22 | 4.90 | 1.74 | 17.73 | 1.76 |
| Regular Teachers | 307.00 | 33.15 | 135.55 | 47.89 | 545.52 | 45.83 |
| Special Education Teachers | 94.50 | 10.20 | 18.65 | 6.57 | 110.01 | 9.09 |
| Vocational Teachers | 18.00 | 1.94 | 3.85 | 1.54 | 39.17 | 2.32 |
| Tutor/Small Group Instructors | 0.00 | 0.00 | 8.56 | 3.15 | 75.42 | 4.10 |
| ESP Teachers | 33.00 | 3.56 | 10.20 | 3.47 | 56.94 | 4.31 |
| Supplemental Special Education Teacher | 1.00 | 0.11 | 3.91 | 1.80 | 21.65 | 2.00 |
| All Other Educational Staff | 9.50 | 1.03 | 2.24 | 0.90 | 31.73 | 2.97 |
| Professional Staff: | 27.65 | 2.99 | 7.39 | 2.65 | 51.24 | 4.17 |
| Psychologists | 9.00 | 0.97 | 1.32 | 0.44 | 13.33 | 1.14 |
| Registered Nurses | 0.00 | 0.00 | 1.73 | 0.65 | 4.32 | 0.44 |

³ Peer districts classified as Type IV by ODE are urban districts with low median incomes and high poverty rates. Type V districts are major urban districts with very high poverty (see **executive summary** for additional explanation). Lorain CSD is classified as a Type V district.

| | Lorain CSD FY 2007-08 | | Type IV Average FY 2005-06 | | Type V Average FY 2005-06 | |
|-------------------------------------|---------------------------|--------------------------|-------------------------------|---------------|------------------------------|---------------|
| | | | | | | |
| Social Worker | 0.00 | 0.00 | 0.88 | 0.31 | 1.20 | 0.15 |
| Physical Therapists | 0.00 | 0.00 | 0.00 | 0.00 | 1.20 | 0.06 |
| Speech & Language Therapists | 11.65 | 1.26 | 3.06 | 1.09 | 14.09 | 1.14 |
| Occupational Therapists | 0.00 | 0.00 | 0.00 | 0.00 | 2.96 | 0.24 |
| All Other Professional Staff | 7.00 | 0.76 | 0.40 | 0.16 | 14.13 | 1.00 |
| Technical Staff: | 20.00 | 2.16 | 6.07 | 2.17 | 43.24 | 3.95 |
| Computer Support | 3.00 | 0.32 | 0.40 | 0.15 | 6.80 | 0.52 |
| Practical Nurses | 9.50 | 1.03 | 0.00 | 0.00 | 2.80 | 0.37 |
| Library Technicians / Aides | 5.50 | 0.59 | 4.27 | 1.49 | 18.04 | 1.31 |
| Instruct. Paraprofessionals | 0.00 | 0.00 | 0.80 | 0.33 | 9.20 | 1.29 |
| All Other Technical Staff | 2.00 | 0.22 | 0.60 | 0.20 | 6.40 | 0.46 |
| Office/Clerical Staff: | 129.00 | 13.93 | 34.32 | 11.71 | 206.66 | 18.47 |
| Clerical | 47.00 | 5.0 | 15.92 | 5.53 | 95.24 | 8.60 |
| Teaching Aide | 62.00 | 6.69 | 16.79 | 5.69 | 97.56 | 9.00 |
| All Other Office/Clerical Staff | 20.00 | 2.16 | 1.60 | 0.49 | 13.86 | 0.87 |
| Maintenance Workers | 30.00 ³ | 3.24 | 4.60 | 1.55 | 31.80 | 2.73 |
| Custodians/Groundskeepers | 62.00 ³ | 6.69 | 24.15 | 7.75 | 110.80 | 8.94 |
| Bus Drivers | 0.00 ⁴ | 0.00 ⁴ | 20.50 | 6.34 | 45.84 | 4.69 |
| Food Service Workers | 0.00 ⁴ | 0.00 ⁴ | 21.45 | 7.22 | 85.22 | 7.40 |
| All Other Reported Personnel | 45.00 | 4.86 | 9.40 | 2.75 | 72.27 | 6.37 |
| Total FTEs Reported | 838.15 | 90.50 | 339.05 | 117.44 | 1,654.75 | 138.24 |

Source: Lorain CSD Treasurer, FY 2005-06 EMIS data reported to the ODE as of 03/05/06

¹Includes students receiving educational services from the district and excludes the percent of time students receive educational services outside the district. Due to the unavailability of the final FY 2007-08 EMIS enrollment figure, the 9,261 students for Lorain CSD reflects FY 2006-07. During the course of this performance audit, the final FY 2007-08 EMIS enrollment figure became available and showed 8,842 students. As this is 4.7 percent lower than FY 2006-07, **Table 3-1** provides a conservative comparison of staffing levels at Lorain CSD to the peer averages.

²The District's Treasurer reported FTEs according to the EMIS classification method and accounted for part-time FTEs. However, this performance audit can not definitively conclude whether the Treasurer followed all of the specific EMIS instructions, including the definition of what constitutes a FTE within each EMIS classification.

³While the Treasurer reports 92 total FTEs for facility operations, the **facilities** section reports 83 FTEs. See the **facilities** section for further discussion.

⁴The District contracts for transportation and food services. See the respective sections for more information.

Table 3-1 shows that Lorain CSD employs fewer administrator, educational, technical, and custodian/groundskeeper FTEs per 1,000 students than both the Type IV and Type V peer averages. Despite employing fewer overall educational and technical FTEs per 1,000 students, **Table 3-1** shows that the District employs more FTEs per 1,000 students than both peer averages in the following specific categories:

- **Special Education Teachers:** While the District employs more special education teacher FTEs per 1,000 students than both averages, it employs fewer supplemental special education teacher FTEs per 1,000 students than both peer averages. When combining these two categories, the District employs 10.31 special education FTEs per 1,000 students. Although this is higher than the Type IV average per 1,000 students (8.37), this is lower than the Type V average per 1,000 students (11.09). Furthermore, OAC 3301-52-09 contains minimum staffing requirements for special education. See *Issues for Further Study*.
- **Speech and Language Therapists:** Lorain CSD employs 0.17 and 0.12 more speech and language therapists per 1,000 students when compared to the Type IV and Type V averages, respectively. Similar with special education, OAC 3301-51-09 impacts speech and language therapist staffing levels. See *Issues for Further Study*.
- **Practical Nurses:** Lorain CSD employs 1.03 and 0.66 more practical nurse FTEs per 1,000 students when compared to the Type IV and V averages, respectively. See *Assessments not Yielding Recommendations* for further discussion.
- **Maintenance Workers:** See the **facilities** section of this audit for an assessment of the maintenance staffing levels.

In addition, Lorain CSD employs more FTEs per 1,000 students than the Type IV average in office/clerical (see **R3.3**). See the *Assessments not Yielding Recommendations* and *Issues for Further Study* for more information on the remaining areas that Lorain CSD employs more FTEs per 1,000 students when compared to the Type IV average: vocational teachers, ESP teachers, teaching aides, all other educational, psychologists, all other professional, computer support, and all other reported personnel.

Noteworthy Accomplishment:

The following noteworthy accomplishment was identified during the course of the performance audit of the District's human resources operation:

- **Healthcare:** Lorain CSD proactively controls healthcare costs through the establishment of a Trust, which is comprised of 12 trustees. The Lorain Education Association (LEA) appoints four trustees while the Superintendent appoints the remaining eight members. The Trust's primary function includes managing premiums through cost containment provisions, such as adjustments to coverage and the sharing of premium increases between the District and employees. For example, effective January 1, 2008, the Trust increased the physician office co-pay from \$20 to \$25 for both health plans; the employee monthly contribution in Plan A from \$45 to \$54 for the single plan; and the employee monthly contribution in Plan A from \$113 to \$134 for the family plan. In addition, the

current monthly employee contribution in Plan A amounts to 10.8 percent of the premiums. Although this is lower than data reported by the Kaiser Family Foundation in its national study for 2007, it is higher than government employee contributions reported by SERB for 2006. The District does not require Plan B participants, which only comprise 11 percent of total participants, to contribute to the monthly premiums. This appears to be due to Plan B participants paying more for plan benefits than Plan A, including higher annual deductibles, higher out-of-pocket maximums, and higher prescription co-pays.

Furthermore, the District's employee co-pay of \$25 for physician visits is high, compared to data published by the Kaiser Family Foundation. Specifically, the Kaiser Family Foundation in its 2007 national study reports that 72 percent of employees in PPO plans face a physician office co-pay of only \$5, \$10, \$15, or \$20; 19 percent face a co-pay of \$25; and 7 percent face a co-pay of \$30. Lastly, the District offers health management programs, with the objective of improving quality of care and reducing related incidents (e.g., hospital admissions and emergency visits), thus reducing costs. While the District's requires reasonable employee monthly contributions and relatively high physician office co-pays, and offers health management programs, its monthly premiums appear high. This can be due, in part, to offering more generous plan benefits in other areas (see **R3.4**).

Assessments Not Yielding Recommendations

In addition to the analysis presented in this section, assessment conducted on aspects of the human resources operation did not warrant changes and did not yield recommendations. These areas include the following:

- **Certificated Salaries:** Lorain CSD's average certificated salaries (\$55,747) were higher than Type IV and Type V averages (\$47,911 and \$52,701) in FY 2005-06⁴. This can be attributable to the District employing teachers with higher tenure. For instance, ODE reported Lorain CSD teachers with an average years of experience at 21 years, compared to the combined Type IV and V average of 14.8 years. In addition, when comparing salary rates to the three select Type V peers (Canton CSD, Euclid CSD and Hamilton CSD) at the beginning step, step 5, step 10, step 14 and the last step, Lorain CSD's salaries for certificated staff within each schedule (BA, MA, MA+15, MA+30, and PHD) were less than the peer average in every step. The only exceptions were for PHD step 0, step 5, and step 14, and MA+30 last step. Salaries for non-degreed certificated members are significantly higher than two of the peers beginning at step 10. Non-degreed positions consist of school nurses. Lorain CSD has remedied the non-degreed salary discrepancy by no longer offering the nurse position when a retirement or a resignation occurs.

⁴ Lorain CSD's FY 2005-06 average salaries as reported in EMIS were not tested for reliability. Lorain CSD's EMIS staffing information for FY 2006-07 was deemed unreliable. See **R3.1** for more information.

- **Classified Salaries:** Even though maintenance and technical average salaries⁵ appear higher than the peer averages, a comparison of salary schedules to the three selected Type V peers indicate that salaries are lower or similar to the peer average for most of the years examined for library aides, carpenters, electricians and general maintenance employees. The exception is salary rates at the last step for carpenters, electricians and general maintenance staff. Therefore, the District may want to consider adjusting salary schedules in the future.
- **Certificated Substitute Wages:** The District's daily rate for substitute teachers is comparable to other districts in Lorain County, as reported by the Lorain County Educational Service Center. More specifically, Lorain CSD's substitute rates for certificated personnel are \$95 per day, compared to an average of \$100 per day for the other districts in the County.
- **Special Education Teachers:** Based on the staffing requirements stipulated in OAC 3301-52-09, the District should have a minimum of 90.0 FTE special education teachers to education its special needs students in FY 2006-07. In FY 2007-08, the District employed 94.5 FTE special needs teachers and 1.0 FTE supplemental service teacher, for a total of 95.5 FTEs. This amounts to only 5.5 FTEs above the minimum requirements. In addition, the District incurred higher special needs expenditures per student (\$1,399) when compared to the Type IV average (\$854) in FY 2005-06. However, Lorain CSD's special needs expenditures were lower than the Type V average (\$1,478). Furthermore, the District reduced its special needs expenditures per student to \$1,004 in FY 2006-07, a reduction of 28 percent from FY 2005-06.
- **Vocational Teacher Staffing:** Lorain CSD provides in-house vocational education for students. While the District employs more vocational FTEs per 1,000 students than the Type IV average, it employs fewer vocational FTEs per 1,000 students than the Type V average. According to ODE, only the following four peers of the ten total Type IV and Type V peers offer in-house career technical programs: Akron CSD, Canton CSD, Canton LSD and Hamilton CSD. When comparing vocational education expenditures to the peers with in-house programs for FY 2005-06, Lorain CSD spent \$4,050 per vocational education student while the peers spent an average of \$7,852 per vocational education student. While the District's vocational expenditures increased by approximately 17 percent in FY 2006-07, the District's ratio of vocational expenditures per vocational education student increases to only \$4,731, assuming the same number of vocational education students in FY 2005-06. This is still much lower than the peer average in FY 2005-06. In addition, Lorain CSD is the lead planning district for its

⁵ Lorain CSD's FY 2005-06 average salaries as reported in EMIS were not tested for reliability. Lorain CSD's EMIS staffing information for FY 2006-07 was deemed unreliable. See **R3.1** for more information.

career and technical program. The District submitted a plan to ODE, which indicates that it is aware of and reacting to the communities' needs.

- **All Other Educational Staffing:** Although the District employs slightly more FTEs per 1,000 students in this category (1.03) when compared to the Type IV average (0.90), it employs significantly fewer FTEs per 1,000 students when compared to the Type V average (2.97). Additionally, according to the District, this category consists of 4.0 FTE grant funded positions. When excluding these positions, the number of FTEs per 1,000 decreases to 0.59 FTEs per 1,000 students, which is much lower than the Type IV average.
- **ESP Teacher Staffing and Nurses:** Although the District maintains slightly more ESP teacher FTEs per 1,000 students the Type IV average, it employs fewer total ESP staff per 1,000 students. ESP staffing includes ESP teachers, counselors, librarians/media specialists, social workers and registered nurses. When combined, Lorain CSD employs 5.0 FTEs per 1,000 students, compared to the Type IV average of 6.7 FTEs per 1,000 students and the Type V average of 7.4 FTEs per 1,000 students. Furthermore, the District does not employ any registered nurses and instead employs 9.5 FTE practical nurses. When including practical nurses with ESP staff, the District employs 6.0 FTEs per 1,000 students. This is still lower than the Type IV and Type V averages (6.7 and 7.8).
- **Teaching Aides / Instructional Paraprofessionals:** Table 3-1 shows that Lorain CSD employs more teaching aides per 1,000 students than the Type IV average, but fewer teaching aide FTEs per 1,000 students than the Type V average. Additionally, one Type IV district did not report any teaching aides or instructional paraprofessionals. When excluding this district and combining teaching aide and instructional paraprofessional FTEs, the District employs fewer FTEs per 1,000 students (6.7) than both peer averages (7.5 and 10.3).
- **All Other Reported Personnel:** Although the District maintains more all other FTEs per 1,000 students than the Type IV average, it maintains fewer all other FTEs per 1,000 students than the Type V average. The higher FTEs per 1,000 students when compared to the Type IV average is primarily due to the District employing 18.0 FTE guard/watchmen. The Type IV districts did not report guard/watchmen. When excluding guard/watchmen, the District has 2.92 all other FTEs per 1,000 students, which is only slightly higher than the Type IV average of 2.75. Furthermore, three of the five Type V peer districts reported guard/watchmen, with Akron CSD reporting 5.0 FTEs per 1,000 students, Euclid CSD reporting 4.0 FTEs per 1,000 students, and Warren CSD reporting 2.4 FTEs per 1,000 students. By comparison, the District employs 1.9 guard/watchmen FTEs per 1,000 students.

Issue for Further Study

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

- **All Other Professional Staffing:** Lorain CSD employs 7.0 FTE other professional staff. While the District employs more FTEs per 1,000 in all other professional (0.76) than the Type IV average (0.16), it employs fewer FTEs per 1,000 students than the Type V average (1.00). Additionally, this category includes 5.0 FTE educational interpreters. By definition, an educational interpreter provides services to hearing handicapped special needs students. Moreover, individual education programs (IEPs) drive special needs services. Therefore, the District should determine the feasibility of reductions in this category. In particular, Lorain CSD should further assess the number of educational interpreters in conjunction with a detailed review of its IEPs and special needs program, and with assistance from ODE.
- **Psychologists, and Speech and Language Therapists:** OAC 3301-51-09 states that each school district shall provide services at a ratio of 1.0 school psychologist per 2,500 students. By comparison, Lorain CSD provides 2.3 school psychologist FTEs per 2,500 students. However, OAC 3301-51-09 (g) states that a school psychologist is to provide services to no more than 125 school-age children with disabilities and no more than 75 preschool-aged children with disabilities. Likewise, according to OAC 3301-51-09, each school district shall provide services at a ratio of 1 speech and language therapist per 2,000 students. This requires the District to maintain a minimum of approximately 5.0 therapist FTEs. As shown in **Table 3-1**, Lorain CSD employs 11.6 speech and language therapist FTEs, significantly higher than the minimum. OAC 3301-51-09 further indicates that a speech and language therapist is to provide services to no more than 80 school-age children with disabilities; or no more than 50 school-age children with multiple disabilities, hearing impairments, and/or orthopedic/other health impairments; or no more than 50 preschool children with disabilities.

According to ODE, a district's compliance with the specific ratios by student disability for psychologists and for speech and language therapists would be determined by the **actual** number of students served by these positions, rather than the total number of students reported in the respective categories. Therefore, the District should review the caseloads of its psychologists, and speech and language therapists, and contact ODE for further clarification. Doing so would fully ensure compliance with the aforementioned ratios and help the District determine whether it should consider staffing reductions in these areas.

- **Computer Support:** The District employs 3.0 computer support FTEs. Although Lorain CSD employs fewer computer support FTEs per 1,000 students (0.32) when compared to the Type V average (0.52), it employs more computer support FTEs when compared to the Type IV average (0.15). In order to adequately evaluate computer support staffing levels, the District should consider reviewing compute-to-support staff ratios along with its overall technology operations.

Recommendations

Staff Reporting and Planning

R3.1 Lorain CSD should use the EMIS Coordinator's student manual to develop similar policies and procedures for preparing and reconciling staff data for submission to the Educational Management Information System (EMIS). Lorain CSD should ensure that someone independent of the data gathering process reviews the staffing information. In addition, Lorain CSD should use the EMIS *Educational Management Information System Manual*, produced annually by ODE, to help compile and review data. The District should also seek the necessary training and assistance to meet these objectives. Taken collectively, these measures would better ensure the accuracy and reliability of EMIS data. They would subsequently ensure that the District receives the correct amount of State funding, and bases management and operational decisions on accurate data. During the course of this audit, the Chief Human Resources Officer indicated that staff responsible for EMIS will be trained.

The District's internal controls over staff reporting appear weak, based on the following:

- The absence of reconciling EMIS and payroll data;
- The existence of multiple errors in the EMIS demographics reports for certificated and classified employees;
- The lack of a policies and procedures manual for staff reporting; and
- The use of multiple databases by the Human Resources Department to retain staff information that are not accessible or verified by payroll employees.

Based on the weak internal controls and a review of information with the District, EMIS staffing data was deemed unreliable for use in this performance audit. For example, employee information was not updated in accordance with the time frames established by ODE. In addition, according to the Treasurer, EMIS staffing information reflects staffing that is four years old. During the course of reviewing the District's EMIS function in this performance audit, the EMIS staffing function was under the responsibility of the District's Certification Specialist.

Due to the unreliability of the EMIS staffing information, AOS sought an alternative data source, which was provided by the Treasurer based on employees on payroll as of October 1, 2007. Although AOS reviewed the information with the Treasurer in an effort to ensure that the data appears more reliable than the original EMIS staffing information, the reliability of the data ultimately rests with Lorain CSD. Consequently, AOS asserts that the staffing data is of undetermined reliability.

In contrast to the EMIS staffing data, Lorain CSD's internal controls surrounding EMIS student reporting, which is administered by the EMIS Coordinator, were determined to be adequate and for the following reasons:

- The policies and procedures book developed by the EMIS Coordinator contains updates and trainings provided to building level personnel to better ensure accurate student reporting.
- Central registration and building level staff input student data. The EMIS Coordinator reconciles student reporting using the appropriate EMIS reports to identify errors, as recommended by ODE.
- The EMIS Coordinator is a Certified EMIS Professional (CEP) through the Ohio Association of EMIS Professionals, attends numerous trainings to maintain certification, and provides training to other District employees.
- ODE reviewed student reporting in 2005 in an audit requested by the District. The audit contained some minor recommendations, which the EMIS coordinator indicated were implemented.

The source data for Ohio's accountability and funding systems are the EMIS data files. ODE developed and implemented EMIS to assist school districts in student, personnel and financial data reporting, in accordance with ORC § 3301.0714. There are four major functions of EMIS:

- Fulfilling State and Federal reporting requirements by maintaining information for student, staff, and financial data elements;
- Providing an automated system for districts to report data in order to receive State funding and determine eligibility for federal funding, with data aggregated and compiled by EMIS;
- Helping to demonstrate academic accountability for students, schools and districts; and
- Generating statewide and district reports, including accountability reports and local report cards.

As a result of weak internal controls and unreliable staff information in EMIS, the District increases the risk of obtaining incorrect funding levels and generating inaccurate reports. This, in turn, prevents Lorain CSD from effectively managing operations and taking measures to improve its financial condition.

R3.2 Lorain CSD should establish a formal staffing plan to address current and future staffing needs. By developing a staffing plan, the District would better ensure that it meets State requirements, and maintains adequate staffing levels. In order to help develop a formal staffing plan, the District should review R3.3 and the other sections of this performance audit to identify variables (e.g., workload measures) that should be considered when analyzing staffing levels in specific areas.

The District does not have a formal plan to help make staffing decisions. According to the Human Resources (HR) Director, enrollment and finances appear to be the only factors considered when staffing the District. When Lincoln Elementary was closed a few years ago, the District reallocated the employees to other school buildings rather than eliminating positions. However, some job classifications may be directly tied to the number of buildings, such as custodian and maintenance staff. In addition, the certificated bargaining agreement has restrictions on teacher reductions (see **R3.5**).

Tulsa Public Schools has established guidelines and procedures for determining the appropriate staffing levels for instructional, clerical, custodial, transportation and food service classifications. The instructional and administrative allocations are based on student enrollment or student caseload for special education teachers. The other staffing allocations are based on a consideration of various workload measures. For example, the determination of custodial staffing levels is based on a calculation that considers the number of teachers, students, rooms, and the total area of the buildings. Food service staffing allocations are based on a minimum target of meals per labor hour calculation established by the district.

Without a formal staffing plan, the District increases the risk of not meeting State standards or bargaining agreement provisions, ineffectively staffing operations, and neglecting to adequately plan for potential events, such as a continued decline in enrollment (see the **facilities** section and **R3.3**).

Staffing Levels

R3.3 Lorain CSD should consider eliminating 11.0 FTE clerical staff. This can be accomplished, in part, by consolidating and combining job duties, and implementing technology improvements (see R3.9). Additionally, if enrollment continues to decline and as the District finalizes the OSFC project, Lorain CSD should consider additional staffing reductions. Prior to implementing these and any other staffing reductions, the District should review its staffing data and take measures to ensure data reliability (see R3.1).

The District employs high clerical staffing levels. **Table 3-2** compares the number of clerical staff per building and per 1,000 students, as well as the number of employees per clerical staff at Lorain CSD to the peer averages.

