



Mary Taylor, CPA  
Auditor of State

# WATERLOO LOCAL SCHOOL DISTRICT PERFORMANCE AUDIT

OCTOBER 2, 2008



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

In response to its declining financial condition, the Waterloo Local School District (WLSD or the District) requested that the Auditor of State conduct a performance audit. Based on this request, and in accordance with House Bill 119, a performance audit was initiated in February, 2008. The functional areas assessed in the audit were financial systems, human resources, facilities, and transportation. These areas were selected because they are important components of District operations that support its mission of educating children, and because improvements in these areas can assist the District in improving its financial condition.

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

An executive summary has been prepared which includes the project history; a district overview; the scope, objectives and methodology for the performance audit; and a summary of recommendations, noteworthy accomplishments, assessments not yielding recommendations, issues for further study and financial implications. This report has been provided to WLSD, and its contents discussed with the appropriate officials and District management. The District has been encouraged to use the results of the performance audit as a resource in further improving its overall operations, service delivery, and financial stability.

Additional copies of this report can be requested by calling the Clerk of the Bureau's office at (614) 466-2310 or toll free at (800) 282-0370. This performance audit can also be accessed online through the Auditor of State of Ohio website at <http://www.auditor.state.oh.us/> by choosing the "On-Line Audit Search" option.

Sincerely,

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

Mary Taylor, CPA  
Auditor of State

October 2, 2008





# **Executive Summary**

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## **Project History**

In response to its declining financial condition, Waterloo Local School District (WLSLD or the District) requested that AOS conduct a performance audit of the District. Based on this request and in accordance with House Bill 119, AOS initiated a performance audit of WLSLD. Based on a review of the District's information and discussions with the Superintendent and Treasurer, the performance audit reviewed certain aspects of the District's financial systems, human resources, facilities and transportation functions.

## **District Overview**

WLSLD operates under a locally elected Board of Education (BOE) consisting of five members that are responsible for providing public education to students. The District is located in Portage County and serves the residents of Atwater Township and Randolph Township. According to the United States Census Bureau, the combined population of Atwater Township and Randolph Township was 8,259 in the 2000 Census. Similarly, the median household income was \$47,665, compared to the national average of \$41,994. In addition, 5.2 percent of persons lived below the poverty line, compared to the national average of 12.4 percent. Lastly, 87 percent of area residents had at least a high school education while 10 percent of the residents had a bachelors degree or greater.

In FY 2006-07, the District had a total of approximately 148 full-time equivalent (FTE) employees<sup>1</sup>, including 5 administrative FTEs, 93 certificated teaching FTEs, and 50 classified and other support staff FTEs. These employees were responsible for providing educational services to an average daily membership (ADM) of 1,259 students. Students with physical and learning disabilities comprise approximately 16 percent of the student population. Based on the FY 2006-07 ODE Local Report Card, WLSLD met 25 of 30 performance standards. As defined by ODE, WLSLD received the academic designation of Effective. However, the District did not meet the adequate yearly progress requirements.

In FY 2000-01, the District issued general obligation bonds to provide long-term financing for the construction and renovation of school buildings in accordance with the terms of a grant from the Ohio Schools Facilities Commission (OSFC project). The OSFC project encompassed the demolition of the elementary and middle school buildings, and the renovation of the high school

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<sup>1</sup> During the course of the audit, the FY 2007-08 staffing information became available through the Education Management Information System (EMIS). EMIS reported approximately 145 FTEs for WLSLD in FY 2007-08.

building to house three wings: the elementary school wing (Kindergarten through 5<sup>th</sup> grade), the middle school wing (6<sup>th</sup> through 8<sup>th</sup> grades) and the high school wing (9<sup>th</sup> through 12<sup>th</sup> grades). The total cost of the OSFC project was \$25.5 million, of which OSFC paid approximately \$15.1 million. The District passed a 7.45 mill tax levy to provide the local portion of the OSFC project. The District also passed a 0.5 mill levy that is used to maintain the renovated school building. WLSD completed the OSFC project in FY 2004-05 and now consists of one school building, an administrative building and an athletic field house. For school bus transportation purposes, WLSD spent approximately \$863,000 in FY 2006-07 to transport 1,043 students. In providing these services, the District employed approximately 16 bus driver and mechanic FTEs and used 16 active buses to travel approximately 261,000 miles.