Table 3-2: FTE Clerical Staffing Analysis

| | Lorain CSD FY 2007-08 | Type IV Average FY 2005-06 | Type V Average FY 2005-06 |
|---|--------------------------|-------------------------------|------------------------------|
| Total Clerical Staff | 67.0 | 17.5 | 108.9 |
| Clerical Staff per 1,000 students | 7.2 | 6.0 | 9.4 |
| Clerical Staff per School Building | 4.2 | 3.0 | 4.7 |
| Employees per Clerical Staff | 11.5 | 19.4 | 14.1 |

Source: Lorain CSD and EMIS data

As illustrated by **Table 3-2**, Lorain CSD employs more clerical FTEs per 1,000 students and more clerical FTEs per building when compared to the respective Type IV averages. Additionally, Lorain CSD's clerical staff supports fewer employees per FTE than both peer averages. If Lorain CSD eliminated 11.0 clerical FTEs, it would employ a similar number of clerical staff per 1,000 students as the Type IV average. However, the District would still employ more clerical staff per building (3.5) when compared to the Type IV average. Likewise, clerical staff would still support fewer employees per FTE (13.8) than both peer averages. Depending upon additional staffing reductions implemented by the District (see the **facilities** section), the number of employs per clerical staff could fall further below the peer averages.

Financial Implication: By eliminating 11.0 FTE clerical positions, the District would save approximately \$222,000 in annual salaries and benefits. This is based on the average salary of the first three steps in the collective bargaining agreements and benefits comprising 31 percent of salaries. This percentage is similar to the total General Fund percentage for benefits in FY 2005-06 and FY 2006-07. This financial implication also assumes an eight-hour workday and 180 school days per year.

Health Benefits

R3.4 Although Lorain CSD's employees pay a fair amount towards the monthly premiums costs and pay relatively high co-pays for physician visits, the District should work with the Trust to consider increasing employee cost sharing for prescriptions, annual deductibles, and annual out-of-pocket maximums. This is particularly important based on the District's financial condition (see financial systems). Alternatively, the Trust could maintain current plan benefits and instead increase employee monthly contributions for the premiums closer to levels reported by the Kaiser Family Foundation.

While the Trust has implemented various cost containment strategies (see **Noteworthy Accomplishments**), the District's health insurance premiums are higher than applicable benchmarks. **Table 3-5** compares Lorain CSD's premiums and employee contributions beginning in January 2008 to data reported by the Kaiser Family Foundation (2007 national study) and the State Employee Relations Board (SERB) (2006 study). Premium costs reported by SERB and the Kaiser Family Foundation have been increased for inflation, to allow for a reliable comparison to Lorain CSD's premiums.

Table 3-5: Monthly Health Insurance Premiums and Employee Contributions

| | Monthly Single Plan Premium | Monthly Family Plan Premium | Full-Time Employee Share for Single Plan | Full-Time Employee Share for Family Plan |
|---|-----------------------------|-----------------------------|--|--|
| Lorain CSD 2007-08 – Plan A | \$496 | \$1,244 | 10.8% | 10.8% |
| Lorain CSD 2007-08 – Plan B | \$442 | \$1,110 | 0% | 0% |
| SERB Statewide Average (All Plans) | \$436 | 1,124 | 7.3% | 8.6% |
| SERB Average for Cleveland Region | \$423 | \$1,077 | 6.2% | 6.4% |
| SERB Average for 2,500 to 9,999 ADM | \$408 | \$1,041 | 7.7% | 9.1% |
| SERB Average for Self Funded | \$491 | \$1,147 | Not Reported | Not Reported |
| Kaiser Average for Government | \$433 | \$1,078 | 13% | 22% |
| Kaiser Average for Plan Type PPO for Government | \$451 | \$1,096 | 13% | 22% |

Source: Lorain CSD, SERB and Kaiser

Table 3-5 shows that the District's employee contribution percentage is above SERB, but below Kaiser. **Table 3-5** also shows that the District's Plan A premiums are higher than each premium reported by SERB and Kaiser. With the exception of SERB's single and family premium for self-fund plans, SERB's statewide average family premium, and Kaiser's PPO single premium for government, the District's Plan B premiums are also higher than the premiums reported by SERB and Kaiser. This can be due, in part, to offering higher plan benefits. **Table 3-6** compares the District's plan benefits to data reported by SERB, Kaiser and the Ohio Education Association (OEA).

Table 3-6: Plan Benefits

| Lorain CSD | SERB 2006 | Kaiser 2007 | OEA 2006 |
|---|--|---|---|
| Co-payments for physician visits | | | |
| <p>Plan A: Network \$25.00 per visit</p> <p>Plan B: Network \$25.00 per visit</p> | <p>N/A</p> | <p>PPO 2%: \$5 per visit 11%: \$10 per visit 24%: \$15 per visit 35%: \$20 per visit 19%: \$25 per visit 7%: \$30 per visit 2%: \$Other amount</p> <p>All Plans 2%: \$5 per visit 14%: \$10 per visit 25%: \$15 per visit 34%: \$20 per visit 17%: \$25 per visit 7%: \$30 per visit 2%: \$Other amount</p> <p>Note: Kaiser also reports co-payments for specialty care physician office visits, which are different than the above co-payments for primary care physicians.</p> | <p>Median Rate: No Network: 20%</p> <p>Network: In-network: 10%</p> <p>Non-network: 20%</p> |
| Prescription Co-pays | | | |
| <p>Plan A: Retail: Generic \$4 Brand \$16 MultiSource:\$32</p> <p>Mail Order: Generic \$10 Brand \$40 MultiSource: \$80</p> <p>Plan B: Retail: Generic \$8 Brand \$20 MultiSource: \$40</p> <p>Mail Order: Generic \$20 Brand \$50 MultiSource: \$100</p> | <p>Average Cop-payment for Retail:</p> <p>Statewide Average: \$9.46 generic \$19.68 formulary \$32.54 non-formulary brand \$32.24 non-formulary brand/generic available</p> <p>School District Average: \$9.03 generic \$18.79 formulary \$29.76 non-formulary brand \$23.57 non-formulary brand/generic available</p> <p>Average Co-payment for Mail Order:</p> | <p>For covered workers with three or four tiers of cost sharing:</p> <p>\$11 generic \$25 preferred \$43 non-preferred \$71 fourth-tier¹</p> | <p>Retail (50% offered 3-tiered plans): \$10 generic drugs \$15 formulary drugs \$30 non-formulary drugs For 30 day supplies</p> <p>Mail Order (48% offered 3-tiered plans): \$10 generic drugs \$30 brand name formulary \$40 brand name non-formulary For 90 day supplies</p> |

| Lorain CSD | SERB 2006 | Kaiser 2007 | OEA 2006 |
|---|---|---|---|
| | <p>Statewide Average: \$15.03 generic \$32.26 formulary \$56.21 non-formulary brand \$48.33 non-formulary brand/generic available</p> <p>School District Average: \$14.11 generic \$29.60 formulary \$51.55 non-formulary brand \$42.75 non-formulary brand/generic available</p> | | |
| Annual Deductible | | | |
| <p>Plan A: Network: \$100 Single \$200 Family</p> <p>Non-network: \$200 Single \$400 Family</p> <p>Plan B: Network: \$500 Single/\$1,000 Family</p> <p>Non-network: \$750 Single/\$1,500 Family</p> | <p>Statewide Average In-Network: Single: \$319 Family: \$677</p> <p>Out-of-Network: Single: \$502 Family: \$1,042</p> <p>School District Average In-Network: Single: \$251 Family: \$534</p> <p>Out-of- Network: Single: \$358 Family: \$718</p> | <p>PPO (In Network) ² Single: \$401 Family: \$1,040</p> | <p>Single/Family Median:</p> <p>Network: In Network: \$100 / \$200 Non-network: \$200 / \$400</p> |
| Co-Insurance | | | |
| <p>Plan A: Network: 90% Non-Network: 70%</p> <p>Plan B: Network: 80% Non-Network: 60%</p> | <p>Statewide Average: Network: 90% Non-Network: 72%</p> <p>School District Average: Network: 88% Non-Network: 73%</p> | <p>Average Hospital Co-insurance for covered workers³: All Plans and PPOs: 17% (83% Coverage)</p> | <p>N/A</p> |
| Annual Out of Pocket Maximums All Plans | | | |
| <p>Plan A: Network: \$400 Single/\$800 Family</p> | <p>N/A</p> | <p>Single Coverage: 7%: \$999 or less; 21%: \$1,000 - \$1,499</p> | <p>Single/Family Medians</p> <p>Network:</p> |

| Lorain CSD | SERB 2006 | Kaiser 2007 | OEA 2006 |
|---|-----------|---|---|
| Non-network: \$900 Single/\$1,300 Family Plan B: Network: \$2,000 Single/\$=4,000 Family Non-network: \$2,500 Single/\$4,500 Family | | 23%: \$1,500 - \$1,999 18%: \$2,000 - \$2,499 9%: \$2,500 - \$2,999 22%: \$3,000 or greater Above data is for workers facing out-of-pocket maximums. 29 percent of workers have no limit. Family Coverage Aggregate Maximum: 10%: \$1,999 or less 15%: \$2,000 - \$2,999 24%: \$3,000 - \$3,999 15%: \$4,000 - \$4,999 12%: \$5,000 - \$5,999 24%: \$6,000 or greater Above data is for workers facing out-of-pocket maximums. 29% of workers have no limit. | In Network: \$600 / \$1,200 Non-network: \$1,200 / \$2,400 |

Source: Lorain CSD, SERB 2006 Survey, Kaiser Foundation 2005 Annual Surveys and Ohio Education Association (OEA) 2006

¹ As reported by Kaiser, seven percent of covered workers are in a plan that has a fourth tier of cost sharing for prescription drugs. Also, it is unclear whether Kaiser included mail order co-pays in the reported data.

² This data is for covered workers with an annual deductible. Approximately 29 percent of covered workers in PPOs do not face annual deductibles. Among covered workers with no annual deductible in PPOs, about 68 percent face separate cost sharing for each hospital admission; 77 percent face separate cost sharing for each outpatient surgery episode; 96 percent face separate cost sharing for each emergency room visit; 91 percent face separate cost sharing for each urgent care visit; and 64 percent face separate costs sharing for each advanced diagnostic test.

³ Only 7% of covered workers in the Kaiser survey face both a co-pay and co-insurance for hospital visits; 20% face only a co-pay only; 43% face only coinsurance; 4% face a charge per day; and 26% have no separate cost sharing for hospital visits.

As shown in **Table 3-6**, the District’s physician visit co-pays are higher than Kaiser while its coinsurance rates are similar to SERB. However, Lorain CSD’s employee cost sharing for prescriptions, annual deductibles and out-of-pocket maximums in Plan A are lower than SERB, Kaiser, and/or OEA. In particular, the co-pay for retail generic prescriptions in Plan A and Plan B are lower than retail co-pays reported by SERB and OEA. By adjusting these plan benefits, the District could reduce health care costs. It should be noted that the Trust instituted prescription mail order incentive effective January 2008, which will require members choosing to fill a prescription at a retail pharmacy four times within 180 days to pay twice the normal retail co-payment. Nevertheless, the District’s mail order prescription co-pays are well below the SERB statewide and school district averages.

Financial Implication: The Treasurer forecasts health insurance costs to increase by 5 percent each year. If altering the plan benefits as discussed above resulted in health insurance costs only increasing by 2.5 percent, the District would save approximately \$159,000 in health insurance costs for FY 2007-08. This is also based on General Fund insurance expenditures in FY 2006-07 and the current percentage of participants in Plan A (89 percent).

Negotiated Agreements

R3.5 The District should negotiate to eliminate the restrictions on teacher reductions in the certificated collective bargaining agreement. Doing so would enable Lorain CSD management to ensure staffing levels best meet its needs, and alter staffing levels during times of fiscal distress. Additionally, the District should consider negotiating to lower the maximum severance payment, vacation leave, personal leave (NCFO and OEA/NEA), and paid holidays. Likewise, during future negotiations, the District should consider eliminating or at least reducing the attendance incentives (see R3.7) and minimum call-in hours. The 1998 performance audit offered similar recommendations.

The certificated bargaining agreement restricts reductions to no more than 1 teacher reduction for an enrollment decline of 13 students. The certificated bargaining agreement also states that the District needs to maintain at least 710 teachers regardless of enrollment. The District entered into a memorandum of understanding with the collective bargaining agreement that suspended this provision from June 1, 2007 to August 31, 2007. Nevertheless, maintaining such restrictions in the collective bargaining agreement can hinder Lorain CSD from altering staffing levels based on relevant factors, including the District's financial condition, educational needs, and continual decline in enrollment (see the **facilities** section).

In addition to the above restrictions, the following areas in Lorain CSD's collective bargaining agreements for certificated and classified employees appear generous:

- **Maximum Sick Leave Payout:** Lorain CSD pays a maximum of 70 to 75 days of accrued sick leave for staff, with the specific amounts varying depending upon the collective bargaining agreement. By comparison, ORC §124.39 stipulates a maximum of 30 days, but indicates that entities can adopt policies that allow for more than 30 days.
- **Attendance Incentives:** The District provides attendance incentives to staff. However, the District's sick leave use appears high (see **R3.7**).

- **Minimum Call-In Hours:** According to the negotiated agreements between OAPSE (cafeteria) and NCFO, unscheduled emergency call-ins for all covered employees shall be paid for a minimum of three hours. However, some school districts in Ohio have established lower minimum call-in hours. For example, Chardon LSD, Anthony Wayne LSD, and Canfield LSD each have call in pay policies allowing staff to be paid a minimum of only two hours.
- **Holidays:** According to ORC §3319.087, 11 and 12 months employees are entitled to a minimum of seven holidays and nine or ten month employees are entitled to a minimum of six holidays. Lorain LSD's 12-month employees receive 12 to 14 holidays and all other classified employees receive eight holidays.
- **Vacations:** The District's vacation accrual rate is higher than ORC minimum requirements. For example, a classified employee with eight years of service receives 15 days of vacation per year at Lorain CSD. In contrast, ORC §3318.084 does not require the District to grant 15 days per year until employees have reached ten years of service.
- **Personal Leave:** The certificated bargaining agreement and both OAPSE agreements provide three personal days to staff. In contrast, Lorain CSD currently provides NCFO employees with 40 hours (five days) of personal leave. In addition, OEA/NEA employees with 1 to 14 years of service with three personal days, 15 to 24 years of service receive four personal days, and with 25+ years of service five personal days. ORC §3319.142 stipulates that each board of education shall adopt rules entitling regular non-teaching employees to a minimum of three days of personal leave at the employee's regular compensation.

These provisions increase the District's costs and/or negatively impact employee productivity. For example, the District could have saved approximately \$375,000 in payouts to individuals who retired during or at the end of FY 2006-07 by reducing the maximum sick leave payout to State minimum requirements. However, this amount varies from year-to-year depending on the number of retirees, pay rates, and the amount of sick leave accrued.

R3.6 During future negotiations, the District should take measures to address the high compensation levels for administrators, including the following: require administrators to pay their retirement contributions and annuities, reduce educational incentives and extra time pay, and adjust salary schedules. In addition, Lorain CSD should negotiate to remove the "me-too" clauses from the administrative agreement pertaining to wages and benefits. Lastly, Lorain CSD should ensure that the clauses in the administrative collective bargaining agreement

do not negatively affect its ability to manage the District. The 1998 performance audit offered similar recommendations (see Appendix 3-A).

The current administrative collective bargaining agreement between the Lorain CSD Board of Education and the Lorain Administrators' Association is in effect from August 1, 2004 to July 31, 2007. The agreement opened for negotiation in August 2007, but a new agreement has not yet been ratified as of January 2008.

In contrast to Lorain CSD, most school districts in Ohio do not maintain collective bargaining agreements with administrative personnel. More specifically, only 5 of 613 school districts in Ohio maintain a collective bargaining agreement with administrators. However, in order to assess Lorain CSD's administrative collective bargaining agreement, the performance audit compares the District's agreement to the administrative collective bargaining agreements at the Toledo City School District and the Cleveland Heights-University Heights City School District. The following summarizes the contract provisions which are more generous than these peer districts:

- **Administrative Compensation:** Lorain CSD is the only district that provides "me too clauses" in its administrative contract. This could compromise management's objectivity because administrators are, or could be perceived to be, in conflict between decisions that are in the best interest of the District and with getting the most out of their collective bargaining agreement. For example, administrators may not agree to concessions that would aid the District's financial condition if the other bargaining units do not agree to such concessions. Additionally, the District pays the full retirement contribution for its administrators (9.3 percent) along with annuities (6.19 percent) for an additional 15.49 percent in compensation. In contrast, the peers' collective bargaining agreements do not detail annuity payments. Furthermore, according to the respective collective bargaining agreements, Toledo CSD does not pay the retirement contribution for administrators while Cleveland Heights-University Heights CSD pays only a portion of the retirement contribution for administrators.
- **Educational Incentive:** Lorain CSD provides higher educational incentives to administrators. For example, in FY 2006-07, staff with a Masters Degree plus 15 hours receive an additional salary of \$1,689 while staff with an earned doctorate receive \$6,754. In contrast, Cleveland Heights – University Heights CSD provides its administrative staff with \$1,500 per year for a Masters Degree plus 20 hours and \$4,400 for an earned doctorate. Furthermore, Toledo CSD provides administrators with \$679 per year for an Associates degree and up to \$1,854 for an earned doctorate.

- **Extended Number of Contract Days and Extra Time Pay:** Lorain CSD compensates its administrative employees on a per diem basis for time worked beyond the number of workdays authorized by the contract. This extra compensation is granted to administrative employees as an extra five or eight days of pay at a per diem rate, per year, upon request to the Treasurers Office. By comparison, Cleveland Heights-University Heights CSD has three options for compensating administrators for working beyond the scope of the contractual agreement: compensated at a rate of 85 percent of his/her per diem; paid a fixed fee amount; or authorized compensatory release time during the contractual period. Similarly, Toledo CSD provides compensatory time for work outside of the contract period as a result of a job related requirement, with documentation of a verifiable emergency.

Further, Lorain CSD provides these additional days to administrators without sufficient documentation, based on a review of the forms submitted by the administrators. In some instances, the explanations in the forms appeared to be somewhat vague or part of their job descriptions, and lacked evidence to substantiate that the extra work equated to five or eight days. In 2006-07, 85 percent of the administrators turned in requests for extra time payments.

Even without considering the above-mentioned benefits, administrators at Lorain CSD earn a higher salary than peer districts. Specifically, the District's administrators earned an average salary of \$82,153 in FY 2005-06⁶, higher than the Type IV average of \$68,708 and the Type V average of \$78,437. The administrative collective bargaining agreement contains salary schedules for administrators that guarantee increased compensation for increased tenure. However, similar to the other employees, administrators did not receive a negotiated increase to base wages in FY 2004-05 and FY 2005-06.

Along with stipulating additional compensation as discussed above, the existence of an administrative collective bargaining agreement hinders the District's ability to independently make decisions regarding its administrative operations. For example, the administrative collective bargaining agreement establishes minimum staffing levels by requiring an elementary principal at each building. Another clause requires the approval of the administrator for the hiring of staff.

Financial Implication: Through negotiation, Lorain CSD could save approximately \$785,000 annually: \$513,000 for elimination of the retirement pick up and \$272,000 for elimination of paid annuities. In addition, the District could save approximately \$89,000

⁶ Lorain CSD's FY 2005-06 average salaries as reported in EMIS were not tested for reliability. Lorain CSD's EMIS staffing information for FY 2006-07 was deemed unreliable. See **R3.1** for more information.

by eliminating the extra time payment clause, which is based on the lowest daily administrator pay in FY 2006-07 and the extra days paid in FY 2006-07. The District would achieve additional savings by reducing the educational incentives and adjusting salary schedules.

Leave

R3.7 Lorain CSD should develop a sick leave policy that identifies pattern abuse and disciplinary actions for abusing or misusing sick leave. The District should also ensure that sick leave use is monitored and reviewed on a periodic basis. Furthermore, the District should consider negotiating for the elimination of the sick leave incentives, or at least a reduction in the incentives.

Table 3-7 compares Lorain CSD sick leave use to averages compiled by the Ohio Department of Administrative Services (DAS). Specifically, Lorain CSD's certificated employees are compared to State employees represented by the State Council of Professional Educators (SCOPE)/Ohio Education Association (OEA) and classified employees are compared to State employees represented by the American Federation of State, County and Municipal Employees (AFSCME). Additionally, the District-wide average is compared to the State-wide average.

Table 3-7: Comparison of Sick Leave Use

| | Lorain CSD FY 2006-07 | DAS Averages FY 2005-06 | Excess Days Used |
|---------------------|-----------------------|-------------------------|------------------|
| Certificated | 9.81 | 6.71 | 3.10 |
| Classified | 7.31 | 7.02 | 0.29 |
| Total | 8.89 | 6.50 | 2.39 |

Source: Lorain CSD treasurer's office, Ohio Department of Administrative Services (DAS)

Note: DAS averages were converted to days by dividing averages reported hours by 8. Certificated average represents SCOPE/OEA and classified average represents AFSCME.

Table 3-7 shows that in FY 2006-07, Lorain CSD employees used more sick leave days than DAS averages reported for certificated and classified employees. Certificated employees used 3.10 more days than the SCOPE/OEA average, while classified employees used only 0.29 more days than the AFSCME average. Overall, the District exceeded the DAS State-wide averages by 2.39 days.

Lorain CSD's certificated negotiated agreement contains a clause which indicates that an employee using 10 days of sick leave or more will receive a notification letter with any "pattern of abuse" being identified. However, the agreement does not indicate what constitutes a pattern of abuse or any negative consequences. The remaining agreements do not discuss pattern abuse and do not include any negative consequences of sick leave abuse, with the exception of the OAPSE (cafeteria) agreement. The OAPSE (cafeteria)

agreement provides the following as examples of pattern abuse: a repeated history of taking the same day or days of the week as sick leave, or taking sick leave along with days off. In addition, the OAPSE collective bargaining agreement includes four steps of progressive discipline for abusing sick leave: verbal counsel and reprimand, written reprimand, written reprimand plus up to a five workday suspension, and subject to termination. While the District also lacks policies that define pattern of abuse and disciplinary actions, it has a Board rule that enables administration to request physician statements from employees.

The SCOPE/OEA and AFSCME agreements (2003 to 2006) with the State contain provisions for disciplining employees who abuse sick leave or exhibit 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.

According to the article: *Preventing Sick Leave Problems – Steps and Agency Can Take to Reduce Problems* (FedSmith Inc., 2007), some identifiable patterns of sick leave abuse include:

- Sick leave used as it is earned;
- On Mondays and Fridays, on the day the work week begins or ends;
- Days before and after a holiday;
- Days when pay is received;
- Days when certain responsibilities devolve on a person;
- Excessive intermittent use of one or two days;
- Low sick leave balance with no major illnesses or chronic diagnosed health problems;
- Suspicious or vague reasons are provided, e.g. directly after an overtime assignment is announced;
- Lengthy use of sick leave with evidence of only minor conditions; and
- Suspicious medical evidence – fake physician’s notes.

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.

Lastly, the District offers its employees a sick leave incentive in the form of granting additional days off (accrued days). If an employee has accumulated 15 days of sick leave, he/she is entitled to receive one accrued day. Likewise, an employee will receive two accrued days for accumulating 75 sick days, three days for accumulating 150 sick days, and four days for accumulating 225 days. The District will also buy back unused accrued leave days at a rate of \$100 per day. Unlike the certificated incentive, classified employees are not provided with the opportunity to sell back unused accrued sick leave days to the District. These incentives are not effective in reducing the amount of sick leave used, as indicated by **Table 3-7**.

The 1998 performance audit recommended that the District eliminate granting accrued leave and require written physician statements prior to their return if an employee is absent for three consecutive days. While the District has a policy for physician statements, the Chief Human Resources Officer stated that the District could do a better job of adhering to the bargaining agreement language for gathering physicians’ notes and providing sick leave abuse notification.

By negotiating to eliminate the sick leave incentives, the District would reduce costs and avoid rewarding employees who otherwise would not have used an excessive amount of sick leave. Further, by establishing a district-wide sick leave policy that covers pattern abuse and disciplinary actions, the District would be in a better position to control and reduce inappropriate use of sick leave.

Financial Implication: If the District reduced sick leave to the statewide average for certificated personnel, a reduction of 3 days per FTE, the District could save approximately \$136,000 per year. This is based on the daily substitute rate of \$95. The District could achieve additional savings by reducing classified sick leave use, which will depend upon the level of substitute use to cover absences and potential impact on overtime costs. The District could also achieve additional savings by eliminating the cash incentive for certificated staff. Data to estimate a potential financial implication for cash incentives was not readily available.

Early Retirement Incentive

R3.8 The District should complete a formal a cost benefit analysis prior to offering retirement incentives. This would ensure that offering such incentives would benefit the District and, in turn, justify their use.

Lorain CSD offered a retirement incentive in FY 2007-08 that was projected to cost the District approximately \$1,012,000⁷. However, the District did not estimate the potential cost savings. Additionally, these incentives are offered to employees with enough years of service to retire anyway. Therefore, the District is providing a retirement supplemental instead of an early retirement incentive.

OBM has established policies and procedures (February 2001) for State agencies to establish early retirement plans, which should meet the following criteria:

- Provide a documented cost savings, including the projected cost/savings that the early retirement incentive plan will provide, the time required to achieve those savings, and the actions that the agency will take to achieve those savings. Cost savings should be based on the elimination of the positions by the retirees and/or the filling of these positions with lower cost employees;
- Be affordable within the agency's current appropriations; and
- Help the agency meet its defined management goals.

By not projecting cost savings, the District can not document or justify the potential benefits of offering early retirement incentives. Additionally, the District increases its costs by offering early retirement incentives to teachers already qualifying for retirement.

⁷ Lorain CSD was still calculating the final amount of the early retirement incentive at the time of this audit.

Technology

R3.9 Lorain CSD should review its human resource technology, and address the deficiencies noted in the current and past performance audits. As a Human Resource Information System (HRIS) could help improve human resources technology, the District should consider purchasing a HRIS by identifying its needs and requirements. With an HRIS, the District would provide a single source for workforce information, thereby streamlining and possibly reducing administrative support tasks (see R3.3), and the potential for inaccurate information (see R3.1).

Lorain CSD currently does not have a HRIS. The 1998 performance audit noted that the District could not create/update the following HR reports:

- Applicant tracking and employee turnover;
- Disciplinary and grievance actions;
- Recruitment statistics;
- Employee performance evaluation tracking;
- Equal Employment Opportunity statistics;
- Substitute placement rates;
- Schedule and ad-hoc reporting requests;
- Leave days by type by employee;
- Exit interview data; and
- Key policies and procedures.

The audit further stated that the District had no applicant tracking process, no evaluation of staffing through analysis of workload measures, and needed additional training for the HR staff to properly use the substitute management system.

This performance audit found that no updates to address applicant tracking, employee turnover, disciplinary and grievance actions, recruitment, and performance evaluation tracking have occurred. Similarly, no additional training was provided on the substitute system. In fact, the substitute calling system was never fully implemented by the District because the system was not linked into payroll. As a result, HR Department provides a manual report to payroll on a daily basis. Additionally, the District duplicates efforts in maintaining employee information. More specifically, all newly hired employees have to be entered into a HR Department employee database, and entered into payroll and EMIS by the Treasurer's Office. Once the payroll process is completed, the HR Department follows up in EMIS and provides additional employee information, such as certification and years of service. Maintaining a duplicative process can increase the potential for inaccurate data (see **R3.1**)

According to several software developers, HR systems can allow employees to get instant answers to HR questions, enroll in benefits, get greater control over personal information, request leave, and see compensation history and pay stubs instantly. Additionally, District administration would be able to view turnover rates, assess employee satisfaction or overall performance, manage leave and recruiting activities, and track employee performance.

Along with the above benefits, a centralized HR system could help the District operate with fewer clerical staff through eliminating duplicative tasks and streamlining overall HR functions (see **R3.3**).

Financial Implication: Assuming that Lorain CSD has approximately 840 staff, a HRIS system would cost \$42,000 to \$248,000 initially, depending on the functions needed by the District. Additionally, the yearly software updates and license support would cost \$9,000 to \$55,000. Assuming the mid-point price would fit the needs of the District, implementation and annual costs are estimated at \$145,000 and \$32,000, respectively.

Financial Implications Summary

The following tables list annual cost savings, annual costs, and one-time implementation costs for recommendations contained in this section of the report.

Table 3-8: Recommendations Not Subject to Negotiation

| Recommendation | Annual Cost Savings | Estimated Annual Costs | Estimated One-Time Implementation Costs |
|---|----------------------------|-------------------------------|--|
| R3.3 Reduce 11.0 FTE clerical staffing | \$222,000 | | |
| R3.11 Purchase HRIS system | | \$32,000 | \$145,000 |
| R3.7 Reduce sick leave usage | \$136,000 | | |
| Total | \$358,000 | \$32,000 | \$145,000 |

Source: AOS Recommendations

Table 3-9: Recommendations Subject to Negotiation

| Recommendation | Estimated Annual Cost Savings |
|---|--------------------------------------|
| R3.4 Alter health plan benefits | \$159,000 |
| R3.6 Eliminate the retirement payment for administrators | \$513,000 |
| R3.6 Eliminate paid annuities to administrators | \$272,000 |
| R3.6 Eliminate the extra time pay clause to administrators | \$89,000 |
| Total | \$1,033,000 |

Source: AOS Recommendations

Appendix 3-A: 1998 Performance Audit Recommendations and Implementation Status

Table 3-10 summarizes the 1998 Performance Audit recommendations and status of each recommendation; implemented, partially implemented, not implemented, or no longer applicable. Of the 32 recommendations issued in the 1998 performance audit, Lorain CSD fully implemented 9, partially implemented 6, and did not implement 11. Additionally, 6 of the original recommendations are no longer applicable. In addition, one technology recommendation in the 1998 performance audit relating to HR was partially implemented. The 2007 Performance Audit addresses the recommendations in the 1998 Performance Audit that were partially implemented or not implemented, if the related issues fell within the scope of the 2007 Performance Audit.

Table 3-10: 1998 Performance Audit Recommendation Status

| Recommendation | Implemented | Partially Implemented | Not Implemented | No longer Applicable |
|--|-------------|-----------------------|---|----------------------|
| R2.1. The District will need to develop procedures to monitor and improve productivity to offset the operational impact of staff reductions. (F2.40, F2.41, F2.50) | | | X | |
| R2.2 By increasing the number of instructional minutes periods taught per teacher, Lorain CSD could possibly eliminate eight teaching positions. (F2.40, F2.41) | | | X | |
| R2.3. One possible area Lorain CSD could consider would be to reduce teaching positions at the secondary school level which currently exceed state minimum standards. Lorain CSD could reduce up to 10 teaching positions and still exceed state minimum standards. To accommodate newly passed legislation, Lorain CSD will be required to hire additional elementary teachers. (F2.36.) | X | | | |
| R2.4 In order to achieve the peer district FTE average of 1.5, Lorain CSD could possibly eliminate two maintenance/mechanical positions. (F2.49) | | | X See Facilities section for maintenance staffing | |

| Recommendation | Implemented | Partially Implemented | Not Implemented | No longer Applicable |
|---|-------------|-----------------------|-----------------|----------------------|
| R2.5 In order to achieve the peer district FTE average of two, Lorain CSD could possibly eliminate 10 positions in the other service work category. (F2.50.) | X | | | |
| R2.6 Lorain CSD should change the HRD structure by re-aligning job functions (F2.3). The proposed re-organization structure assumes implementation of R2.8. Upon completion of re-aligning the HRD's functions and responsibilities, the HRD should ensure all staff members are properly cross-trained. | | X | | |
| R2.7. The HRD should develop a Management Information Report (MIR) that gives a snapshot of the status and effectiveness in terms of workload indicators and performance metrics. (F2.3, F2.20.) | | | X – R3.11 | |
| R2.8. Lorain CSD needs to initiate efforts to define requirements for selecting and implementing a HRIS solution to meet the HRD's critical business needs (F2.9.). | | | X – R3.11 | |
| R2.9. Currently, Lorain CSD uses no type of applicant tracking process. An applicant tracking system should be a critical factor when selecting a HRIS. (F2.10.) | | | X – R3.11 | |
| R2.10. Job descriptions for all employees should be updated. To provide Lorain CSD with some flexibility in the responsibilities and requirements of employees, job descriptions should not be written in the union contracts. (F2.13.) | X | | | |
| R2.11. The HRD should create a procedure to track all grievances and disciplinary actions filed with Lorain CSD. (F2.15, F2.16.) | | | X – R3.11 | |
| R2.12. Evaluations for all employees must be done a minimum of once a year. (F2.18.) | X | | | |
| R2.13. Turnover rates should be monitored for each job classification and formal exit interview procedures should be developed to identify issues and generate ideas for retaining employees. (F2.20.) | | X | | |
| R2.14. Lorain CSD needs to establish, by contract or other means, a process to manage sick leave usage. (F2.25.) | | X – R3.9 | | |

| Recommendation | Implemented | Partially Implemented | Not Implemented | No longer Applicable |
|---|--|-----------------------|-----------------|----------------------|
| R2.15. Lorain CSD purchased a Substitute Teacher Management System for FY 1997-98. Since tracking leave usage is a critical function of the HRD and the LEA requires detailed leave information, the HRD should pursue additional training to utilize the system to its fullest capacity. (F2.32.) | | | X – R3.11 | |
| R2.16. If the HRD cannot fill a position with a teacher substitute, then a principal may place a teacher to cover the class at a maximum cost of \$120 per day. Lorain CSD should track how often this happens and what the cost to Lorain CSD is. (F2.35.) | | | | X |
| R2.17. If an employee is out sick for three consecutive days, a written statement should be required prior to the return from the leave. (F2.52.) | X (But not tied to a specific number of days) | | | |
| R2.18. The granting of accrued leave days for all employees should be eliminated. (F2.54., F2.62., F2.65.) | | | X – R3.9 | |
| R2.19. The provision mandating no fewer than 740 bargaining unit positions should be eliminated. (F2.55.) | | X – R3.6 | | |
| R2.20. Lorain CSD needs to define a policy which mandates a police report to be filed if an employee is assaulted, determine when the employee should file for workers' compensation (based upon the number of days required off) and when the employee should file for disability (again, based upon the number of days required off). (F2.56.) | | | X | |
| R2.21. The clause in the LEA agreement stating that all posted teacher vacancies must be filled in the order of seniority, certification and teacher preferences with first preference being given to teachers in the unassigned pool should be changed.(F2.57.) | X | | | |
| R2.22. Maximizing Board of Education rights enhances the Board's position to efficiently and effectively provide a quality education to students. (F2.58.) | | | | X |
| R2.23. The facilities coordinator is not a position under the bargaining unit; therefore, the IBF&O should not be able to mandate that it be filled by a bargaining unit member. (F2.61.) | | | | X |

| Recommendation | Implemented | Partially Implemented | Not Implemented | No longer Applicable |
|---|-------------|-----------------------|-----------------|----------------------|
| R2.24. The district should renegotiate some of the leave provided to IBF&O members, such as accrued leave days, birthday days and the family picnic day. (F2.63.) | | X – R3.6 | | |
| R2.25. Many of the terms and conditions within the contractual agreement with the LAA should be renegotiated. (F2.64.) | | X – R3.6 | | |
| R2.26. Due to Lorain CSD's financial situation, the District should stop paying the administrators' portion of STRS and should stop paying administrators an additional 6.19 percent of their annual salary to purchase annuities. (F2.65.) | | | X – R3.7 | |
| R2.27. The RIF process detailed in the LAA agreement prevents Lorain CSD from fully reducing administrators because of attrition and it precludes management from making personnel decisions based upon need. (F2.66.) | | | | X |
| R2.28. The requirement that unexpended joint insurance health plan trust (the Trust) monies be distributed 50 percent to plan participants and 50 percent to Lorain CSD should be changed. Also, the requirement that funding of the Trust can never be less than the first year funding should be eliminated. (F2.67.) | X | | | |
| R2.29. Lorain CSD does not require employee contributions toward medical benefits. (F2.74.) In addition to requiring employees to contribute to the monthly premium, Lorain CSD should establish an employee plus one enrollment option in addition to the single and family plan options. F2.74 | X | | | |
| R2.30. Lorain CSD requires employees enrolled in the family plan for dental benefits to contribute \$24.00 per year. If Lorain CSD required all employees to contribute towards dental benefits, the overall dental expense would be reduced. (F2.76.) | X | | | |
| R2.31. An audit of the financial statements of the Jointly Administered Trust Fund identified the following recommendations: <ul style="list-style-type: none"> • Any cost saving distributions to plan participants should be reported as part of the employee's W-2 earnings or on a 1099 at year end. • The Trust, as well as Lorain CSD, should consult with at least two | | | | X |

| Recommendation | Implemented | Partially Implemented | Not Implemented | No longer Applicable |
|---|-------------|-----------------------|-----------------|----------------------|
| additional actuaries for their expert opinion as to whether the Trust has been over funded. <ul style="list-style-type: none"> • The Trust should monitor all charges by Findley, Davies and Co., and must amend the contract with Findley, Davies and Co. to reflect any subsequent changes to the original Contract. Lorain CSD should be the fiscal officer that maintains accounting records, including bank statement reconciliations, for the Trust. (F2.70) | | | | |
| R2.32. In an effort to control costs, the District should negotiate to maintain salaries at their current level for the following three years for the LEA which would result in the same effect for all other bargaining units as well. F2.47 | | | | X |

Source: 1998 Performance Audit

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Facilities

Background

This section focuses on various aspects of facility operations in the Lorain City School District (Lorain CSD or the District). Lorain CSD's operations are evaluated against two sets of peer school district averages: Type IV and Type V¹. The District's operations are also evaluated against recommended practices and standards from applicable sources, including the American School and University Magazine (AS&U) and the National Center for Education Statistics (NCES). In addition, **Appendix 4-A** summarizes the implementation status of the recommendations in the previous performance audit of Lorain CSD, released in 1998.

Summary of Operations

During FY 2001-02, the District issued general obligation bonds to provide long-term financing for the construction and renovation of various school buildings in accordance with the terms of a grant from the Ohio Schools Facilities Commission (OSFC). The initial cost of the OSFC project was estimated to be \$216 million, of which OSFC would pay approximately \$175 million. District voters passed a 3.97 mill tax levy in FY 2001-02 to provide the local portion of the OSFC project. District voters also passed a 0.5 mill classroom facilities levy for maintenance of the buildings. Building design started in August 2002 and construction began in late 2003.

Lorain CSD currently operates 16 school buildings: 11 elementary schools, 3 middle schools, and 2 high schools. Although the District closed Lincoln Elementary School during FY 2005-06, the District leased the building to a third party and provides limited maintenance and upkeep. The Chief Operations Officer indicated that the lease will terminate in November 2007. Lincoln Elementary is one of the seven remaining schools in Phase III of the OSFC project where a decision on its future has not yet been determined. The District also operates an administration center, a stadium, and a warehouse.

¹ See **Table 4-4** for more information, and the **executive summary** for the peer districts and an explanation of the selection methodology.

Staffing

Table 4-1 shows the cleaner, maintenance and grounds staffing levels, including the number of full-time equivalent employees (FTEs).

Table 4-1: Lorain CSD Staffing Levels (FY 2007-08)

| Classification | Number of Positions | Number of FTEs |
|---------------------------------------|---------------------|----------------|
| Total Cleaners ¹ | 47 | 44.78 |
| Total Maintenance ² | 30 | 30.00 |
| Total Grounds ³ | 6 | 6.00 |
| Total | 83 | 80.78 |

Source: Lorain CSD

Note: The FY 2006-07 education management information system (EMIS) staff summary report could not be verified and was deemed unreliable (see **human resources** section for more information).

¹ The cleaners are primarily responsible for cleaning the school buildings.

² This includes 25 FTE positions classified as custodians by the District because they are performing maintenance tasks. The District also has a total of five skilled trade maintenance staff.

³ The six general maintenance staff members are primarily responsible for maintaining the District's major grounds. Therefore, they are included in the number of full-time equivalents for groundskeepers.

The District employs a total of 47 cleaners (44.78 FTEs) that are responsible for sweeping and mopping floors, vacuuming rooms, emptying wastebaskets, picking up trash, and dusting. Additionally, of the 30 maintenance FTEs, the District has 25 FTEs that are responsible for maintaining the proper operation and repair of building systems, furniture, and equipment. These 25 FTEs are also responsible for performing all necessary grounds maintenance around the buildings, such as mowing and snow and ice removal. The District also employs 5 FTE tradesmen that provide the maintenance of the buildings: one carpenter; one heating, ventilation, and air conditioning (HVAC) technician; two electricians; and a plumber. Furthermore, the District employs six general maintenance staff members, which are primarily responsible for maintaining the District's grounds.

Table 4-2 compares key statistics and performance indicators for Lorain CSD in FY 2007-08 to applicable data published by AS&U and the *Planning Guide for Maintaining School Facilities (The Planning Guide)* (NCES, 2003).

Table 4-2: Key Statistics and Indicators

| | |
|--|------------------------------|
| Number of Buildings | 18 |
| • Elementary Schools | 11 |
| • Middle Schools | 3 |
| • High Schools | 2 |
| • Administration (Other) ¹ | 2 |
| Total Square Feet Cleaned | 1,318,495² |
| • Elementary School | 581,077 |
| • Middle School | 259,395 |
| • High School | 427,809 |
| • Administration (Other) | 50,214 |
| Total Square Feet Maintained | 1,373,180² |
| • Elementary School | 625,762 ³ |
| • Middle School | 259,395 |
| • High School | 427,809 |
| • Administration (Other) | 60,214 ³ |
| Total Acres Maintained | 257 |
| • Elementary School/Middle School Acreage (Combined) | 119 |
| • High School Acreage | 74 |
| • Administration (Other) Acreage | 64 |
| Square Feet Per FTE Cleaner (44.78 FTE) | 29,444 |
| The Planning Guide Custodial Staffing Benchmark ⁴ | 28,000 – 31,000 |
| Square Feet Per FTE Maintenance (30.0 FTEs) | 45,773 |
| AS&U Five-Year Average National Median Square Feet Per Maintenance FTE ⁵ | 92,000 |
| Acres Per FTE Grounds (6.0 FTEs) | 42.83 |
| AS&U Five-Year Average National Median Acres Per Grounds FTE ⁵ | 42 |

Source: Lorain CSD, AS&U, and NCES

¹ Although not schools, these buildings are still cleaned and maintained by custodial and maintenance staff.

² Square footage for the stadium restroom, locker rooms, and weight room are not included due to intermittent need and virtual lack of use during winter months.

³ The total square feet maintained is higher than the total square feet cleaned due to maintenance responsibility for the leased Lincoln Elementary facility (increases the elementary maintenance square footage by 44,685) and the warehouse building (increases the Administration (Other) maintenance square footage by 10,000).

⁴ *The Planning Guide for Maintaining School Facilities* (NCES, 2003) cleaning standard (the normal standard for most school facilities) is 28,000 to 31,000 square feet per FTE custodian.

⁵ Five-Year Average is from the annual reports published by AS&U from school year 2002-03 to 2006-07.

As shown in **Table 4-2**, Lorain CSD's square footage per FTE cleaner is consistent with *The Planning Guide* range of 28,000 to 31,000 square feet. Likewise, the District maintains 42.83 acres per grounds FTE, which is in line with the AS&U five-year average national median acres per grounds FTE. However, the District's maintenance staff square footage per FTE is significantly lower than the AS&U five-year average national median (see **R4.2**).

Financial Data

Table 4-3 illustrates the District's General Fund expenditures by line item and total fund expenditures used to maintain and operate the facilities for FY 2005-06 and FY 2006-07.

Table 4-3: Maintenance and Operations Expenditures

| Expenditure Category | FY 2005-06 | FY 2006-07 | Percent Change |
|---------------------------|---------------------|---------------------|----------------|
| Salaries | \$4,194,039 | \$4,644,669 | 10.7% |
| Benefits | \$1,741,336 | \$1,837,045 | 5.5% |
| Utilities | \$2,868,009 | \$2,144,479 | (25.2%) |
| Purchased Services | \$859,303 | \$695,907 | (19.0%) |
| Supplies and Materials | \$405,570 | \$366,997 | (9.5%) |
| Capital Outlay | \$51,619 | \$3,963 | (92.3%) |
| Other | \$200 | \$300 | 50.0% |
| Total General Fund | \$10,120,075 | \$9,693,360 | (4.2%) |
| Total All Funds | \$10,402,045 | \$10,132,475 | (2.6%) |

Source: Lorain CSD 4502's

Note: Totals may vary from actual due to rounding.

As shown in **Table 4-3**, the District decreased its total facility expenditures by approximately 4 percent from FY 2005-06 to FY 2006-07. Explanations for significant variances in **Table 4-3** include the following:

- **Salaries and Benefits:** The District's salary expenditures increased by approximately 11 percent in FY 2006-07. The Assistant Treasurer attributed the large increase to the hiring of 23 safety officers after eliminating all 29 hall monitors.
- **Utilities:** The District's utility expenditures decreased approximately 25 percent in FY 2006-07. However, according to the Assistant Treasurer, this fluctuation is somewhat misleading due to the District not paying a large portion of its utility bills in FY 2006-07. Specifically, Lorain CSD carried forward an \$800,000 electric bill and a \$250,000 gas bill from FY 2006-07 to the budget for FY 2007-08. Similarly, according to the Chief Operations Officer, the utility costs for FY 2005-06 are overstated by approximately \$120,000 to \$150,000 due to the District using proceeds from a tax anticipation note to pay utility bills from FY 2004-05. When capturing utility costs attributable to each specific year, the District utility costs in the General Fund totaled \$2,718,009 to \$2,748,009 in FY 2005-06, and \$3,194,479 in FY 2006-07. Consequently, utility costs in the General Fund increased considerably in FY 2006-07. However, the District has implemented measures in an effort to control utility costs (see **Assessment Not Yielding Recommendations**).

- **Purchased Services:** The District's purchased services declined by approximately 19 percent in FY 2006-07. The decrease in FY 2006-07 can be attributed to the District's spending freeze started in February 2007.
- **Supplies and Materials:** The District's supplies and material costs decreased by approximately 10 percent in FY 2006-07. The decrease in FY 2006-07 is attributed to the District placing a freeze on discretionary spending. According to the Treasurer, the decrease is also the result of the District using the Maintenance Fund to cover the costs of supplies and materials instead of the General Fund.