In FY 2006-07, the District's total General Fund revenue per pupil equaled \$7,703 while the expenditures equaled \$7,701. By comparison, the peer average revenue per student equaled \$8,166 while the expenditures equaled \$7,961. The District ended FY 2006-07 with a surplus balance in the General Fund of approximately \$1.2 million. However, the Treasurer's forecast anticipates that the District's financial condition will decline substantially beginning in FY 2007-08. For example, the Treasurer projects that the District's ending fund balances will decline to approximately \$927,000 in FY 2007-08, \$635,000 in FY 2008-09 and \$9,000 in FY 2009-10. The Treasurer further projects that the District will encounter deficit balances of approximately \$2.0 million in FY 2010-11 and \$4.0 million in FY 2011-12. WLSD placed a 4.95 mill continuing levy on the ballot in March 2008 that was designed to eliminate the projected deficits. However, the voters defeated the levy proposal. As a result, the District will likely need to consider alternative strategies to increase revenues and/or reduce operating costs.

## **Objectives**

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

- ***Financial Systems:*** includes an evaluation of WLSD's five-year financial forecast, revenue and expenditures, financial and management reporting, budgeting and purchasing practices, and financial planning and management policies;
- ***Human Resources:*** includes an analysis of District-wide staffing levels, collective bargaining agreements, and benefit costs;

- **Facilities:** includes assessments of custodial and maintenance staffing, energy management, and facility planning; and
- **Transportation:** includes evaluations of key operational data (e.g., riders transported per bus and costs per rider), planning and policies, and bus maintenance and repair services.

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

## **Scope and Methodology**

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

AOS developed a composite of 10 selected districts, which was used for peer comparisons. The selected districts were Bethel-Tate Local School District (Clermont County), Bluffton Exempted Village School District (Allen County), Botkins Local School District (Shelby County), Clear Fork Valley Local School District (Richland County), Coldwater Exempted Village School District (Mercer), Fort Recovery Local School District (Mercer County), Marion Local School District (Mercer County), North Central Local School District (Wayne County), St. Henry Consolidated Local School District (Mercer County), and Versailles Exempted Village School District (Darke County). These districts were selected based upon demographic and operational data. Specifically, ODE classifies these ten school districts as rural/agricultural with low to moderate median income, which is the same demographic classification as WLSD. Additionally, these ten school districts were meeting a high number of performance standards at a relatively low cost per pupil.

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

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

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

## **Noteworthy Accomplishments**

Noteworthy accomplishments acknowledge significant accomplishments or exemplary practices. The following are noteworthy accomplishments that were identified during the course of the performance audit.

- **Financial Audit Results:** The District's financial audits covering FY 2002-03 through FY 2006-07 were reviewed as part of this performance audit to determine the general reliability of the District's financial information. During this review, it was noted that the District consistently received unqualified opinions for its published financial statements and had no material instances of non-compliance with grants and other legislative requirements. Furthermore, the financial audits consistently classified WLSD as a low-risk auditee and reported no material weaknesses in the District's internal control structure. These results provide additional assurance that WLSD's financial statements are reliable for decision-making purposes and the current financial difficulties are not due to flaws in the District's internal control structure.
- **Discretionary Expenditures:** WLSD limited its discretionary spending the last two years. More specifically, WLSD's discretionary expenditures per student in FY 2005-06 (\$893) and FY 2006-07 (\$806) are both significantly lower than the peer average (\$1,003) in FY 2006-07.
- **Human Resources Management:** WLSD appears effective in managing its human resources function based on the following:
  - The District's non-educational staffing levels on a per 1,000 ADM basis (43) are slightly lower than the peer average (44). In addition, the District reported reducing staffing levels by 3.0 non-educational FTEs in FY 2007-08.

- WLSD's average compensation for all employees (\$39,184) is two percent lower than the peer average (\$39,982), despite having employees with high longevity in certain positions (bus drivers, Treasurer, clerical, registered nurses). The lower salaries are due to the Superintendent and Treasurer's practice of annually reviewing WLSD's compensation in comparison to the other school districts in Portage County, and subsequently using this analysis to assist in contract negotiations.
- In FY 2004-05, the District negotiated to increase the hour threshold for employees participating in the health insurance program from 25 hours per week to 35, which should result in long-term savings. Additionally, the District's dental, vision and life insurance premiums are significantly lower than the SERB survey benchmarks (SERB data adjusted where necessary to allow for reliable comparisons to WLSD data).
- Overall, the District's collective bargaining agreements appear fair to District management and the employees. Additionally, the Superintendent indicated that the District has a positive relationship with the unions that has resulted in very few grievances.