Table 4-4 compares Lorain CSD's General Fund and total fund facility related expenditures per square foot to the peer averages² and to the AS&U national median for the 2006-07 school year³.

Table 4-4: Expenditures per Square Foot

| Object Code | Lorain CSD FY 2005-06 | Lorain CSD FY 2006-07 | Type IV Average FY 2005-06 | Type V Average FY 2005-06 | AS&U National Median FY 2006-07 |
|---------------------------------|---------------------------|---------------------------|----------------------------------|---------------------------------|--|
| Salaries / Benefits | \$3.41 | \$3.73 | \$3.02 | \$3.74 | \$2.56 |
| Purchased Services | \$0.49 | \$0.40 | \$0.46 | \$0.58 | \$0.01 |
| Utilities | \$1.58 ¹ | \$1.84 ¹ | \$1.47 | \$1.89 | \$1.71 |
| Materials and Supplies | \$0.23 | \$0.21 | \$0.23 | \$0.28 | \$0.32 |
| Capital Outlay | \$0.03 | \$0.00 | \$0.02 | \$0.08 | N/A |
| Miscellaneous | \$0.00 | \$0.00 | \$0.01 | \$0.03 | \$0.49 |
| Total General Fund | \$5.75¹ | \$6.18¹ | \$5.20 | \$6.60 | N/A |
| Total All Funds | \$5.91¹ | \$6.43¹ | \$5.39 | \$7.08 | \$5.09 |
| Total All Fund Utilities | \$1.60¹ | \$1.84¹ | \$1.47 | \$1.91 | \$1.71 |

Source: Lorain CSD, Peer Districts, and AS&U

¹Adjusted to show actual utility costs for each year, as explained in the discussion accompanying **Table 4-3** (reduced utility costs in FY 2005-06 by \$120,000 to be conservative).

Table 4-4 shows that Lorain CSD's General Fund and total fund expenditures per square foot in FY 2005-06 were higher than the Type IV averages, respectively, which is primarily due to salaries/benefits and utilities. Similarly, the District's total fund expenditures per square foot in FY 2005-06 and FY 2006-07 were higher than the AS&U National Median, which is mainly due

² Peer districts classified as Type IV by ODE are urban districts with low median incomes and high poverty rates. Type V districts are major urban districts with very high poverty (see **executive summary** for additional explanation). Lorain CSD is classified as a Type V district.

³ AS&U states that "all costs are affected greatly by numerous factors including age and overall building condition, climate, the labor market in your area, as well as other aspects over which school administrators have limited control. In addition, the figures provided are not intended to be "ideal" amounts for M&O allocations – they are only reflections of actual spending by institutions."

to salaries/benefits. In contrast, Lorain CSD's expenditures in FY 2005-06 were lower than the respective Type V averages in each category.

Lorain CSD's total square footage used in **Table 4-4** includes Lorain Middle School, which the District used as a warehouse and subsequently closed (see **financial systems** section for further assessment). However, the peer district square footage only consists of school and administration buildings. When excluding Lorain CSD's warehouse square footage, the District's expenditures per square foot in FY 2005-06 become higher than the Type V average in salaries/benefits.

Lorain CSD's higher salary/benefit expenditures per square foot can be attributed, in part, to maintaining high maintenance staffing levels (see **R4.2**). In addition, the District's average maintenance salary is approximately 18 percent higher than the Type V peer average (see **human resources**). Lastly, **Table 4-4** shows that after accounting for utility costs attributable to each specific year, the District's total and all fund expenditures per square foot increased by 7.5 and 8.8 percent in FY 2006-07, respectively. This is due to salaries/benefits (see **R4.2**) and utilities (see **Assessments Not Yielding Recommendations**).

Assessments Not Yielding a Recommendation

In addition to the analyses presented in this section, the following assessment were conducted and did not warrant a change or recommendation:

- **Energy Management:** The District's utility costs per square foot in FY 2005-06 were below the Type V average. While the utility costs per square foot increases to \$1.82 when excluding the Lorain Middle School building which was functioning as a warehouse, the ratio is still lower than the Type V average (\$1.89) in FY 2005-06. In addition, Lorain CSD has entered into a contract with a service provider that will save the District approximately \$3.4 million over the next seven years. The contract provides for a thorough assessment of the District's energy usage by a variety of professionals in relevant areas, a continuing energy management program, and training for staff members on energy saving methods. The District has also implemented energy conservation practices in several different areas over the last few years. Furthermore, the District uses consortiums to purchase gas and electricity.
- **Training:** Lorain CSD has established an effective mentoring program whereby new employees are paired with experienced employees for several days to help acclimate individuals with work requirements. This can reduce the learning curve and help create a smooth transition into the new employee's position. In addition, the District formally trains employees when standards change for new equipment, technology or procedures.
- **Cleaner and Grounds Staffing Levels:** As shown in **Table 4-2**, the District's cleaners are responsible for 29,444 square feet per FTE. This is in line with the mid-point of *The*

Planning Guide's range of 28,000 to 31,000 square feet per custodian, the normal standard for most school facilities. Likewise, the District maintains an average of 42.83 acres per grounds FTE, which is similar to AS&U's five-year average national median of 42 acres per grounds FTE.

- **Overtime Use and Expenditures:** Lorain CSD's overtime expenditures represent less than five percent of the total custodial and maintenance salaries in FY 2006-07. In addition, the District has a fee schedule in place to cover the costs of custodial overtime. Furthermore, the Chief Operations Officer noted that all overtime must be pre-approved and then reviewed when the overtime is claimed on the timesheets.

Issue for Further Study

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

- **Staffing Data:** The staffing data used in this section of the performance audit was deemed reliable by verifying data to other sources and confirming discrepancies with the Chief Operations Officer and the Human Resources Certification Specialist. Subsequently, the Treasurer provided staffing data that was used in the **human resources** section of this performance audit. The Treasurer reported 92 FTEs dedicated to facility operations. In contrast, this section of the performance audit shows 83 FTEs dedicated to facility operations (see **Table 4-1**). In order to be conservative and in light of the higher degree of data reliability in this section of the performance audit, the staffing assessments in this section are based on 83 FTEs. However, the District should further review these staffing discrepancies and identify the accurate number of facility staff. If the District does employ more facility staff, it should identify potential reductions based, in part, on the benchmarks provided in this performance audit (see **Table 4-2**).

Recommendations

Building Capacity

- R4.1** Based on the projected building utilization rates, the District should reevaluate the building plans with the OSFC. Specifically, the District should review the proposed building configurations for Phase II and Phase III, and make adjustments to alleviate potential overcrowding at the elementary and high schools (see Table 4-7), and to ensure that the remaining elementary schools operate at optimal capacity. To aid in this process, the District should review and update its enrollment projections.

The original OSFC plan called for the construction of nine new elementary schools, three new middle schools, and a high school, as well as the remodeling of five elementary schools, a middle school, and a high school. The original plan was based on a total enrollment of 11,766 students. Since FY 2001-02, nine new buildings have been built including seven elementary schools and two middle schools. The next phase of the construction project (Phase II) consists of building two new elementary schools, a middle school, and a high school. The Chief Operations Officer indicated that Phase II should be complete within the next four years.

However, since FY 2001-02, the District's enrollment has declined significantly. As a result, OSFC wants to renegotiate the original proposal to reduce the total number of buildings needed by the District. The District is in the process of developing a new proposal for OSFC to determine the construction that will take place in Phase III. The District is debating the fate of seven buildings: five elementary schools, a middle school, and a high school. The Chief Operations Officer indicated that the District is going to base the number of additional buildings needed on the FY 2007-08 October EMIS enrollment figures.

Lorain CSD's enrollment has been declining over the past five years, which is primarily attributed to losing students to parochial and community schools. **Table 4-5** shows Lorain CSD's enrollment trend from FY 1997-98 to FY 2006-07.

Table 4-5: Lorain CSD Student Enrollment

| Fiscal Year (FY) | Enrollment | Difference from Previous FY | % Difference |
|-----------------------------|------------|-----------------------------|--------------|
| FY 1997-98 | 10,712 | N/A | N/A |
| FY 1998-99 | 10,571 | (141) | (1.3%) |
| FY 1999-00 | 10,611 | 40 | 0.4% |
| FY 2000-01 | 10,737 | 126 | 1.2% |
| FY 2001-02 | 10,991 | 254 | 2.4% |
| FY 2002-03 | 10,654 | (337) | (3.1%) |
| FY 2003-04 | 10,322 | (332) | (3.1%) |
| FY 2004-05 | 9,922 | (400) | (3.9%) |
| FY 2005-06 | 9,719 | (203) | (2.0%) |
| FY 2006-07 | 9,346 | (373) | (3.8%) |
| Average Annual Trend | N/A | (152) | (1.5%) |

Source: ODE Fall Enrollment Report

Lorain CSD's enrollment has declined by an average of 1.5 percent annually since FY 1997-98. Additionally, the District's enrollment has declined each year after FY 2001-02. In order to prepare for the OSFC project, the District had an enrollment projection prepared by DeJong and Associates, Inc. (DeJong). The latest enrollment projections were prepared in FY 2004-05. **Table 4-6** presents the enrollment projects from FY 2007-08 to FY 2011-12.

Table 4-6: Lorain Enrollment Projections From FY 2007-08 to FY 2011-12

| | FY 2007-08 | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
|---|------------|------------|------------|------------|------------|
| Projected Enrollment | 9,097 | 8,921 | 8,766 | 8,668 | 8,582 |
| Student Difference From Prior Year | N/A | (176) | (155) | (98) | (86) |
| % Difference From Prior Year | N/A | (1.9%) | (1.7%) | (1.1%) | (1.0%) |
| Average Annual Change | | | | | (129) |
| % Average Annual Change | | | | | (1.4%) |

Source: DeJong

Note: Dejon projections go up to FY 2014-15, with enrollment projected to decline each year.

Table 4-6 shows that DeJong projects student enrollment to decline by an average of 1.4 percent annually from FY 2007-08 through FY 2011-12, which is comparable to the historical trend. Because of the projected declines in enrollment, the OSFC indicates that the District would need a total of 11 to 12 elementary schools, 3 middle schools, and 1 to 2 high schools when the project is completed. By comparison, the original OSFC plan included a total of 14 elementary schools (9 new and 5 remodeled), 4 middle schools (3 new and 1 remodeled), and 2 high schools (1 new and 1 remodeled). In addition, Dejong projected enrollment at 9,572 in FY 2005-06 and 9,304 in FY 2006-07. The projected amounts are lower than actual enrollment by 147 students in FY 2005-06 and 42 students in FY 2006-07 (see **Table 4-5**).

DeJong has published guidelines for determining school capacity. DeJong suggests using 25 students per classroom for all grades and eliminating special use rooms, such as art and music, in the calculation of capacity for elementary schools. In addition, DeJong suggests setting classroom use at 85 percent for junior high and high schools because of bell scheduling, teacher prep work space, and other factors that limit the use of every space 100 percent of the time. The capacity for self-contained special education rooms is assumed to be nine students per classroom based on conservative estimates of the special needs staffing requirement stipulated in the Ohio Administrative Code 3301-51-09. Using these criteria, **Table 4-7** shows the estimated capacity and utilization rate of Lorain CSD's buildings after the completion of Phase II, based on a review of building floor plans and District interviews. Enrollment for FY 2011-12 was projected based on the assumption that the District's enrollment will continue to decline at the historical rate of 1.5 percent annually.

Table 4-7: Lorain CSD FY 2011-12 School Capacity Analysis

| | 2011-12 Enrollment | School Capacity | Utilization Percentage |
|--------------------------------|--------------------|-----------------|------------------------|
| Elementary Schools | | | |
| Washington | 369 | 511 | 72.3% |
| Larkmoor | 438 | 511 | 85.7% |
| Palm | 371 | 352 | 105.5% |
| Garfield | 285 | 352 | 80.9% |
| Frank Jacinto | 400 | 511 | 78.2% |
| Toni Morrison | 241 | 352 | 68.4% |
| Helen Steiner Rice | 364 | 352 | 103.3% |
| Hawthorne | 323 | 352 | 91.9% |
| Meister | 368 | 352 | 104.4% |
| Irving | 391 | 725 | 53.9% |
| Lowell | 471 | 625 | 75.4% |
| Elementary School Total | 4,020 | 4,995 | 83.6% |
| Middle Schools | | | |
| General Johnnie Wilson | 551 | 683 | 80.7% |
| Longfellow | 522 | 683 | 76.4% |
| New Whittier | 515 | 683 | 75.5% |
| Middle School Total | 1,588 | 2,048 | 77.5% |
| High Schools | | | |
| New Admiral King | 1,437 | 984 | 146.0% |
| Southview | 1,178 | 1,169 | 100.8% |
| High School Total | 2,615 | 2,153 | 123.4% |

Source: Lorain CSD school floor plans, Bond Issue Oversight Committee (BIOC) Minutes

Note: Subsequent to the analysis in **Table 4-7**, the Chief Operations Officer noted that as of December 31, 2007, the plans for Phase II and Phase III for the OSFC construction may change.

Table 4-7 shows that the District's projected building utilization rates in FY 2011-12 for the elementary schools are under capacity, with the exception of Palm, Helen Steiner Rice, and Meister. Although the projected enrollment at these elementary schools exceeds capacity, six elementary schools have a utilization rate lower than 85 percent. However, Irving and Lowell elementary schools are included in the seven elementary buildings that may be rebuilt in Phase III of the OSFC project. Furthermore, the projected building utilization rate at the three middle schools are similar, with an overall building utilization projected at approximately 78 percent. Conversely, **Table 4-7** shows that the District is projected to exceed the recommended capacity at both high schools in FY 2011-12. In particular, the new Admiral King High School is projected to significantly exceed capacity.

By reevaluating the proposed building plans with OSFC, the District would ensure that its school buildings operate at optimal capacity and subsequently avoid the potential for overcrowding. Otherwise, the District may need to consider other alternatives when making future space allocation decisions and/or reconfigure classroom space. For example, it may not always be possible to have one teacher dedicated to a specific classroom for an entire day. Instead, it may be necessary for a teacher to vacate a classroom during planning and lunch periods so that it could be used for instructional purposes by another teacher.

Staffing

R4.2 Lorain CSD should consider reducing staffing levels assigned to the maintenance function by 15.0 FTEs. Once Lorain CSD and OSFC agree on the final building plans, the District should use relevant performance measures and standards to ensure it maintains the appropriate custodial, maintenance and grounds keeper staffing levels.

The District's maintenance staff (skilled trade and custodians) only maintains 45,773 square feet per FTE, which is less than half of AS&U's five-year average median of 92,000 square feet per maintenance FTE. The 1998 Performance Audit identified that the District could reduce maintenance staff; however, the District did not implement this recommendation (see **Appendix 4-A**).

If the District reduced maintenance staffing levels by 15 FTEs, it would maintain 91,545 square feet per FTE, close to the AS&U five-year average national median. Twenty-five of the current 30 maintenance FTEs do not spend 100 percent of their time on maintenance duties because they perform some grounds duties. However, the District's average number of acres per grounds FTE is similar to the AS&U five-year average median, even without including the time spent by the 25 maintenance FTEs (custodians) performing grounds duties. Therefore, the District would still collectively maintain an

adequate level of staff for maintenance and grounds duties with 15 fewer maintenance FTEs, based on the AS&U benchmarks.

After completion of Phase II of the OSFC project, the square footage of the District's buildings is estimated at 1,225,651⁴. Based on this estimated square footage and the AS&U five-year average national median square feet per maintenance FTE, the District could reduce an additional 1.6 maintenance FTEs. However, the Chief Operations Officer noted that as of December 31, 2007, the plans for Phase II and Phase III for the OSFC construction may change. The three new board members are uncomfortable with the current plans because of the continual decline in enrollment. The Chief Operations Officer also indicated that OSFC is re-determining enrollment projections and reassessing Southview High School. As a result, the actual square footage and acreage related to Phase II and Phase III remain indeterminate.

Financial Implication: By eliminating 15.0 maintenance FTEs, the District would save approximately \$624,000 annually in salaries and benefits. This is based on the average salary of the first four steps in the 16-step salary schedule for non-licensed custodians and general maintenance workers, and the ratio of benefits to salaries for facility staff in FY 2006-07.

R4.3 Lorain CSD should develop a manual for facility staff that addresses pertinent policies and procedures. Once the manual is complete, the Chief Operations Officer should work with the Superintendent to establish a schedule to regularly review the policies and procedures, and update them as needed. Policies and procedures should include a "last updated" field to help users ensure that they have the most up-to-date information. Developing a manual would better ensure that all personnel are familiar with District expectations and employment protocols.

A review of Board policies shows there are no overall District policies related to building maintenance and cleaning. In addition, the District's Manager of Cleaning Services indicated that a formal custodial policies and procedures manual has yet to be developed. Custodial employees receive job descriptions and their work area is formally defined with color-coded floor plans. Any additional guidance usually occurs through verbal communications with the building principals. The Chief Operations Officer also noted that Lorain CSD communicates changes to buildings through written directives.

Similarly, maintenance staff lacks a policy and procedures manual. Rather, the maintenance staff is provided job descriptions that define each employee's responsibilities. In addition, the Chief Operations Officer indicated that the Associate

⁴ This coincides with the building capacity analysis in **Table 4-7**. Because Admiral King was in the design phase during this performance audit, the square footage after Phase 2 was unavailable. Therefore, the estimated total square footage after Phase 2 reflects square footage for Admiral King in FY 2007-08.

Director of Safety and Security meets with the maintenance staff on a regular basis to communicate any changes in policies and procedures.

The *Custodial Methods and Procedures Manual* (ASBO, 2000) states that formal procedures for custodial and maintenance personnel should consider staffing standards, daily duties and tasks, job descriptions, job schedules, evaluations, and cleaning procedures and methods for various job tasks.

Without a formal policies and procedures, Lorain CSD increases the risk of staff inconsistently, inefficiently, and/or ineffectively performing job functions.

Work Orders and Preventative Maintenance

R4.4 Lorain CSD should consider purchasing an automated work order system that tracks applicable information, including preventative maintenance tasks (see R4.5), and labor and supply costs. In addition, the District should train the relevant employees on all functions of the work order system. This would help to ensure that functions are implemented efficiently and effectively. The improved record keeping associated with an automated work order system would help in estimating future costs and timeframes for potential projects. In addition, the automated work order system would help formalize the preventive maintenance program and better predict future preventive maintenance costs (see R4.5).

The District uses a combination of an automated and manual work order system. Under this process, an employee completes a work order form as the need arises. The building custodian and principal both approve the work order and send it to the Operations Department where the secretary logs the work order request into a spreadsheet. The Chief Operations Officer then prioritizes and assigns tasks to specific staff members. The Chief Operations Officer indicated that staff is aware that emergencies are to be handled first, followed by preventive maintenance tasks, followed by routine tasks. The District tracks the completion of the project on the spreadsheet maintained by the Operations Department. Once the task is complete, the work order is sent back to the respective building to note completion. The Chief Operations Officer indicated that the District follows up every three months to review the work order log to determine the time effectiveness of the maintenance staff. However, based on an analysis of the work order spreadsheet, the District's reporting capabilities are limited. For example, the work order spreadsheet does not allow the District to easily track and reference the project history, job priority, and costs for labor, supplies, and materials.

According to the *Planning Guide for Maintaining School Facilities* (NCES, 2003), work order systems help districts register and acknowledge work requests, assign tasks to staff,

confirm that the work order is completed, and track the cost of parts and labor. At a minimum, work order systems should account for:

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

The *Planning Guide* further indicates that an automated work order system is necessary when staff manage more than about 500,000 square feet of facility space. By comparison, Lorain CSD maintenance staff is responsible for nearly 1.4 million square feet in FY 2007-08.

An automated work order system could improve the reporting capabilities and efficiency of the District's work order process. The 1998 Performance Audit recommended that the District implement an automated work order system for all work requisitions submitted to the Operations Department. The Chief Operations Officer indicated that Lorain CSD looked into purchasing an automated work order system, but decided that the system in place was providing the District with the information it needed at a lower cost.

Financial Implication: Based on information provided by one company, an online work order system would cost Lorain CSD approximately \$4,500 per year based on the District's current enrollment, with a one-time training fee of approximately \$1,200. Additionally, information from another company for an online work order system shows slightly lower costs. However, the previously mentioned estimate will be used to provide a conservative estimate.

R4.5 The District should follow through on developing the checklist for preventative maintenance tasks. At a minimum, Lorain CSD should begin using its current work order system to document all preventive maintenance tasks, including the costs of labor, supplies, and materials. However, once purchased and implemented, Lorain CSD should use the automated work order system identified in R4.4 to help establish a formal preventive maintenance program that addresses all routine, cyclical, and planned building maintenance functions. This would better ensure that the District performs the appropriate preventative maintains work and is up-to-date

on all preventive maintenance tasks. This, in turn, could help increase the life expectancy of the District's equipment.

Lorain CSD does not have a formal preventive maintenance program. However, the Chief Operations Officer indicated that the District does have a service agreement with a contractor to maintain the District's new HVAC systems. According to the Chief Operations Officer, the maintenance staff is responsible for performing preventive maintenance work, such as changing boiler filters, and maintaining all electrical appliances and wiring. However, the preventive maintenance activities are not being documented through the District's work order system. As a result, the District cannot accurately determine which preventive maintenance activities and inspections are completed, or how often these activities take place. Furthermore, the Manager of Cleaning Services indicated that the District has experienced some problems with preventive maintenance tasks not being completed in a timely fashion. As a result, the Associate Director of Safety and Security and the Manager of Cleaning Services are in the process of developing a checklist for the maintenance staff and custodians to use to track which preventive maintenance tasks need to be completed.

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. Ideally, the scheduling of PM tasks should be computerized (see R4.4).

Operational Procedures

R4.6 Lorain CSD should develop formal performance standards that will be used to evaluate maintenance and custodial staff. Formal performance standards would help ensure that all buildings are maintained equitably, communicate job expectations, and objectively assess staff performance. This can subsequently help the District assess overall facility operations and take measures to enhance overall efficiency and effectiveness.

Lorain CSD's Manager of Cleaning Services indicated that the District does not use formal performance standards for evaluating employee performance, but does conduct evaluations for the custodial and cleaning staff. The classified agreement requires that employees receive an annual written evaluation and that the appropriate supervisor meet with the employee to discuss the evaluation. In addition, the Manager of Cleaning Services indicated that new cleaners receive three evaluations their first year of service and that new custodians receive two evaluations their first year of service.

Similarly, there are no formal set of performance standards for evaluating the maintenance staff. The Associate Director of Safety and Security indicated that the maintenance staff annual evaluations are the main tool used to evaluate employee performance. In addition, the Associate Director of Safety and Security also takes into account the effectiveness of how work orders are completed (e.g., if additional repairs were needed, or how fast staff responded to a work order request).

The *Planning Guide for Maintaining School Facilities* (NCES, 2003) notes that a district must establish formal performance standards and evaluation criteria to help assess staff productivity. For example, the amount of floor space or the number of rooms serviced, and the cleanliness of those areas could measure custodian performance. *The Planning Guide* also indicates that when evaluating operations, the district must collect and maintain accurate, timely, and comprehensive data. Good decision making requires good data and documentation. Collecting the data requires effort, but it is a necessary task. Examples of data sources that help evaluate facilities include annual snapshots (e.g., costs per square foot or per student), comparisons with peer entities, visual inspections, customer feedback (see **R4.7**), and the number of work orders completed.

Without established performance standards, the District increases the risk of staff cleaning and maintaining buildings in an inconsistent, ineffective and/or inefficient manner. Likewise, without formal performance standards, employees could interpret job expectations inconsistently and performance assessments may not be objective.

R4.7 The District should conduct a survey of stakeholders including teachers, students, parents, administrators, and Board members on a regular basis (e.g., at least annually) to determine strengths and weaknesses of the custodial and maintenance services. The District should then share the results with the stakeholders and highlight strategies taken to improve in the areas identified as weaknesses.

The District does not regularly use surveys to gauge stakeholder perceptions regarding the facility operations. However, the Chief Operations Officer indicated that the District used surveys in the past to evaluate the cleanliness of the buildings and the response rate of work orders. The Chief Operations Officer indicated that these past surveys revealed that stakeholders were overall satisfied with the custodial and maintenance functions.

The *Planning Guide for Maintaining School Facilities* (NCES, 2003) indicates that surveys can be used to evaluate custodial and maintenance work, and provides a sample customer survey form for gaining feedback about custodial and maintenance services. By not conducting stakeholder surveys on a regular basis, the District may not be identifying methods of improving facility operations.

Financial Implications Summary

The following table lists annual cost savings, annual costs, and one-time implementation costs for recommendations contained in this section of the report.

Summary of Financial Implications for Facilities

| Recommendation | Estimated Annual Cost Savings | Estimated Annual Implementation Costs | Estimated One time Implementation Costs |
|---|--------------------------------------|--|--|
| R4.2 Reduce staffing for maintenance by 15 FTEs. | \$624,000 | N/A | N/A |
| R4.4 Purchase a work order system. | N/A | \$4,500 | \$1,200 |
| Total | \$624,000 | \$4,500 | \$1,200 |

Source: AOS Recommendations

Appendix 4-A: 1998 Performance Audit Recommendations and Implementation Status

Table 4-A summarizes the 1998 Performance Audit recommendations and status of each recommendation; implemented, partially implemented, not implemented, or no longer applicable. Of the 16 recommendations issued in the 1998 Performance Audit, Lorain CSD fully implemented 7, partially implemented 6, and did not implement 2. The 2007 Performance Audit addresses the recommendations in the 1998 Performance Audit that were partially implemented or not implemented, if the related issues fell within the scope of the 2007 Performance Audit.

Table 4-A: 1998 Performance Audit Recommendations

| Recommendation | Implemented | Partially Implemented | Not Implemented | No longer Applicable |
|--|-------------|-----------------------|-----------------|----------------------|
| R3.1 Lorain CSD could reduce its maintenance staffing by as many as 2 FTEs (F3.42.) | | | X – See R4.2 | |
| <p>R3.2 Lorain CSD should establish and implement a plan for addressing the physical condition of the District’s facilities and the long-term management of those facilities. (F3.1, F3.3, and F3.7)</p> <p>The District should update previous studies conducted on its facilities and develop a Capital Improvement Program (CIP).</p> <p>Lorain CSD should develop and document a formalized capital project categorization and prioritization system.</p> <p>Lorain CSD should use the process of identification, categorization and prioritization as the foundation for developing the District's Facilities Master Plan (FMP).</p> | X | | | |
| R3.3 As Lorain CSD continues to evaluate building utilization, all reports, studies, and data accumulated should be included. (F3.11 and F3.12) | X | | | |

| Recommendation | Implemented | Partially Implemented | Not Implemented | No longer Applicable |
|--|--------------------|------------------------------|------------------------|-----------------------------|
| R3.4 Lorain CSD should establish and document the process for ongoing Environmental and Health issues such as asbestos and ADA requirements. (F3.4, F3.5, and F3.19) | X | | | |
| R3.5 Lorain CSD should develop a facilities budget from projected staffing requirements, material requirements, and contracted services from a set of base projects planned for the year plus a predetermined percentage for emergency maintenance situations. (F3.7, F3.16, and F3.21) | | X | | |
| R3.6 As an integral part of the Facilities Master Plan , the District should develop a formal capacity analysis and space plan to support proper capital improvement decisions. (F3.9) | X | | | |
| R3.7 Lorain CSD should actively continue to market the District's properties that are no longer being utilized including the engagement of a licensed, commercial Real Estate Agent to assist the District in obtaining the best possible offer in the shortest amount of time. (F3.12 and F3.15) | | | | X |
| R3.8 Lorain CSD should establish a detailed custodian allocation methodology to determine the most efficient staffing level and utilization of staff. (F3.16, F3.21, and F3.31) | | X | | |
| R3.9 Lorain CSD should conduct a detailed privatization study to determine if private vendors can deliver these services more efficiently and effectively (F3.45). | X | | | |

| Recommendation | Implemented | Partially Implemented | Not Implemented | No longer Applicable |
|--|--------------------|------------------------------|------------------------|-----------------------------|
| R3.10 The District should develop a formalized position specific training requirements by position, including new employee training, frequency of ongoing training, types of training and identify sources of internal and external training. (F3.24 and F3.35) | | X | | |
| R3.11 Lorain CSD should develop and implement a comprehensive planned preventative maintenance plan (PPMP). Utilizing the information obtained in the facilities audit, various studies and building inventory of each facility, the District should determine the specific preventative maintenance (PM) needs for facility. (F3.36) | | | X – See R4.5 | |
| R3.12 The District should establish guidelines for a formal vehicle replacement policy for the division's 20 vehicles. (F3.41) | X | | | |
| R3.13 Lorain CSD should establish inventory control procedures for all parts and equipment at the maintenance warehouse, at the schools and for any supplies maintained on District vehicles. (F3.40) | | X | | |
| R3.14 The District should implement an automated work order system for all work requisitions submitted to the Buildings and Grounds. (F3.38) | | X – See R4.4 | | |
| R3.15 The District should ensure they are aware and knowledgeable of state funding available for school districts. The District should designate an individual to be responsible for the District's applications for funding to ensure they do not miss out on available funding in the future. (F3.7) | X | | | |

| Recommendation | Implemented | Partially Implemented | Not Implemented | No longer Applicable |
|---|--------------------|------------------------------|------------------------|-----------------------------|
| R3.16 The District should establish policies, procedures, and formalize guidelines for vendor purchases and for inventory control of those supplies. (F3.40) | | X | | |

Source: 1998 Performance Audit

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Transportation

Background

This section of the performance audit focuses on the transportation functions of the Lorain City School District (Lorain CSD or the District). Lorain CSD's operations are evaluated against selected peer districts¹, best or recommended practices, and operational standards from applicable sources. These sources include the Ohio Department of Education (ODE) and the American Association of School Administrators (AASA). In addition, **Appendix 5-A** summarizes the implementation status of the recommendations in the previous performance audit of Lorain CSD, released in 1998.

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

Lorain CSD's Board policy adheres to the state minimum standards, with the following exceptions:

- Hazardous walking conditions;
- Building overcrowding causing student building reassignment;
- Programmatic purposes where the administration deems transportation necessary;
- Medical exceptions; and
- No Child Left Behind Act (NCLBA) mandates.

The policy also allows previously ineligible riders to ride buses if there is available space once the District completes the student head count required by ODE in October of each school year (see **R5.2**).

¹ See **Table 5-2** for more information, and the **executive summary** for a list of peer districts and an explanation of the selection methodology.

Organizational Structure and Responsibilities

Lorain CSD has a three-year contract with a transportation service provider (TSP) for transportation services. The contract expires on June 30, 2008. The District's Transportation Department consists of two full time employees, a Transportation Coordinator and a Transportation Coordinator Assistant. These employees develop and monitor routes using District owned routing software. The District provides these routes to the TSP who then assigns buses and drivers.

Operational Statistics

Table 5-1 presents the District's number of riders and expenditures for FY 2004-05 through FY 2006-07.

Table 5-1: Lorain CSD Riders² and Costs: FY 2004-05 to FY2006-07

| Riders and Costs | FY 2004-05 | FY 2005-06 | FY 2006-07 |
|-------------------------------------|--------------------|--------------------|--------------------|
| Public | 1,074 | 1,092 | 1,062 |
| Non-Public | 97 | 81 | 89 |
| Community | 72 | 131 | 245 |
| Total Regular Riders | 1,243 | 1,304 | 1,396 |
| Special Ed Riders | 212 | 272 | 231 |
| Total Riders | 1,455 | 1,576 | 1,627 |
| Total Expenditures | \$1,979,218 | \$2,306,987 | \$2,377,647 |
| Total Expenditures per Rider | \$1,360 | \$1,464 | \$1,461 |

Source: LCSD T-Reports

Note: Lorain CSD riders and expenditures are Type II.

As illustrated in **Table 5-1**, the District's total number of regular riders increased by 4.9 percent in FY 2005-06 and 7.1 percent in FY 2006-07. This is primarily due to community school riders increasing by over 80 percent each year. Community school riders accounted for 17.6 percent of total regular riders in FY 2006-07. In addition, special education riders comprised 14.2 percent of total riders in FY 2006-07. Furthermore, the District's expenditures per rider increased by 7.6 percent in FY 2005-06, but remained relatively constant from FY 2005-06 to FY 2006-07. However, the inaccurate reporting could have an impact on the above expenditure data (see **Table 5-3** and **R5.3**). For instance, based on the District's financial report (4502), contracted expenditures for transportation in the General Fund increased by 15.6 percent from FY 2005-06 to FY 2006-07.

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

Table 5-2 compares the District's transportation costs, riders and operational statistics to the Type IV and Type V peer averages³ for FY 2005-06. **Table 5-2** also includes the District's FY 2006-07 data.

Table 5-2: Transportation Comparison

| | Lorain CSD FY 2005-06 | Lorain CSD FY 2006-07 | Type IV Peer Average FY 2005-06 | Type V Peer Average FY 2005-06 |
|---|--------------------------|--------------------------|---------------------------------------|--------------------------------------|
| Number of Students | 9,719 | 9,346 | 2,969 | 12,181 |
| Riders | 1,576 | 1,627 | 1,965 | 3,529 |
| • Riders as Percent of Students | 16.2% | 17.4% | 62.3% | 36.4% |
| Buses | 44 | 45 | 31.2 | 61.4 |
| • Active | 38 | 39 | 24.8 | 50.6 |
| • Spare | 6 | 6 | 6.4 | 10.8 |
| • Spares Buses as Percent of Fleet | 13.6% | 13.3% | 25.0% | 17.1% |
| • Riders Per Active Bus | 41.5 | 41.7 | 87.6 | 73.0 |
| • Riders per Regular Bus | 49.8 | 49.3 | 90.4 | 82.6 |
| District Square Miles | 16 | 16 | 35 | 24 |
| Riders per Square Mile | 99 | 102 | 88 | 190 |
| Population Density | 3,714 | 3,714 | 899 | 3,692 |
| Annual Routine Miles | 427,500 | 361,260 | 242,244 | 574,020 |
| • Routine Miles Per Bus | 9,716 | 8,028 | 7,791 | 9,508 |
| Total Expenditures (Type I and II) | \$2,306,987 | \$2,377,647 | \$987,356 | \$2,976,830 |
| • Per Rider | \$1,464 | \$1,461 | \$507 | \$864 |
| • Per Bus | \$52,432 | \$52,837 | \$31,480 | \$49,477 |
| • Per Routine Mile | \$5.40 | \$6.58 | \$4.25 | \$5.28 |

Source: Ohio Department of Education LCSD and peer district T-Forms.

Table 5-2 shows that Lorain CSD's total expenditures per rider, per bus and per routine mile in FY 2005-06 are higher than both peer averages. For instance, the District's expenditures compared to the Type V peer average were 69.3 percent higher per rider, 6.0 percent higher per bus and 2.3 percent higher per routine mile. The higher expenditure ratios are due, in part, to the TSP transporting significantly fewer riders per bus. The TSP transported approximately 42 riders per active bus in both FY 2005-06 and FY 2006-07, which is 53 and 43 percent lower than the Type IV and IV averages, respectively (see **R5.1**). While the TSP transports significantly fewer riders per square mile than the Type V average, it transports more riders per square mile than the Type IV average. Additionally, the District's population density is similar to the Type V average

³ Peer districts classified as Type IV by ODE are urban districts with low median incomes and high poverty rates. Type V districts are major urban districts with very high poverty (see **executive summary** for additional explanation). Lorain CSD is classified as a Type V district.

and much higher than the Type IV average. Furthermore, the District is much smaller in square miles than both peer averages.

While the demography of the District does not account for the large discrepancy in riders per active bus, the following factors can affect the TSP's ability to transport students efficiently:

- As schools open and close during the Ohio School Facilities Commission (OSFC) Project, the District transports students to schools that have available capacity. This sometimes requires students to attend school across town. Over the last two years, six elementary schools and one middle school have closed. Two elementary schools opened in FY 2007-08. The Chief Operations Officer noted that as of December 31, 2007, the plans for Phase II and Phase III for the OSFC construction might change.
- Several schools have full classrooms that then require the District to transport students to a school with available capacity.
- The NCLBA allows students in schools that are in academic emergency and not meeting yearly academic progress goals to attend better performing schools. According to the Transportation Coordinator, there are five elementary schools in academic emergency. From these schools, 80 students chose to attend other schools, which include just 45 students who will receive transportation in FY 2007-08. Furthermore, the District charges the transportation cost for these students to the Title I Fund.

Regardless of the above factors, reviewing its routing software and bus utilization (see **R5.1**), staggering bell schedules (see **R5.1**), and actively monitoring contractor performance (see **R5.3**) would help the District increase riders per bus and, in turn, eliminate buses and reduce costs. Implementing **R5.2** would help to address the frequency of reassigning students to buildings with available capacity, and the related impact on transportation.

For FY 2006-07, the TSP's routine miles per bus declined 17.4 percent while the number of buses increased by 2.2 percent. As a result, expenditures per routine mile increased by 21.9 percent. Coupled with the lower number of riders per active bus, this indicates the need for better routing to improve bus utilization (see **R5.1**). Moreover, the District allowed 115 riders to be transported in FY 2006-07, which are not reflected in **Table 5-2** (see **R5.2**). However, even when including these riders, the District's number of riders per active bus (44.7) is still well below both peer averages, while the expenditures per rider (\$1,365) is still significantly higher than both peer averages. Including 115 riders also increases the number of riders per square mile to 109, which is still between the Type IV and V averages.

During the course of this performance audit, the District's T-1 form for FY 2007-08 became available, which showed that the TSP transported 1,807 riders on 39 active buses. This results in

an average of 46.3 riders per active bus. While this is above the ratios in FY 2005-06 (41.5) and FY 2006-07 (41.7), it is still well below the peer averages.

Table 5-2 also shows that the District's riders as a percent of students is much lower than the peer averages. This is primarily due to the Board's current policy of transporting students based on State minimum standards. Having a denser population also contributes to this lower percentage, when compared to the Type IV average. Additionally, TSP's spare buses comprise approximately 14 percent of its bus fleet, which is less than both peer average percentages.

Table 5-3 compares Lorain CSD's costs in various line items to the peer averages. The District's costs come from the ODE T-2C form submitted by the TSP to the District.

Table 5-3: Lorain CSD & Peer Average Line-Item Expenditures (Type I & II)

| | LCS FY 2005-06 | LCS FY 2006-07 | Type IV Peer Average FY 2005-06 | Type V Peer Average FY 2005-06 |
|---|--------------------|--------------------|---------------------------------------|--------------------------------------|
| Personnel ¹ | \$1,187,238 | \$1,222,551 | \$734,147 | \$2,207,428 |
| • Per Rider | \$753 | \$751 | \$380 | \$634 |
| • Per Bus | \$26,983 | \$27,168 | \$23,522 | \$36,370 |
| • Per Routine Mile | \$2.78 | \$3.38 | \$3.19 | \$3.86 |
| Maintenance & Repairs ² | \$287,238 | \$296,811 | \$71,327 | \$174,170 |
| • Per Rider | \$182 | \$182 | \$39.65 | \$50.88 |
| • Per Bus | \$6,528 | \$6,596 | \$2,438 | \$3,063 |
| • Per Routine Mile | \$0.67 | \$0.82 | \$0.32 | \$0.32 |
| Fuel | \$205,298 | \$211,856 | \$121,785 | \$174,203 |
| • Per Rider | \$130 | \$130 | \$65.09 | \$51.60 |
| • Per Bus | \$4,666 | \$4,708 | \$3,993 | \$3,090 |
| • Per Routine Mile | \$0.48 | \$0.59 | \$0.52 | \$0.33 |
| Bus Insurance | \$101,968 | \$105,027 | \$21,140 | \$54,012 |
| • Per Rider | \$65 | \$65 | \$9.58 | \$15.32 |
| • Per Bus | \$2,317 | \$2,334 | \$664 | \$872 |
| • Per Routine Mile | \$0.24 | \$0.29 | \$0.09 | \$0.09 |
| Other Expenditures ³ | \$525,245 | \$541,402 | \$48,699 | \$340,580 |
| • Per Rider | \$333 | \$333 | \$16.13 | \$105 |
| • Per Bus | \$11,937 | \$12,031 | \$1,078 | \$5,617 |
| • Per Routine Mile | \$1.23 | \$1.50 | \$0.20 | \$0.59 |

Source: District and Peer T-1 and T-2 Reports

¹Includes salaries and wages, as well as retirement, employee insurance, physical exams, drug tests, certification/licensing, and training.

²Includes maintenance, repairs, maintenance supplies, tires, and tubes.

³Includes additional miscellaneous expenditures such as utilities, facility rent, bus leases, and other

Table 5-3 shows that TSP's reported personnel costs per rider were much higher than both peer averages in FY 2006-07, due primarily to transporting fewer riders per bus (see **R5.1**). In addition, the TSP's reported maintenance and repair costs per rider, per bus, and per routine mile were higher than both peer averages. While the TSP's reported fuel costs per routine mile were lower than the Type IV average in FY 2005-06, they were higher than the Type V average and increased by 23 percent in FY 2006-07.⁴ Furthermore, the TSP's reported bus insurance costs were more than two times higher than both peer averages. Lastly, the TSP's reported all other expenditures per rider, per bus, and per routine mile were significantly higher than both peer averages. Approximately 85 percent of the TSP's reported other expenditures are attributable to bus lease costs (60 percent) and facility rent costs (25 percent). Using the information in **Table 5-3** in future contract negotiations and RFPs, along with actively monitoring the contract and related costs, would better ensure that the District contracts for transportation services at the most competitive price (see **R5.3**).

Issues for Further Study

Auditing standards require the disclosure of significant issues identified during an audit that are not reviewed in depth. These issues may not be directly related to the audit objectives or may be issues that the auditors do not have the time or resources to pursue. AOS has identified the following such issues:

- **In-House Transportation:** The ensuing recommendations provide methods for the District to improve efficiency and reduce transportation costs. Consequently, coupled with the related potential overhead and capital costs, the performance audit did not review the option of providing in-house transportation services. However, the District should consider this option if it cannot improve efficiency and reduce costs pertaining to contracted services. In doing so, the District should conduct a formal study that identifies all of the costs of providing in-house transportation services and compares them to contracted costs to ensure a cost-effective decision.

⁴ Subsequent to the submission of the T-2C form, the TSP indicated that it overstated the fuel expenses reported in the T-2C form by approximately \$71,000, which would reduce the fuel costs per mile to \$0.39. The TSP also indicated that it erred in reporting parts expenses. However, the impact on expenses would depend upon the specific category the TSP used to account for parts. Assuming parts expenses were recorded in the maintenance and repair category, the TSP overstated expenses by approximately \$119,000. This would reduce the maintenance and repairs cost per mile to \$0.33 and per bus to \$2,640. Despite these reporting errors and since costs are driven by the contract, it is unlikely that the errors affect the total costs paid by the District for transportation services. See **R5.2** for reporting and contracting.

Recommendations

R5.1 Lorain CSD should optimize routes and increase bus utilization by effectively using its current routing software, staggering bell schedules, and determining the potential of increasing its bus utilization target closer to a goal of 80 percent. At a minimum, the District should follow its guidelines for bus utilization. When reviewing these options, the District should consider student ride times and student safety, and run several simulations via its routing software. When considering changes in teachers' workdays, the District should ensure it considers the corresponding impact on transportation costs. By taking these actions along with actively monitoring TSP performance (see R5.3), Lorain CSD could eliminate at least eight buses. Reductions to the active fleet would be further aided by strategies identified in R5.2.

According to Article VIII Section 8.1 of Lorain CSD's TSP contract, the District designates all routes, stops, and schedules collectively in a document known as the routing plan. Lorain CSD develops this plan by using District owned routing software and files the plan annually with the TSP on or before the first day of August. The District has the right to modify the routing plan as needs change. Transportation Department personnel enter student addresses in its routing software and develop routes based on the current Board policy.

The District provides transportation services to students who meet Board policy requirements to 29 public, private, and community schools. As noted in **Table 5-2**, Lorain CSD's cost per rider remained relatively level from FY 2005-06 to FY 2006-07. However, the District's cost per rider in FY 2005-06 was almost three times greater than the Type IV peer average and 1.7 times greater than the Type V peer average. This is due to transporting fewer students per bus than both the Type IV and Type V averages, despite the District's lower square miles, higher population density when compared to the Type IV average and similar population density as the Type V average, and higher number of riders per square mile when compared to the Type IV average.

Based on Lorain CSD's bus assignment reports, the regular bus routes average 1.8 runs with the District transporting an average of 25.7 students per regular run in FY 2005-06. Additionally, for the 24 of 29 buses completing regular runs in FY 2006-07 where run information was available, the District averaged 2.3 runs per bus and 22.8 students per regular run. When including the 115 ineligible riders not reported on the District's T-1 form for FY 2006-07 and assuming a similar number of unreported riders in FY 2005-06, the average number of riders per run increases to only 27.9 in FY 2005-06 and 24.9 in FY 2006-07. Further, Lorain CSD transports 14 percent of their regular riders to non-public and community schools while the Type IV peer average is 7 percent and the Type V peer average is 16 percent.

According to *Hidden Savings in Your Bus Budget* (American Association of School Administrators (AASA), 2005), an effective pupil-to-bus ratio should average at least 100 pupils on a double route, two-tier bus system. Actual capacity use must be measured with 80 percent of rate capacity as a goal. The article also states that abuses of program-eligibility or walk-distance policies waste district money.

In addition, the TSP's 72 passenger bus seating capacity guideline for fieldtrips are:

- Sixty-nine students per bus or three to a seat (K-4th grade); and
- Forty-six students per bus or two to a seat (5th – 12th grade).

The average of the seating guidelines is 58 riders per bus or 80 percent of bus capacity, which is similar to the AASA goals. In contrast, the Transportation Coordinator creates runs with 35 to 45 riders per bus and a maximum ride no longer than 45 minutes, when possible. Furthermore, the District's average number of students per regular run in FY 2005-06 and FY 2006-07 (see above) were well below the Transportation Coordinator's range.

Building starting and ending times also can influence routing. **Table 5-4** shows the start and end times for schools in FY 2006-07, and notes which schools closed since FY 2006-07.

Table 5-4: FY 2006-07 Lorain CSD Start and End Times

| School | Start Times | End Times | # of schools |
|---|------------------|-------------------------|--------------|
| Public | | | |
| <i>Early Elementary:</i> Jacinto Elementary (K-6), Garfield Elementary (K-5), Irving Elementary (K-6), Larkmoor Elementary (K-5), Longfellow Elementary (closed), Masson Elementary (K-2), Meister Elementary (closed), Washington Elementary (K-5) | 8:15 a.m. | 2:15 p.m. | 8 |
| <i>Late Elementary:</i> Homewood Elementary (closed), Lakeview Elementary (K-5), Lowell Elementary (K-6), Palm Elementary (K-6) | 9:15 a.m. | 3:15 p.m. | 4 |
| Lorain Admiral King HS (9-12), Lorain Southview HS (9-12) | 8:20 a.m. | 2:55 p.m. | 2 |
| General Johnnie Wilson Middle School (6-8), Longfellow Middle School (6-8), Whittier Middle School (7-8) | 9 a.m. | 3:30 p.m. | 3 |
| Emerson (Preschool) – Half Day | 9 a.m. 1 p.m. | 11:30 a.m. 3:30 p.m. | 1 |
| Fairhome (Alternative) | 9:30 a.m. | 3:30 p.m. | 1 |
| Parochial | | | |
| St. Anthony | 8:05 a.m. | 2:35 p.m. | 1 |
| St. Peter's | 8:15 a.m. | 2:30 p.m. | 1 |
| St. Vincent DePaul | 7:50 a.m. | 2:40 p.m. | 1 |
| Open Door Christian School | 7:45 a.m. | 3 p.m. | 1 |
| Charter | | | |
| Summit, Summit@St. John's | 8 a.m. | 3 p.m. | 2 |
| Lorain Community, Lorain Gifted | 8:20 a.m. | 3:15 p.m. | 2 |
| Arts Academy | 8:20 a.m. | 3:30 p.m. | 1 |
| Arts and Science | 8 a.m. | 3:30 p.m. | 1 |

Source: Lorain CSD Transportation Coordinator Master Sheet

Note: High schools are included because the District provides transportation to ineligible students (see **R5.2**).

During FY 2006-07, **Table 5-6** shows Lorain CSD had two tiers for its elementary schools (8:15 a.m. and 9:15 a.m., and 2:15 p.m. and 3:15 p.m.), with a somewhat similar split in tiers for the high schools and middle schools (8:20 a.m. and 9 a.m., and 2:55 p.m. and 3:30 p.m.). As a result, the District maintained four different bell schedules for its elementary, middle and high schools, which totaled 17 schools. In contrast, the 10 charter/parochial schools each had varying start and end times, with the exception of three schools having the same start time. Consequently, the bell schedules along with the Transportation Coordinator's maximum ride time of 45 minutes for students inhibit the District from using a three-tier system. This explains the District averaging only 1.8 runs per regular bus in FY 2005-06 and 2.3 runs per regular bus (for 24 of 29 buses with the available run information) in FY 2006-07.

According to the Transportation Coordinator, requests to stagger start times in the past were met with some resistance. Although the District adjusted its starting and ending

times due to a shortened day at the beginning of FY 2007-08, it again reverted to the FY 2006-07 bell schedules to incorporate art and music classes into the school day. This schedule took effect January 2008 for all schools, with the exception of the high school staying at the bell schedule of 7:35 a.m. – 2:18 p.m.. These start and end times are approximately 40 minutes earlier when compared to FY 2006-07, which may help the District implement more runs for some buses.

The District has the ability to change the start and end times to increase runs per bus and, in turn, operate with fewer buses. Specifically, the certificated bargaining agreement does not stipulate start and end time for teachers. It only states that the regular workday shall be six hours and fifty-five minutes for grade K-6 teachers, and seven hours and thirty-five minutes for a grade 7-12 teachers. The bargaining agreement also establishes the intent for all parties to jointly study the schedule of elementary teachers during school year 2007-08. The goal is to improve the schedule, and make the workday of elementary teachers more effective and efficient, without increasing cost to the Board. “The study areas include conference time rules, lunch time, workday and other mutually agreed areas. However, the joint study does not include the impact of costs to transportation for workday changes, which could affect bell schedules.

If the District at least achieved the Transportation Coordinator’s lower estimate of 35 riders per regular run and still averaged only 1.8 runs per bus, it could eliminate three active regular buses. By comparison, reaching the Type V average of 83 riders per regular bus or Type IV average of 90 riders per regular bus could eliminate 11 or 12 regular buses from the fleet, respectively. Under the peer average scenarios, the District would average 45 or 49 riders per bus if each bus averaged 1.8 runs, which would still be well under the 80 percent goal from AASA (62 or 69 percent). In addition, having more buses complete three runs would enable the District to eliminate more buses.

The above estimates for potential bus reductions are based on the number of regular buses and corresponding riders for FY 2007-08, as reported in the District’s FY 2007-08 T-1 form. These estimates also include 115 more riders at Lorain CSD to provide a conservative comparison, which was the number of riders not reported in the District’s FY 2006-07 T-1 form (see **R5.2**). Using an average of only 1.8 runs per bus instead of 2.3 runs per bus also provides a conservative estimate. Run information for FY 2007-08 was not fully complete or finalized to allow for reliable comparisons.

Financial Implication: While the aforementioned estimates show that Lorain CSD could eliminate 11 to 12 regular buses and potentially more buses by implementing a three-tiered system, the District’s number of riders has increased each year from FY 2004-05 to FY 2007-08, due to community school riders. In an effort to account for potential increases in future ridership and other variables like the OSFC project, this financial implication will be based on eliminating eight regular buses. Based on the current

contract cost of \$316.20 per bus per day for 178 days, the District annually could save approximately \$450,000 by eliminating eight active buses.

R5.2 Lorain CSD should consider modifying its transportation policy to eliminate the ineligible riders transported due to a lack of ridership, which would help reduce buses. In addition, the District should review building utilization rates, enrollment trends and projections, and proposed building configurations with OSFC to ensure the schools operate at optimal capacity and to help address the frequency of reassigning students to schools outside of their neighborhood (see the facilities section). The District should also review the number of students transported to schools other than the neighborhood school. By doing so, the District might be able to reassign teachers to reduce the need to bus students in some cases. Going forward, the District should consider teacher reassignments prior to deciding to move students to other schools.

As previously stated, the District's policy is to transport students according to state minimum standards, with some exceptions (see **page 5-1**). According to the Transportation Coordinator, the District takes a student count each year during the first week in October to determine ridership for the school year. However, as the year progresses, ridership changes due to changes in athletic programs, students moving in and out of the District, and building changes due to construction. Therefore, the headcount is updated throughout the school year.

Once the District completes the October headcount, the Board policy allows previously ineligible students to request transportation on current buses with excess capacity. However, the policy prohibits adding buses to provide transportation to ineligible students. Once available space is determined, ineligible students are allowed to ride if proper identification is provided. However, these additional stops add time to a bus schedule that could be used on other runs (see **R5.1**)

In FY 2006-07, the Transportation Coordinator indicated that the District transported 115 ineligible students. The Chief Operations Officer indicated transporting ineligible students is a strategy used to counteract lagging attendance, since attendance factors into the District's yearly ODE academic performance measure. Historically, when bus ridership has been low, the Administration has placed pressure on the Transportation Department to make exceptions and include ineligible riders in an effort to fill buses and increase attendance, rather than consolidate runs and reduce the number of buses.

The transportation policy includes building overcrowding as one of the exceptions for allowing transportation outside of the state minimum standards. **Table 5-6** shows available grade level space throughout the District.

Table 5-6: Lorain CSD Classroom Enrollment by Grade Level

| Grade | Total Buildings with Grade Level | Enrollment Open | Enrollment Closed | Percent with Closed Enrollment |
|-----------------|----------------------------------|-----------------|-------------------|--------------------------------|
| Kindergarten | 10 | 3 | 7 | 70% |
| 1 st | 10 | 7 | 3 | 30% |
| 2 nd | 10 | 6 | 4 | 40% |
| 3 rd | 10 | 5 | 5 | 50% |
| 4 th | 10 | 5 | 5 | 50% |
| 5 th | 10 | 4 | 6 | 60% |
| 6 th | 5 | 4 | 1 | 20% |

Source: Lorain CSD elementary school grade closure list as of October 2007.

Table 5-6 indicates that building grade closures range from 20 to 70 percent of classroom grade availability. The Transportation Department creates bus routes to move students to reassigned schools. According to the Transportation Coordinator, the District has been reluctant to reassign teachers rather than students. According to the certificated bargaining agreement, teachers should receive a tentative assignment to a school and teaching level or subject area by June 10 with all assignments firm after August 15. Changes to assignments after the August 15 deadline must be clearly demonstrated as necessary.

The District's enrollment has declined each year from FY 2001-02 to FY 2006-07, and is projected to continue to decline in the future. This should naturally help minimize the potential of enrollment closures and, in turn, reassigning students to schools outside their neighborhood. Furthermore, the District's projected building utilization rates in FY 2011-12 for the elementary schools are under capacity, with the exception of three elementary schools. Six elementary schools have a utilization rate lower than 85 percent. By reevaluating the proposed building plans with OSFC, the District would ensure that its school buildings operate at optimal capacity and subsequently avoid the potential for overcrowding. See the **facilities** section for further discussion of student enrollment trends, building capacity assessments, and the OSFC project.

R5.3 Lorain CSD should include performance standards, measurable outcomes, and the process used to evaluate performance in future contracts and requests for proposal (RFP) for transportation services. The District should use the performance standards, measurable outcomes, and evaluation process as the basis for contractor compensation, and stipulate as such in future contracts and RFPs⁵. The District should also ensure that it allocates sufficient time for the RFP process to help

⁵ While the prior RFPs were not reviewed in this performance audit due to time elapsing since the last RFP process, these areas would first likely need to be included in an RFP to better enable the District to ultimately include them in a contract. Moreover, requiring entities to include a breakdown of costs by category in future RFPs, similar to **Table 5-3**, would better allow Lorain CSD to evaluate the costs in each RFP and select the "best" provider.

increase competition. Furthermore, Lorain CSD should increase the thresholds for fuel prices that trigger additional payments from the District, and consider other alternatives for fuel (e.g., purchase fuel independently from a consortium and exclude it from the contract price). Lastly, Lorain CSD should actively monitor contract compliance and performance, including costs to ensure accurate reporting. As a part of this process, Lorain CSD should ensure that the TSP reports non-routine miles, as required by ODE instructions.

Lorain CSD has a three-year contract in place with the TSP to provide transportation services to eligible pupils. The contract expires June 30, 2008. The District awarded the contract to the current TSP after reviewing the two responses it received from the RFP. The TSP is responsible for providing all vehicles, a transportation facility, equipment, fuel, supplies, personnel, liability insurance, training, recruiting, bus maintenance, and bus repairs.

According to one District official, it is unclear whether sufficient time was available during the prior RFP process for interested companies to have questions answered and still submit a proposal. While this official was not directly involved in the prior RFP process, another District official who was directly involved indicated that a better RFP process which involves more contractors would be helpful.

The TSP primarily bills its services to the District on a cost per bus basis. This results in a potential conflict between the TSP's profit motivation, and the District's financial needs and efficiency requirements. Although the contract states the provider shall assist the District in designing efficient routes, there is an inherent incentive for the TSP to operate more buses. **Table 5-2** shows that Lorain CSD's cost per rider, per bus, and per routine mile in FY 2005-06 are higher than both the Type IV and Type V averages, with the exception of the Type V costs per routine mile. The higher cost per rider is mainly due to low ridership per bus (see **R5.1**), while the higher cost per bus is primarily due to the contracted fee per bus and driver of \$52,038 in FY 2005-06.

In *Student Transportation Funding in Ohio* (Legislative Office of Educational Oversight (LOEO), 2003), districts contracting for transportation spent, on average, 60 percent more per pupil than districts operating their own buses. By examining expenditures for contracting districts, LOEO also noted that potential reasons for higher operating figures include higher salaries, maintenance costs, and contractor's profit. In addition, some of the contractor's capital costs for buses, purchased and leased, were included in the contracted price. As shown in **Table 5-2**, Lorain CSD's expenditure ratios appear high in several areas and include bus lease and facility rent costs.

The Transportation Coordinator verifies contract charges through reconciliation of invoices and purchase orders. However, no documents are retained to support charges

against the contract, including bus maintenance and repair costs, fuel invoices, and insurance certificates. During the course of this audit, the Chief Operations Officer shared AOS' cost comparison observations with the TSP. As a result, the TSP's internal audit function found that it incorrectly reported costs for parts and fuel, and submitted adjusted costs (see footnote accompanying discussion of **Table 5-3**). In addition, contrary to the ODE guidelines, Lorain CSD's T-2 report did not contain non-routine miles. Furthermore, the contract contains a provision for periodic performance reviews, but there is no documentation showing these reviews are taking place. Lastly, the contract does not include performance standards and measurable outcomes, or identify how contractor performance will be evaluated.

The current TSP contract contains a clause stating that the TSP will provide fuel at an assumed cost of \$1.85 per gallon. If the costs exceed \$2.10 per gallon, the District will reimburse the TSP for the excess costs. Based on data provided from the Oil Price Information Service, the American Automobile Association (AAA) reports that the price of regular gas was \$3.37 per gallon and diesel fuel was \$4.21 per gallon as of April 22, 2008, for the Cleveland-Lorain-Elyria area. A year ago, AAA reports regular gas at \$2.74 per gallon and diesel at \$2.89 per gallon for the same area. Therefore, the threshold of \$2.10 appears low and is likely causing the District to incur additional expenditures related to the TSP contract.

According to *Contracting for Services* (National State Auditors Association, NSAA 2003), once the decision to contract has been made, the agency should develop performance requirements that will hold contractors accountable for the delivery of quality services. Performance requirements should cover various areas, including the following: clearly state the services expected, clearly define performance standards and measurable outcomes, and identify how contractor performance will be evaluated. *Contracting for Services* further notes that monitoring is an essential part of the contracting process. Monitoring should ensure that contractors comply with contract terms, performance expectations are achieved, and any problems are identified and resolved.

By requesting support for costs and periodically reviewing them, the District would better ensure that the TSP charges for these expenses are reasonable and accurately reported. By including performance measures, outcomes and the evaluation process in the contract, the District would better ensure an objective assessment of TSP's performance. This, in turn, would increase the potential for efficient and effective transportation services. Instead of paying the TSP on a per bus basis, paying the TSP based on performance standards and outcomes, such as optimal bus utilization, would create an incentive to maximize overall efficiency (see **R5.1**). Finally, ensuring that the District allocates sufficient time for the RFP process could increase the number of proposals for services and subsequently increases the District's ability to select the "best" provider.

Financial Implication: The District's total expenditures per bus were 6.0 percent higher than the Type V average and 66.6 percent higher than the Type IV average in FY 2005-06 (see **Table 5-2**). If Lorain CSD was able to reduce contracted expenditures by five percent based on the suggestions outlined in this recommendation, it would save approximately \$116,000 annually. The savings are based on the total contracted expenditures reported in the District's financial reports rather than the T-forms, due to the previously mentioned errors in the T-forms.

R5.4 The District should include the Transportation Coordinator when developing student individual education plans (IEPs). This would better ensure that special needs transportation options and cost estimates are discussed before making decisions for special needs transportation.

The District does not include the Transportation Coordinator in IEP meetings. The District provides the names of the students that require transportation to the Transportation Department without prior consultation to determine the most effective means of transportation. OAC §3301-51-10 states that school district transportation personnel shall be consulted in the preparation of the IEP when transportation services are required as a related service, and when the child's needs are such that information to ensure the safe transportation and well-being of the child is necessary to provide such transportation.

In FY 2006-07, Lorain CSD transported 198 riders on 10 special needs buses for an average of 19.8 students per bus. In FY 2005-06, the District averaged 18.2 riders per special needs bus. While these averages are higher than the Type IV average in FY 2005-06 (15.5), they are lower than the Type V average (21.8). In addition, Lorain CSD's total special needs expenditures per special needs rider (\$4,818) were higher than Type IV (\$3,101) and Type V (\$3,352) averages in FY 2005-06. While the special needs expenditures per special needs rider declined to \$4,526 in FY 2006-07, not including the Transportation Coordinator in the IEP process increases the risk of the District not identifying the most cost-effective and appropriate transportation alternatives for special needs students.

Financial Implications Summary

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

Transportation Recommendations

| Recommendation | Estimated Cost Savings |
|--|-----------------------------------|
| R5.1 Eliminate at least 8 buses through the identified strategies | \$450,000 |
| R5.3 Improve the contract | \$116,000 |
| Total | \$566,000 |

Source: AOS Recommendations

Appendix 5-A: 1998 Performance Audit Recommendations and Implementation Status

Table 5-12 summarizes the 1998 Performance Audit recommendations and status of each recommendation as implemented, partially implemented, not implemented, or no longer applicable. Of the 8 recommendations contained in the 1998 Performance Audit, Lorain CSD fully implemented 1, partially implemented 2, and did not implement 5. The 2007 Performance Audit addresses the recommendations in the 1998 Performance Audit that were partially implemented or not implemented if the related issues fell within the scope of the 2007 Performance Audit.

Table: 5-12: 1998 Performance Audit Recommendation Status

| Recommendation | Implemented | Partially Implemented | Not Implemented | No Longer Applicable |
|---|--------------------|---|------------------------|-----------------------------|
| R5.1 The Lorain City School District should establish a formal procedure, with appropriate administrative approval, to determine if safety hazards are present and, therefore, allow the transportation of a student living less than two miles from their school. (F5.1) | X | | | |
| R5.2 Lorain CSD should review its transportation procedure of utilizing a shuttle system for its elementary students. The Transportation Coordinator should run the routing procedure on its Edulog system to determine the exact number of buses necessary for direct neighborhood to school transportation. (F5.3) | | X-R5.1, R5.2 | | |
| R5.3 If the District adopted a three-tiered bell schedule for their schools and equally spread the non-public students transportation load over the first two time periods, the District could potentially remove four to six buses from | | X- R5.1 (4 of 29 regular buses in FY 2005-06 completed 3 or more runs) | | |

| Recommendation | Implemented | Partially Implemented | Not Implemented | No Longer Applicable |
|--|--------------------|------------------------------|------------------------|-----------------------------|
| its current fleet. (F5.6) | | | | |
| R5.4 The District should develop and implement a review procedure to ensure all information reported to the State is accurate. All inaccurate forms should be corrected and resubmitted to ODE. (F5.8) | | | X- R5.3 | |
| R5.5 The District should prepare the T-1 form accurately and thereby provide the proper bus routing and capacity utilization operational ratios for comparisons by the ODE Transportation Dept. (F5.15 and F5.35) | X | | | |
| R5.6 If Lorain CSD rearranges the current routes to increase bus utilization and thereby increase the bus-to-student ratio to one bus for every 100 students transported, the District would be able to eliminate one to three buses from its current operations. The Edulog system can be used to create different scenarios.. (F5.34 and F5.35) | | | X-R5.1 | |
| R5.7 The Ohio Administrative Code 3301-51-10-C(c)(2) calls for transportation personnel to be involved in the IEP process for a student who requires special transportation services. The District would benefit by ensuring all students riding on special needs buses actually need the additional service. (F5.14 and F 5.15) | | | X-R5.4 | |
| R5.8 The next RFP for Student Transportation Services should be reviewed for content. | | | X-R5.3 | |

Source: 1998 Performance Audit

Food Service

Background

This section focuses on the food service operations in the Lorain City School District (Lorain CSD or the District). The purpose of this section is to analyze the financial condition of the District's food service operations, develop recommendations for improvements, and identify opportunities to increase efficiency. Lorain CSD's operations have been evaluated against best or recommended practices and operational standards from applicable sources, including the National Food Service Management Institute (NFSMI), the United States Department of Agriculture (USDA), the Government Finance Officers Association (GFOA), and peer districts.¹

Lorain CSD contracts with a food service management company (FSMC) to manage and operate its food service operations. FSMC's responsibilities include administrative oversight, menu creation, food and supply purchases, supervision of food service staff, and preparation and serving of meals. Meals are prepared for the entire District in two central kitchens located at the high schools.

The food service operation is staffed by 129 non-union FSMC personnel and 2.5 District staff who are members of one of the District's bargaining units. The District employees consist of 2.0 FTE food service truck drivers and 0.5 FTE computer technicians. The truck drivers deliver prepared food from central kitchens to District schools, and a computer technician maintains the food service point of sale (POS) system. In addition, the Chief Operations Officer and the Facilities Secretary interact with FSMC management.

The POS system is used to track food service data. The system enables the District to track the number of meals sold and generate data for claim reimbursements.

Financial Condition

Food service operations are organized within the District as an enterprise fund.² **Table 6-1** shows the Food Service Fund revenues and expenditures from FY 2004-05 through FY 2006-07.

¹ See **Table 6-2** for more information, and the **executive summary** for the peer districts and an explanation of the selection methodology

² An enterprise fund is operated in a manner similar to a private sector business by relying on charges for services to support the cost of operation.

Table 6-1: Lorain CSD's FY 2004-05 through FY 2006-07

| | FY 2004-2005 | FY 2005-06 | FY 2006-07 |
|---|--------------------|--------------------|--------------------|
| Operating Revenue | | | |
| Student Charges | \$895,767 | \$777,675 | \$690,980 |
| Non-Operating Revenue | | | |
| Miscellaneous | \$1,390 | \$1,358 | \$6,956 |
| Restricted Grants-in-Aid (State Sources) | \$169,442 | \$179,456 | \$172,837 |
| Unrestricted Grants-in-Aid (Federal Source) | \$3,598,625 | \$2,905,893 | 3,408,896 |
| Total Revenue | \$4,665,224 | \$3,864,382 | \$4,279,669 |
| Operating Expenditures | | | |
| Salaries | \$81,190 | \$79,442 | \$72,327 |
| Retirement and Insurance | \$24,851 | \$27,961 | \$25,589 |
| Purchased Services | \$4,472,628 | \$3,842,985 | \$4,196,528 |
| Supplies and Materials | \$4,479 | \$8,313 | \$8,704 |
| Capital Outlay | \$25,965 | \$20,734 | \$17,817 |
| Total Expenditures | \$4,609,113 | \$3,979,434 | \$4,320,966 |
| Revenues Over (Under) Expenses | \$56,111 | (\$115,052) | (41,297) |
| Transfers/Advances | \$0 | \$53,233 | (\$53,233) |
| Revenues Over (Under) Expenses (Including Transfers) | \$56,111 | (\$61,819) | (\$94,530) |
| Beginning Fund Balance | \$9,528 | \$65,639 | \$3,820 |
| Ending Fund Balance | \$65,639 | \$3,820 | (\$90,710) |

Source: Lorain CSD FY 2005-2007 4502 Statement E

Table 6-1 indicates the District's total revenue decreased by 17.2 percent in FY 2005-06 and increased by nearly 11 percent in FY 2006-07. This was primarily due to the District receiving reimbursements in FY 2006-07 that should have been received and reported in FY 2005-06. However, operating revenues from student charges declined by 13.2 percent in FY 2005-06 and 11.1 percent in FY 2006-07. This is due, in part, to student enrollment declining in both years (see **facilities** for more information). Total revenues from operating income averaged about 18 percent over the three years, while revenues from non-operating income, mainly comprised of grants in aid³, averaged about 81 percent. Total expenditures also fluctuated during the three year period. Purchased services made up approximately 97 percent of total expenditures due to food service operations being outsourced to an FSMC.

Table 6-1 also shows that the expenditures exceeded revenues in FY 2005-06 and FY 2006-07, with and without the advances. As a result, the Food Service Fund ended FY 2006-07 with a negative ending fund balance. The ensuing recommendations in this performance audit can help

³ Grants in aid revenue is primarily made up of reimbursements from the National School Breakfast and National School Lunch programs

the District improve the financial condition in the Food Service Fund and avoid potential deficits in the future.

Operating Statistics

Table 6-2 compares revenues and expenditures per student and per meal at Lorain CSD to the Type IV and V peer averages⁴.

Table 6-2: Revenue and Expenditure Comparison

| | Lorain CSD FY 2005-06 | Lorain CSD FY 2006-07 | Type IV Peer Average FY 2005-06 | Type V Peer Average FY 2005-06 |
|---|--------------------------|--------------------------|---------------------------------------|--------------------------------------|
| Total Meal Equivalent Served | 1,784,443 | 1,735,048 | 347,072 | 1,930,593 |
| Total District Students | 9,719 | 9,346 | 2,969 | 12,181 |
| Revenues per Student | | | | |
| Total Operating Revenue | \$80.02 | \$73.93 | \$167.76 | \$83.11 |
| Total Non-Operating Revenue | \$317.60 | \$383.98 | \$117.19 | \$267.91 |
| Total Revenue | \$397.62 | \$457.91 | \$284.95 | \$351.02 |
| Expenditures per Student | | | | |
| Salaries | \$8.17 | \$7.74 | \$101.88 | \$119.11 |
| Fringe Benefits | \$2.88 | \$2.74 | \$48.64 | \$56.38 |
| Purchased Services | \$395.41 | \$449.02 | \$7.52 | \$16.26 |
| Supplies and Materials | \$0.86 | \$0.93 | \$110.64 | \$162.16 |
| Capital Outlay | \$2.13 | \$1.91 | \$8.06 | \$2.43 |
| Other | \$0.00 | \$0.00 | \$4.40 | \$4.61 |
| Total Expenditures per Student | \$409.45 | \$462.33 | \$281.14 | \$360.95 |
| Total Gain or (Loss) per Student | (\$11.84) | (\$4.42) | \$3.81 | (\$9.93) |
| Revenues per Meal Equivalent | | | | |
| Total Operating Revenue | \$0.44 | \$0.40 | \$1.40 | \$0.52 |
| Total Non-Operating Revenue | \$1.73 | \$2.07 | \$0.95 | \$1.70 |
| Total Revenue per Meal | \$2.17 | \$2.47 | \$2.35 | \$2.22 |
| Expenditures per Meal Equivalent | | | | |
| Salaries | \$0.04 | \$0.04 | \$0.84 | \$0.75 |
| Fringe Benefits | \$0.02 | \$0.01 | \$0.41 | \$0.36 |
| Purchased Services | \$2.15 | \$2.42 | \$0.05 | \$0.10 |
| Supplies and Materials | \$0.00 | \$0.01 | \$0.91 | \$1.03 |
| Capital Outlay | \$0.01 | \$0.01 | \$0.06 | \$0.02 |
| Other | \$0.00 | \$0.00 | \$0.03 | \$0.03 |
| Total Expenditures per Meal | \$2.23 | \$2.49 | \$2.30 | \$2.29 |
| Total Gain or (Loss) per Meal | (\$0.06) | (\$0.02) | \$0.05 | (\$0.07) |

Source: MR Reports, ODE

⁴ Peer districts classified as Type IV by ODE are urban districts with low median incomes and high poverty rates. Type V districts are major urban districts with very high poverty (see **executive summary** for additional explanation). Lorain CSD is classified as a Type V district.

According to **Table 6-2**, the District's total revenues per student and total operating expenditures per student in both years were higher than both peer averages. However, the District's revenues per meal and expenditures per meal were lower than both peer averages in FY 2005-06. As previously mentioned, the increase in revenues for FY 2006-07 was due to receiving revenues attributable to FY 2005-06. Regardless of this timing issue, the District would increase revenues by updating its baseline for the Provision 2 breakfast program (see **R6.2**). While the District's total expenditures per meal were lower than both averages in FY 2005-06, its expenses per meal increased by 11.7 percent in FY 2006-07. This was primarily due to purchased services. As a result, the District's ratio of expenditures per meal in FY 2006-07 is 8.5 percent higher than the combined peer average in FY 2005-06. Unless the peers experienced significant increases in FY 2006-07, the District's expense per meal ratio would likely be higher than the peer averages in FY 2006-07. See **R6.1** for strategies to reduce contracted costs. Furthermore, the District does not charge back all applicable expenses to the food service fund (see **R6.3**). Lastly, unlike Lorain CSD and the Type V average, the Type IV districts', on average, operating revenues cover the operating expenses.

Assessments Not Yielding Recommendations

In addition to the analyses presented in this section, assessments were conducted on aspects of food service operations that did not warrant a change and did not yield a recommendation. These areas include the following:

- **Claims Reimbursement Submission Processing:** A review of the District's reimbursement claims submissions for FY 2006-07 through ODE's Claims Reimbursement and Reporting System (CRRS) showed the District complied with the Federal guideline of filing claims within 60 days of the close of a reporting month. The submission guidelines for FY 2007-08 have been reduced to 45 days. A review of submissions from September to November 2007 showed the District complied with the new guideline. Timely claims filing leads to timely reimbursements and improved cash flow.
- **Customer Feedback:** Lorain CSD's FSMC has developed methods of soliciting input from students and other relevant stakeholders. FSMC uses surveys as one method to obtain input. These surveys are used to make improvements that meet customer's needs. In addition, according to the Chief Operations Officer, the FSMC organizes and holds meetings with school principals to discuss potential improvements to food service operations, and parents verbally express satisfaction and concerns with food service operations to the District.
- **Food Service Information System (Point of Sale):** The District, working through its FSMC, has a point of sale system in place to track food service data that can be used to monitor FSMC performance and make management decisions regarding food service

operations (see **R6.1** for tracking performance data). The point of sale system facilitates an easy payment process for customers and provides data for financial reporting, inventory control, participation rates and marketing programs.

- **Participation Rates and Free/Reduced Meals:** The District's total lunch participation rate was 83.7 percent in FY 2005-06 and FY 2006-07, higher than both peer averages in FY 2005-06. In addition, the District effectively tracks the data necessary to report free and reduced meal participation. Approximately 87 percent of Lorain CSD's students received free or reduced meals in FY 2005-06 and FY 2006-07, which is higher than both peer averages in FY 2005-06.
- **Direct Certification:** Lorain CSD uses ODE's direct certification process to identify qualified students for the free and reduced lunch programs. This reduces the manual, time consuming mailing process of identifying all eligible students. The District still needs to complete mailings to students not on the direct certification list in order to maximize the student participation rate.
- **ODE Coordinated Review Effort (CRE)/Wellness Policy:** The District participated in an ODE CRE in 2006, which resulted in no recommendations to improve food service operations. ODE currently schedules these reviews every five years with the District's next review due in 2011. In addition, Lorain CSD has a wellness policy in place that includes guidelines for physical activity and nutrition. A committee of stakeholders has been established to periodically measure the success of the wellness policy.

Items for Further Study

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

- **Meal Prices:** According to the School Nutrition Association, the national average price for lunches in the 2006-07 school year was \$1.66 for elementary schools, \$1.85 for middle schools, and \$1.90 for high schools. The District's lunch prices in FY 2006-07 were lower than the national averages (\$1.65 for elementary, and \$1.75 for middle and high schools). However, the District's lunch prices for FY 2007-08 are higher than the peer average of Euclid CSD, Canton CSD and Warren CSD by a combined average of 15.4 percent (student and adult prices). These higher percentages ranged from 8.6 percent for elementary school students to 14.3 percent for high school students. In FY 2007-08, the District increased meal prices by \$0.25 per meal at all levels. According to the Chief Operations Officer, these price increases were deemed necessary to offset the increased costs of running a food service program, including rising food transportation costs and

inflation, and keeping meals within USDA regulations. Similarly, the School Nutrition Association notes that many school districts nationwide are voting for increases in school lunch prices for the 2007-08 school year, due to numerous reasons like rising gas prices and labor costs. However, as higher meal prices can negatively impact participation, the District should monitor changes in student participation along with relevant factors like revisions to the FSMC meal cost and changes to the Provision 2 program (see **R6.1** and **R6.2**). Doing so would help the District determine whether to maintain or adjust current meal prices.

Performance Audit Follow-Up

In 1998, the Auditor of State (AOS) completed a performance audit of the Lorain CSD. A separate review of food service operations was not conducted in 1998, but the technology section contained 2 food service recommendations that were both implemented in some form. **Appendix 6A** summarizes the implementation status of the technology recommendations in the 1998 performance audit of Lorain CSD.

Recommendations

R6.1 As the District is currently contracting for food services, Lorain CSD should implement the following measures to improve current operations:

- Lower the FSMC cost per meal;
- Maximize commodity reimbursements;
- Eliminate the use of an enrollment figure to trigger the reimbursements from the FSMC for not achieving a surplus, or at least set it at a more appropriate level;
- Eliminate capital costs from the contract and instead include capital improvements as a part of the District's internal capital planning efforts;
- Review the other non-service related costs in the contract for appropriateness and determine whether they can be addressed outside of the contract with the FSMC; and
- Develop and use performance measures and standards to objectively evaluate FSMC performance, which should help lower the price per meal (e.g., meals per labor hour).

As a general practice, the District should periodically solicit multiple proposals for food service operations to ensure it receives quality services at the "best" price. In conjunction with identifying improvements with the current FSMC and soliciting competitive proposals, the District should determine the costs of providing an in-house food service program to ensure contracted services are more cost-effective.

For FY 2006-07, the District followed the RFP process, prescribed by ODE, and received two FSMC responses. According to the Chief Operations Officer, this was partially due to the District not issuing the RFP in a timely manner. The District chose to renew the five-year agreement with the current FSMC for FY 2007-08. In addition, the Chief Operations Officer indicated food service operations were done in-house before they were contracted out in the early 1990's. However, the District has never conducted a cost benefit analysis to determine if food service operations would operate more effectively and efficiently as an in-house operation. Moreover, the District's total expenses per meal increased by 11.7 percent from FY 2005-06 to FY 2006-07 (see **Table 6-2**).

To assess the District's potential of operating a self-sufficient food service program, **Table 6-3** displays the federal reimbursements for free, reduced and paid meals, and LCSD's contracted cost per meal

Table 6-3: Lorain CSD Meal Cost Compared to Federal Reimbursements

| Program/Year | Free Meal | Reduced Meal | Paid Meal | Contracted Cost |
|----------------------|-----------|--------------|-----------|-----------------|
| Lunch Program | | | | |
| FY 2006-07 | \$2.42 | \$2.02 | \$0.25 | \$2.4275 |
| FY 2007-08 | \$2.49 | \$2.09 | \$0.25 | \$2.541 |
| | | | | |
| Breakfast | | | | |
| FY 2006-07 | \$1.56 | \$1.26 | \$0.24 | \$1.30 |
| FY 2007-08 | \$1.61 | \$1.31 | \$0.24 | \$1.45 |

Source: Federal Register and Lorain CSD FSMC contract

Table 6-3 shows the District's cost is slightly higher than the free meal reimbursement for lunch, although lower than the free breakfast reimbursement rate. Consequently, Lorain CSD is already operating its free lunch program at a loss. However, to determine a break even point of the entire program, the District would need to determine the revenue associated with each category of reimbursement and student paid contributions that would offset total expenditures. The Chief Operations Officer stated that the District has started to talk with the FSMC with the goal of breaking even for the entire program, not just breakfast or lunch. Lorain CSD's FSMC also operates Kent City School District's food service program, but at a per meal rate lower than the federal reimbursable rate. Specifically, in FY 2007-08, Kent City School District pays the FSMC \$2.2062 per reimbursable lunch meal, \$1.30 per reimbursable breakfast meal, and \$2.2062 per meal equivalent served. While the District's contracted breakfast rate is 16 cents lower than the free meal reimbursement rate in FY 2007-08, Kent City School District's breakfast rate is 31 cents lower than the free meal rate in FY 2007-08.

Another revenue source is federal commodity reimbursements. ODE, in partnership with the United States Department of Agriculture (USDA), is responsible for the distribution of USDA commodity foods. The USDA purchases agriculture commodities based on price supports from the agriculture industry making them available to a variety of nutrition programs. The calculation for commodity reimbursement is a formula based on the number of reimbursable student lunches served in the previous school year. In FY 2006-07, the District received \$285,315 in commodity reimbursements. The Chief Operations Officer indicated that he is attempting to estimate the reimbursement for federal commodities with the FSMC to ensure receipt of the maximum reimbursement.

The current contract with the FSMC contains several provisions that affect the contracted costs and self-sufficiency in the Food Service Fund. For example, while the contract indicates that the FSMC projects a surplus of \$85,000 and the FSMC will reimburse the District for the difference if the projected surplus is not achieved, it also includes various stipulations that impact the potential reimbursement. In particular, the FSMC contract indicates that the average daily student enrollment needs to be at least 9,436 in FY 2006-

07. By comparison, ODE reports the District's actual enrollment (headcount) at 9,346 for FY 2006-07, which is lower by 90 students than the required minimum enrollment in the FSMC contract. Furthermore, as enrollment impacts both revenues and costs, it may not be necessary to stipulate a minimum threshold in the contract. The FSMC also includes the following that may be adding to the cost per meal: a contribution to a scholarship fund; funds for cafeteria area lounges; and a financial commitment for capital kitchen improvements amortized over five years. The Chief Operations Officer noted that FSMC meal costs are higher as a result of these up front commitments and that the FSMC was trying to eliminate the financial commitment in FY 2007-08.

Lastly, the FSMC contract lacks measurable performance standards to objectively assess performance, with the exception of the aforementioned projected surplus which is negatively impacted by the minimum enrollment stipulation. Likewise, Lorain CSD does not use performance or cost-efficiency measures to track and evaluate its food service program. When evaluating overall efficiency based on data submitted to ODE, the District's FSMC served an average of 14.7 meals per labor hour (MPLH) in FY 2005-06, which dropped to 13.3 MPLH in FY 2006-07. In contrast, the Type IV and V peers averaged 16.3⁵ and 23.2 MPLH in FY 2005-06, respectively. The FSMC's lower MPLH can contribute to the higher contracted cost per meal, while the drop in MPLH from FY 2005-06 to FY 2006-07 can partially explain the increase in costs per meal of 11.7 percent in FY 2006-07. The Chief Operations Officer noted that there has not been enough time to evaluate the FSMC's progress this year as other issues in the District have taken greater precedence. The FSMC does collect operating information through the point of sale (POS) software system. However, this information is not aggregated into performance reports nor is it considered when making operational decisions.

According to *Contracting for Services* (National Association of State Auditors, Comptrollers and Treasurers (NASACT), 2003), organizations first need to determine whether or not to contract for a service. To make this decision, the agency should:

- Analyze its business needs, goals, objectives, and services, and determine whether or not the service is necessary;
- Conduct a cost/benefit analysis and evaluate options, such as whether contracting is more or less expensive than using agency staff; and
- Determine whether state law either prohibits contracting for services or requires the agency to demonstrate its need to contract.

Contracting for Services also notes that proper planning provides the foundation for contract awarding and monitoring. Planning also helps ensure proper information is collected to effectively structure a request for proposal (RFP). Timely planning is crucial

⁵ Excludes Boardman Local School District because its MPLH significantly skews the Type IV average (68.6).

in all procurements, but especially in procurements like RFPs that can take a lot of time to execute. The RFP process provides a standardized framework for proposals and highlights the business, technical, and legal issues that must be included in the final contract.

Contracting for Services also indicates that once the decision to contract has been made, the agency should develop performance requirements that will hold contractors accountable for the delivery of quality services. Performance requirements should clearly state the services expected, clearly define performance standards and measurable outcomes, identify how contractor performance will be evaluated, include positive or negative performance incentives, identify the staff that will be responsible for monitoring contractor performance, and ensure that sufficient staff resources are available to handle contract management properly.

Contracting for Services further notes that monitoring is an essential part of the contracting process. Monitoring should ensure that contractors comply with contract terms, performance expectations are achieved, and any problems are identified and resolved. To properly monitor a contract, the agency should:

- Assign a contract manager with the authority, resources, and time to monitor the project;
- Ensure that the contract manager possesses adequate skills and has the necessary training to properly manage the contract;
- Track budgets and compare invoices and charges to contract terms and conditions;
- Ensure that deliverables are received on time and document the acceptance or rejection of deliverables;
- Withhold payments to contractors until deliverables are received;
- Retain documentation supporting charges against the contract;
- After contract completion, evaluate the contractor's performance against a set of pre-established, standard criteria and retains this record of contract performance for future use.

Because a break even analysis has not yet been completed, the District has contracted for a cost per meal that is high, thus contributing to the deteriorating financial condition of the food service fund (see **Table 6-1**). The absence of a performance-based contract that includes measurable standards hinders Lorain CSD from ensuring that the FSMC performs at optimal levels, which also impacts contracted costs and the financial standing of the food service fund.

If the District implemented the above strategies, it could eliminate future operating deficits in the Food Service Fund, which amounted to approximately \$115,000 in FY

2005-06 and \$41,300 in FY 2006-07. However, depending upon the additional costs that may be charged to the Food Service Fund (see **R6.3**) and the actual costs charged in prior years, the true operating loss for food service may be greater.

- R6.2 The District should re-establish its Provision 2 Breakfast program baseline, and review and update it periodically. This will increase revenues and reflect the District's current demographics. In addition, before the District pursues Provision 2 for its lunch program, it should adjust FSMC meal rates (see R6.1) and complete an analysis that considers all related costs and benefits. This analysis should determine whether the District would increase lunch participation and related reimbursements under Provision 2. Taking such measures would ensure that operating Provision 2 for the lunch program would be cost effective for the District. Absent sufficient increases in lunch participation and reductions in meal costs (see R6.1), and in light of Lorain CSD's financial condition, the District should not implement Provision 2 for the lunch program in the short term. Finally, the District should regularly evaluate the impact of Provision 2 on its educational and financial outcomes. This would be particularly important if the District decides to implement Provision 2 for lunch in the future.**

Lorain CSD participates in the National School Breakfast (NSBP) and Lunch (NSLP) Programs⁶ and participates in Provision 2 NSBP. However, the District does not conduct a cost benefit analysis of Provision 2. The Chief Operations Officer indicated that a cost benefit analysis will be conducted after gathering sufficient data. Additionally, Lorain CSD has not updated its NSBP Provision 2 base line year since it started complying with Provision 2 guidelines in 2002, resulting in a loss of revenue. The District currently does not participate in the NSLP Provision 2 program for school lunches.

NSBP and NSLP are federally administered meal programs providing low-cost or free lunches and breakfasts to school children. The United States Department of Agriculture's (USDA) Food and Nutrition Service administers the program at the national level, while ODE's Office of Safety, Health, and Nutrition administers the program at the state level. The program operates through agreements with school food authorities (SFA). Lorain CSD is a school food authority. Any child at a participating school whose family meets certain income requirements is eligible for free or reduced-price meals.

NSLP and NSBP require participating school food authorities to submit forms and reports to demonstrate compliance with program requirements. This is done through ODE's Claims Reimbursement and Reporting System (CRRS). Schools that participate in Provision 2 provide free meals to all students. The benefits to schools participating in Provision 2 include reduced paperwork because information only needs to be collected

⁶ Each program is codified under a separate Code of Federal Regulations (CFR) reference but both CFRs reference each other.

once every four years. This, in turn, reduces the administrative costs related to collecting and tracking meal data. In order to determine federal reimbursements for the free meals, a baseline year is established by identifying all meals served during a 12 month period and defining them as free, reduced or paid meals. A percentage for each of the preceding categories is determined based on student participation and applied to all succeeding years, unless a subsequent baseline year is established. Theoretically, the Provision 2 administrative savings helps offset the cost difference of serving meals at no charge compared to the federal reimbursement paid in the established baseline rate. SFAs must make up the difference between costs and reimbursements. The guidelines state that for at least 3 years following a base year, SFAs are not required to collect meal applications, but are still required to count meals served. At the end of each 4 year cycle, a school may continue under Provision 2 for another four years as long as the income level of the school's population has not improved more than five percent.

Due partially to declining economic conditions, the District has experienced significant increases in free meal participants. **Table 6-4** compares free meal participants per school in FY 2001-02 to FY 2006-07.

Table 6-4: Free Meal Participant Comparison

| Description | Free Meals Provided to Less than 50% of Participants | Free Meals Provided to 50-70% of Participants | Free Meals Provided to More than 70% of Participants | Total Schools |
|----------------------------|--|---|--|---------------|
| Number of schools May 2002 | 6 | 8 | 3 | 17 |
| Percent of Total 2002 | 35.3% | 47.1% | 17.6% | 100.0% |
| Number of schools May 2007 | 1 | 5 | 11 | 17 |
| Percent of Total 2007 | 5.9% | 29.4% | 64.7% | 100.0% |
| Change from 2002 to 2007 | (5) | (3) | 8 | 0.0% |
| Percent Change 2002-2007 | (83.3%) | (37.5%) | 266.7% | 0.0% |

Source: Lorain CSD Meal Enrollment Summary Data Reports

Table 6-4 indicates Lorain CSD's percentage of free meal participants increased dramatically from FY 2001-02 to FY 2006-07, with eleven schools now providing free meals to more than 70 percent of participants. The large increase in free meal participation affects the cost effectiveness of the District's Provision 2 breakfast program because Lorain CSD has not updated the 2002 baseline for reimbursement calculations.

Table 6-5 compares baseline percentage revenue in FY 2001-02 to FY 2006-07.

Table 6-5: Lorain CSD Breakfast Profit/Loss Analysis

| Provision 2 Year | Free Meals | Reduced Meals | Paid Meals | Total | Cost per Day | Gain (Loss) per Day | Gain (Loss) Per Year ¹ |
|--|----------------|----------------|----------------|----------------|--------------|---------------------|-----------------------------------|
| FY 2001-02 Baseline Percentage | 55.3% | 10.8% | 33.9% | 100.0% | | | |
| May 2007 Enrollment Eligibility | 72.3% | 7.9% | 19.8% | 100.0% | | | |
| FY 2001-02 Reimbursed Student Participation | 2,890 | 564 | 1,771 | 5,225 | | | |
| May 2007 Reported Enrollment Eligibility | 3,780 | 410 | 1,035 | 5,225 | | | |
| May 2007 Reimbursement Rates | \$1.56 | \$1.26 | \$0.24 | N/A | 1.30 | N/A | N/A |
| Reimbursement based on FY 2001-02 Baseline | \$4,508 | \$711 | \$425 | \$5,644 | \$6,793 | (\$1,149) | (\$193,029) |
| Reimbursement based on May 2007 Enrollment Eligibility | \$5,897 | \$517 | \$284 | \$6,662 | \$6,793 | (\$131) | (\$21,984) |
| Difference 2007 versus 2002 Baselines | \$1,389 | (\$194) | (\$177) | \$1,018 | \$0 | \$1,018 | \$171,045 |

Source: Lorain CSD and ODE

Note: Calculations for reimbursable meals is based on the number of breakfast served in FY 2006-07.

Table 6-5 indicates the District could have received approximately \$171,000 in additional revenue by adjusting the baseline to May 2007 data. When considering the costs to provide breakfasts, the District is operating at a loss of approximately \$193,000 under the FY 2001-02 baseline. Although the operating loss would not be entirely eliminated, it drops significantly when using the May 2007 data as the baseline. Furthermore, negotiating a lower price per breakfast would help eliminate the operating loss (see **R6.1**). For example, revenues would cover costs in the Provision 2 breakfast program with a price per breakfast that is \$0.025 cents lower than the current price, after updating the baseline to May 2007.

According to the Food Resource and Action Center (FRAC)⁷, the NSBP and NSLP programs provide many benefits for students including better nutrition, greater learning retention, and increased speed of learning. Additionally, schools with high percentages of free and reduced price school meals are the most likely to succeed with Provision 2. Some schools using Provision 2 have determined they can operate without losing money in schools with as few as 60 to 70 percent of student's eligible for free or reduced meals.

⁷ The Food Research and Action Center (FRAC) is the leading national nonprofit organization working to improve public policies and public-private partnerships to eradicate hunger and under-nutrition in the United States. FRAC works with hundreds of national, state and local nonprofit organizations, public agencies, and corporations to address hunger and its root cause, poverty.

Lorain CSD does not currently use Provision 2 for its lunch program, but is considering filing for approval so lunches can be provided for every student. ODE recommends that a district should not only consider the financial revenues, but also the costs associated with undertaking Provision 2 before proceeding with the program.

Table 6-6 shows the financial impact for the lunch program per day, with and without Provision 2.

Table 6-6: Lorain CSD May 2007 per Day Provision 2 Lunch Analysis

| | Free ¹ Meals | Reduced ¹ Meals | Paid ¹ Meals | Total Meals | Cost/Day ² | Gain (Loss)/ Day |
|--|----------------------------|-------------------------------|----------------------------|-------------|-----------------------|------------------------|
| 2007 Estimation w/ Provision 2 | \$10,829 | \$981 | \$306 | \$12,116 | \$15,016 | (\$2,900) |
| 2007 Free Lunch w/out Provision 2 | \$10,829 | \$1,175 | \$2,410 | \$14,414 | \$15,016 | (\$602) |
| Net Impact | \$0 | (\$194) | (\$2,104) | (\$2,298) | \$0 | (\$2,298) |

Source: Lorain CSD May 2007 Enrollment Summary Report

Note: Meals served was calculated from the District MR60 (Lunch) report. **Table 6-6** also includes the average student contributions of \$1.72 for paid lunch and \$0.40 for reduced lunch.

¹ Lunch reimbursement for FY 2006-07 equals \$2.42 Free; \$2.02 Reduced; \$0.25 Paid Meal

² Contracted cost per meal in FY 2006-07 is \$2.43

Table 6-6 shows that the District would incur an operating loss of \$2,900 per day by implementing Provision 2 for lunch, which amounts to approximately \$487,000 per year. Consequently, the District would increase its operating loss by \$2,298 per day, which amounts to approximately \$386,000 annually. The reduction in administrative costs would not be enough to offset this revenue loss. More specifically, the District employs a secretary who dedicates 50 percent of time to processing food service paperwork. In addition, the current contract cost per meal exceeds the reimbursement per meal (see **R6.1**). For the revenues to offset the costs under Provision 2, the FSMC cost would have to be 46 cents lower than the free meal reimbursement rate in FY 2006-07. By comparison, Kent City School Districts lunch rate with the same FSMC is approximately 28 cents lower than the free meal reimbursement rate in FY 2007-08. Further, because Lorain CSD's current cost per meal is higher than the reimbursement rates (see **Table 6-3**), the District will continue to incur operating losses even if Provision 2 generated additional revenues via increased participation by offering free meals to all students.

By not updating the baseline for the breakfast program, the District is not collecting available revenues. Coupled with the current meal cost with its FSMC, this increases the likelihood of future deficits in the Food Service Fund and subsequent support from the General Fund. In addition, by not completing a cost benefit analysis before implementing Provision 2 for lunch along with maintaining the current meal costs, the District will

further increase the potential for deficits in the Food Service Fund and need for General Fund support.

Financial Implication: By updating the baseline for Provision 2 breakfast, **Table 6-5** shows that the District could increase revenues by approximately \$171,000.

R6.3 Lorain CSD should develop a five-year forecast for the Food Service Fund and incorporate this into a District-wide strategic plan (the financial systems section). This would better enable the District to proactively identify measures to ensure the self-sufficiency of the Food Service Fund. Furthermore, the Chief Operations Officer and Treasurer should ensure that all food service-related expenses, such as utilities, trash removal, and staff time, are charged to the Food Service Fund. Doing so would capture the true costs in the Food Service Fund and, in turn, allow for improved decision-making.

Lorain CSD's Chief Operations Officer indicates that the District does not prepare a forecast of revenues and expenses for the Food Service Fund. In addition, food service expenditures for utilities and trash removal are charged to the General Fund instead of the Food Service Fund. However, the Chief Operations Officer indicated that in the past, the District charged all trash removal to the Food Service Fund to improve the financial status of the General Fund. Furthermore, the technician's time dedicated to support the POS is not charged to the Food Service Fund. The Chief Operations Officer also noted that in the past, teachers would monitor lunch room activity. However, due to teacher reductions, the building principals now monitor lunchroom activity.

According to *School Foodservice Management for the 21st Century* (Pannell-Martin, 1999) forecasting revenue and expenditures over a five year period is recommended for long-range planning. This can give an organization's administration sufficient notice of emerging issues so that corrective action can be taken. With increases in labor costs and the rising costs of fringe benefits, lunch price increases and cost saving measures need to be evaluated annually. Furthermore, some of the factors to be considered in making revenue and expenditure projections:

- Historical data;
- Goals and plans;
- Economic indicators;
- Demographic changes;
- Projected enrollment;
- Effects of menu changes;
- Changes in operating procedures;
- Changes in food and labor costs;

- Meal price changes; and
- Operational changes.

The Government Finance Officers Association (GFOA) suggests that governments should calculate the full costs of their services, which includes direct and indirect costs. In addition, Ohio Revised Code (ORC) 3313.81 states that all receipts and disbursements in connection with the operation of food service for school food service purposes and the maintenance, improvement, and purchase of equipment for school food service purposed shall be paid directly into and disbursed from the food service fund, which shall be kept in a legally designed depository of the board.

One method of allocating costs to the Food Service Fund could be determined by calculating the percentage of square footage used by the food service operation and then applying that percentage to a cost category. However, because Lorain CSD could not provide the square footage by building for food services operations, a financial implication could not be determined. Assuming all building principals are charged to the General Fund, the chargeback to the Food Service Fund would depend upon the amount of time spent monitoring the cafeterias. Similarly, the time spent by the technician on food service operations could be used as the basis of charging back the appropriate costs to the Food Service Fund.

The lack of forecasting food service revenues and expenditures restricts the District's ability to identify and address current and potential problems before they materialize. This can hinder the District's ability to improve the financial standing in the Food Service Fund. By failing to allocate all appropriate costs to the Food Service Fund, the District is not presenting the true cost of its food service program and relying on the General Fund to support food services. This, in turn, diverts General Fund resources from other areas, such as direct instruction. This also prevents the District from negotiating the appropriate changes to the FSMC's prices per meal (see **R6.1**).

Financial Implication Summary

The following table presents a summary of the estimated revenue enhancements identified in the performance audit. For purposes of this table, only recommendations with quantifiable impacts are listed.

Summary of Financial Implications – Food Service

| Recommendation | Estimated Annual Revenues |
|---|---------------------------|
| R6.2 Update Baseline for Provision 2 Breakfast | \$171,000 |
| Total | \$171,000 |

Appendix 6-A: 1998 Performance Audit Recommendations and Implementation Status

Table 6-A summarizes the 1998 Performance Audit recommendations pertaining to technology, and status of that recommendation: implemented, partially implemented, not implemented, or no longer applicable. Of the 18 recommendations issued in the 1998 Performance Audit, Lorain CSD fully implemented 12, partially implemented 1, and did not implement 5. Two recommendations pertained to food services. The 2007 Performance Audit addresses the recommendations in the 1998 Performance Audit that were partially implemented or not implemented, if the related issues fell within the scope of the 2007 Performance Audit.

Table 6-A: 1998 Performance Audit Recommendation Status

| Recommendation | Implemented | Partially Implemented | Not Implemented | No Longer Applicable |
|--|--------------------|------------------------------|------------------------|-----------------------------|
| R6.1 The LCS D should develop a comprehensive long-term strategic technology plan that incorporates business operations, student information and instructional systems. | X | | | |
| R6.2 The District should continue to be proactive in acquiring additional funding to implement technology. | X | | | |
| R6.3 The District should continue to utilize a Technology Planning Committee. | | | X | |
| R6.4 The District should centralize the procurement and subsequent management of computer hardware and software within the Technology Program Coordinator's office. | | | X | |
| R6.5 The District should establish a specific and formal Technology Department Mission Statement. | X | | | |
| R6.6 The District should record and track technology related expenditures at the 2960 function code to determine exact cost. | | | X | |
| R6.7 The LCS D should establish a full-time Education Management Information System (EMIS) Coordinator position within the Technology Department. | | X | | |

| Recommendation | Implemented | Partially Implemented | Not Implemented | No Longer Applicable |
|--|---------------------------------|------------------------------|---|-----------------------------|
| R6.8 The Technology Program Coordinator's responsibilities should include involvement with technology affecting business operations and student information systems in addition to instructional systems, and should report to the Superintendent. | X | | | |
| R6.9 Job evaluations should be performed for Technology Dept staff at least annually. | X | | | |
| R6.10 The District should provide the Technology Department with adequate office space. (F6.1) | X | | | |
| R6.11 The District should continue to standardize hardware equipment within the District. | X | | | |
| R6.12 The District should have an electrical capacity study performed on buildings that will be part of the District's network. | X | | | |
| R6.13 The District should provide ARAMARK with access to the network. Network access would reduce the amount of paperwork and duplicated functions that contribute to a higher cost of providing food services. | X | | | |
| R6.14 Given the fact that the Year 2000 is only two years away, the District should begin to prepare a plan outlining necessary action steps. | X | | | |
| R6.15 The District should use the Equipment Inventory System (EIS) software application provided by the LEECA. | | | X | |
| R6.16 The District should investigate providing the Lunch Cruncher food service software that is available at the LEECA to the Food Service Coordinator. This software can be used to automate the process of determining whether a student is eligible for free and reduced breakfast and/or lunch benefits. | X (Use a different software) | | | |
| R6.17 The District should implement a human resources software application | | | X- See R3.9 in human resources | |

| Recommendation | Implemented | Partially Implemented | Not Implemented | No Longer Applicable |
|--|--------------------|------------------------------|------------------------|-----------------------------|
| R6.18 The District should survey employees to identify gaps in training, and then revise its training accordingly. The District should also create a database to track training information, and obtain feedback from participants. | X | | | |

District Response

The letter that follows is the District's official response to the performance audit. Throughout the audit process, staff met with District officials to ensure substantial agreement on the factual information presented in the report. When District officials disagreed with information contained in the report and provided supporting documentation, the audit report was revised. In addition, some comments in the District's official response merit additional explanation and clarification, as follows:

- **(Page 1):** The selection of the peer (comparable) school districts used for benchmarking purposes in the performance audit was based, in part, on discussions with Lorain CSD.
- **R3.3:** Due to several factors, the staffing data used in the performance audit is of undetermined reliability (see **R3.1**). Therefore, **R3.3** indicates that prior to implementing the clerical and other staffing reductions, the District should review its staffing data and take measures to ensure data reliability. In addition, AOS included the following clerical classifications and corresponding code numbers from the Education Management Information System in the clerical staffing assessment: bookkeeper (501), clerical (502), messenger (503), records managing (504), telephone operator (506), and other office/clerical (599). This was done to minimize the impact of potential coding differences from district-to-district in reporting positions dedicated to clerical support.
- **R4.2:** The differences in the staffing conclusions when compared to the 1998 performance audit are due to the manner in which the District's facility staff was grouped in the 1998 performance audit and the use of benchmarks in the current performance audit that were unavailable in the 1998 performance audit. For instance, based on information provided by Lorain CSD, the District employs 30 maintenance FTEs. By comparison, the 1998 performance audit reported 17 maintenance craftsmen positions. This contributes to the current performance audit recommendation to reduce 15 FTEs in the maintenance function. Lastly, the District's reporting of 23 safety officers in the facility expenditures for FY 2006-07 has already been disclosed in the report and did not affect the conclusions reached in the performance audit.
- **R4.3:** The intent of this recommendation is for Lorain CSD to develop a formal manual that contains standard operating procedures for facility staff. As the development of such a manual is assumed to be a District management function, there is no financial implication related to this recommendation.
- **R5.4:** During the performance audit, the Transportation Coordinator indicated that the District does not include her in IEP meetings.



**Lorain City
Schools**

We can. We will.

Office of the Superintendent
Charleston Administration Center

June 26, 2008

Mary Taylor, CPA
Auditor of State of Ohio
Lausche Building, 12th Floor
615 Superior Ave.
Cleveland, OH 44113

Dear Ms. Taylor:

On behalf of the Board of Education, the community and staff of Lorain City Schools, we want to thank you and your staff for the time and effort spent in delivering a comprehensive audit report. We commend your staff for their professionalism and positive feedback in the completion of the audit and certainly appreciate the opportunity to share our perspective and district concerns as they relate to the areas the audit addressed.

After reviewing the recommendations, we are excited to report that prior to the audit conclusion, we had already identified areas for improvement and therefore have plans in place to correct many of them. We will address your suggestions, particularly those pertaining to strategies to improve processes and service delivery. Recommendations that would require additional funding or loss of services will be reviewed further.

It is the mission of our district to provide all children with a premier learning experience where a high quality education is achieved through a comprehensive curriculum in a safe and orderly environment. Your feedback and support has strengthened current initiatives and solidified our focus on the future. Our goal is to operate effectively and efficiently. This audit clearly examined the financial and operation implications. However, the uniqueness of Lorain City Schools indicates a need to examine our district and student circumstances as they relate to our primary focus of educating all children at high levels. Our actions in responding to the recommendations will be a balancing act because we understand that our high poverty ratios present some challenges that we must consider which may not have been issues in comparable districts.

Key members of the Superintendent's administrative team along with the Treasurer's office have analyzed all recommendations made by the Auditor of State. Our responses to some of the recommendations are discussed below:

Financial Systems

- R 2.3 The District will strongly consider updating it's policy regarding financial forecasting including time lines, deadlines and the involvement of key individuals in the District.
- R 2.4 The Treasurer's office is plotting all employees based on salary schedules for the next five (5) years. This allows the Treasurer's office to more accurately reflect wage and salary information in the five-year forecast for predictive and analytical purposes. It should be noted that this process is extremely time consuming and the maintenance to keep it current is very cumbersome.

A system developed by the State of Ohio to aid in this task would benefit all school districts statewide.

- R 2.5 The District has prepared a budget document containing detailed information and will continue to do so for any future forecast submissions. Furthermore, the District is considering preparing budgets by department, school, principal, etc. to facilitate in accountability.
- R 2.6 The District will consider lowering the minimum threshold for obtaining multiple quotes when purchasing services and materials. Furthermore, Lorain CSD will examine its current purchasing methodologies to ensure cost reduction purchasing techniques are fully utilized.
- R 2.8 The District will consider the use of and perform a cost benefit analysis for an automated time and attendance system throughout its buildings.

Human Resources

- R3.1 The Human Resource Department recognizes the need for an EMIS Coordinator to update and maintain accurate staffing data. Over the past six months, the HR staff has collected, corrected and verified staff data for the 07-08 and 08-09 school year. This data will be given to the EMIS Coordinator for data entry and correction in the EMIS system. EMIS issues were identified last fall as an area needing improvement and a process was begun to correct the procedures. Work continues in the area.
- R3.2 Staffing levels at all buildings were studied and evaluated numerous times as to appropriate levels and funding sources. A consultant was utilized to assist with the state guidelines and funding sources for staffing. A formal plan for staffing will be developed in the next school year.
- R3.3 Clerical staffs identified in this audit may have been misidentified. Many grants have requirements for a fulltime clerical or paraprofessional to manage the work. The district is required to hire these people who are dedicated to work on their respective grant. Our total staff is 48 not 67. At each building level clerical is as follows: Elementary – 1, Middle School – 2, High School – 4.
- R3.4 Our Health Benefits are subject to negotiations. Our costs overall are competitive and comparable with surrounding districts. We have experienced a number of high cost claims in the past year that have pushed our expenses higher than expected. We will review your recommendations for possible implementation.
- R3.5 The district has attempted to negotiate away the provision on teacher reduction at every opportunity. It will continue to do so in the future. We will review all recommendations for reducing benefits and attempt to control costs in identified areas.
- R3.6 The district is in the process of eliminating the annuity for administrators. It is difficult to pick and choose various components of administrative salaries. The entire compensation package must be utilized for comparisons to other districts. Our data shows almost all districts in our area provide for the pickup. Total compensation for administrators is comparable to districts in our area.

- R3.7 We have upgraded our sub management system and will now have access to better leave-usage data. Improved data will allow for better analysis and follow-up on the use of sick leave by employees. Policies and procedures can be implemented more rapidly with documentation required. Intervention can be implemented quickly, before the issues escalate. Reducing our leave will reduce our substitute cost.
- R3.8 In January of 2008, an in-depth study and cost analysis were completed in reference to a retirement incentive. Comparisons of the actual teachers retiring and actual replacements netted a substantial savings. The cost benefit analysis was completed as a joint effort between the treasurer's office and HR.
- R3.9 Serious study will begin on the feasibility and affordability of purchasing and implementing a Human Resource Information System.

Facilities

- R 4.1 During the preparation of this Performance Audit the District was already reevaluating the Facilities Master Plan with the OSFC. In early 2008, the Board created a Facilities Review Committee to make recommendations to the Board regarding the facilities needs for the remainder of the project:

The committee is in the process of reviewing the data relative to historical, current and projected enrollment; building construction and operating costs; and logistical considerations for future buildings. The committee has also solicited input from the community for consideration in recommendations to the Board.

- R 4.2 Page 4-18 of the Performance Audit discusses recommendations from the 1998 Performance Audit and the implementation status of those recommendations. One would assume that this would mean that the 1998 Performance Audit was valid and recommendations worthy of consideration.

The 1998 Performance Audit reported that there were 81 FTE custodial, maintenance and cleaning employees servicing 16 buildings that totaled 1,427,904 square feet of space (Audit page 3-20). The audit did not indicate the amount of acres maintained. The audit recommended the reduction of 2 FTE maintenance staff (R 3.1 page 3-37); however, it also recommended hiring at least 1 FTE maintenance worker to perform preventive maintenance (R 3.11 page 3-41). Therefore, the 1998 Performance Audit finding and recommendations indicated there should be 80 FTE custodial, maintenance and cleaning staff for 1,427,904 square feet.

Assuming the data in each audit report is correct we would have expected to see a recommendation to reduce staff by about 8% because of the reduction in square footage from 1998 to 2008. Also, page 4-4 states that the District's salary expenditures increased by approximately 11% from 05-06 to 06-07 attributed to the hiring of 23 safety officers. The cost of safety officers should not be included in a cost comparison to other districts or the AS&U national medium. It is highly unlikely that other districts or the AS&U include the cost of safety officers in building maintenance costs. Removing this cost would result in the Lorain City School District expenditures per square foot as reported in Table 4-4 to be slightly higher than the Type IV average and significantly lower than the Type V coverage.

The District will review this recommendation and further review staffing levels, collective bargaining agreements, and job description duties to identify and implement the proper staffing levels in the maintenance, custodial, and cleaning positions.

- R 4.3 The District will review developing policies relative to maintenance and cleaning standards. The board policies are available to all staff with hard copies in each building and are also available on the District website. The policies also indicate when they were last updated and the Superintendent and Board have a regular schedule to review all policies and regulations. Once the policies are developed, a written formal manual could be developed, based on those policies, and then distributed. Since the auditors did not include a financial implication for this recommendation there is some concern that the costs to implement this recommendation are not warranted financially.
- R 4.4 The District should explore this recommendation further. The District should be careful not to underestimate the total cost of implementation of an automated system. Too many times procedures and systems are instituted that create more work and require additional staff without increasing efficiency or improvement.
- R 4.5 The District is in the process of creating a checklist for preventative maintenance tasks. Should the District implement recommendation 4.4 it should include a preventative maintenance component.
- R 4.6 The District should explore this recommendation further.
- R 4.7 The District should explore this recommendation further, possibly as part of an overall District satisfaction survey.

Transportation

- R 5.1 The District should optimize routes and increase bus utilization. The District will establish an 80% bus capacity target for the next school year.
- R 5.2 The District will review the transportation policy of busing ineligible riders. However, in most cases refusal to transport ineligible riders has resulted in parents withdrawing their children from Lorain City Schools, enrolling them in area charter schools and enabling them to be eligible for transportation that must be provided by Lorain City Schools. Because the state reimbursement for transportation to the District is far less than the actual cost of transportation, the District in essence is subsidizing the transportation cost of the charter schools. But even more concerning is the loss of over \$8,000 in revenue for each student that leaves the District.
- R 5.3 The District has recently solicited RFP's for transportation and allocated sufficient time for the RFP process. The District included in the RFP an alternative for providing fuel. The District intends to enter into an agreement to provide fuel, which should result in at least a 27 cent per gallon savings. The District is and will continue to actively monitor contract compliance, performance and reporting accuracy.
- R 5.4 The District does include the Transportation Coordinator in the development of IEP's relative to transportation. However, there is currently not a formalized process that documents compliance of OAC 3301-51-10. The District is currently working to remedy this situation.

Food Service

The District has entered into an agreement with a food service management company for the 2008-09 school year. The contract incorporated the following item identified in Recommendation 6.1.

- R 6.1 * The District has lowered the food service management company cost per meal.
* The District does and will continue to maximize commodity reimbursements.
* The District has set the enrollment figure to trigger reimbursements at a more appropriate level.
* The District has eliminated capital costs from the contract.
* The District has removed non-service related costs from the contract.
- R 6.2 The District re-established the Provision 2 Breakfast baseline during the 2007-08 school year. The District does not intend to offer a Provision 2 Lunch program at this time.
- R 6.3 The District Treasurer and Chief Operations Officer will work on the development of a 5-year forecast for the Food Service Fund. In addition, they will ensure that all food service expenses are charged to the Food Service Fund.

Again, thank you for your time and effort in the completion of the performance audit and for allowing our response to your recommendations. We look forward to working closely with you in the future as we move from "Good to Great".

Sincerely,



Cheryl L. H. Atkinson, Ed.D.
Superintendent

cc: Board of Education Members
Mr. Dale Weber, Treasurer
Mr. W. Frederick Bartz, Jr., Senior Audit Manager