The abovementioned items contribute to the District's relatively low spending levels. More specifically, **Tables 2-2 and 2-3** in the **financial systems** section show that the District's total General Fund expenditures per student (\$7,701) and governmental fund expenditures per student (\$8,550) are lower than the peer averages (\$7,961 and \$8,560, respectively).

## **Assessments Not Yielding Recommendations**

Assessments were conducted on areas which did not warrant changes and did not yield recommendations. The following summarizes these assessments.

- **Food Service Operations:** In FY 2006-07, the District's food service revenues equaled approximately \$339,500 while the expenditures were approximately \$330,000, which indicates that the food service program is generating sufficient revenue to cover the operating costs. Likewise, the District's food service operations were self-sufficient in FY 2004-05 and FY 2005-06.
- **Payroll Processing:** The District pays all employees on a bi-weekly schedule (26 pays per year) with a two week delay once timesheets are submitted to the Treasurer's office for processing. The District also uses direct deposit to pay the majority of the employees.

- **School Safety and Security:** WLSD has a Pupil Health and Safety Policy that helps ensure proper inspection and maintenance of building and grounds, supervision while on school grounds, and compliance with State requirements. The District has also developed a safety plan that outlines procedures for staff to follow in the event of an emergency. All classrooms are provided with a copy of the safety plan.
- **T-Form Reporting:** The District's process for preparing, reviewing and reporting transportation information to ODE appears effective as no irregularities were identified during a review of the T-forms.

## **Key Recommendations**

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

*In the area of financial systems, WLSD should:*

- Analyze and use **Table 2-7** in the **financial systems** section to evaluate the effect of recommendations presented in this performance audit, and update **Table 2-7** on an ongoing basis as conditions change. The District should consider implementing the recommendations in this performance audit and other appropriate actions to avoid the projected operating deficits. Lastly, WLSD should regularly discuss options for reducing costs and/or increasing revenues with stakeholders to help guide long-term strategies for addressing the projected deficits.
- Pursue various options to increase other revenues including preparing a quarterly (or monthly) investment report for the Board to allow for shared decision-making, identifying a specific employee to be responsible for coordinating the District's grant activities, and using a separate cost center to account for non-routine transportation services.
- Develop a more comprehensive purchasing policy that establishes minimum thresholds for obtaining price quotes and using competitive bidding, and that covers the process for request for proposals. Doing so will provide the Board with greater assurance that goods and services are being purchased at a fair price and that objective decisions are being made regarding vendor selection.

*In the area of human resources, WLSD should:*

- Conduct an in-depth review of its special education program to determine if the staffing levels comply with State minimum requirements, and obtain further consultation from

ODE. Additionally, if the District does not identify other strategies for addressing the projected deficits, it should consider reducing staffing levels by 13 regular education teachers and 5 education service personnel (ESP) positions, which would still comply with State minimum requirements. However, WLS D should weigh decisions to reduce teacher and ESP staffing levels against the impact the reductions may have on the quality of education. Lastly, developing a formal staffing plan would help ensure that the District complies with State minimum requirements in the future and meets the goals of the strategic plan by efficiently allocating its staffing resources.

- Strive to reduce the amount of sick leave used by its employees by developing a policy to ensure its proper use.
- Negotiate to require all employees receiving health benefits to contribute at least 10.0 percent towards the monthly health care premiums. In addition, the District should consider altering its annual deductibles, employee out-of-pocket maximums, and prescription co-payments to generate additional savings.
- Conduct annual surveys of its employees to solicit feedback, determine employee satisfaction, and assist the District in determining areas for improvement.

*In the area of facilities, WLS D should:*

- Develop formal energy management and conservation policies, procedures and guidelines. Subsequently, the District should distribute and discuss the policies, procedures and guidelines with staff and students to educate and train them about energy conservation, and ensure implementation of the appropriate energy management practices. In addition, the District should consider assigning an employee to monitor energy consumption.
- Review the factors affecting its overtime costs and conduct a cost-benefit analysis to determine if it would be more cost effective to hire a part-time or seasonal employee. In addition, the District should regularly monitor overtime costs. If overtime costs increase in the future, it may be more cost-effective to hire a full-time employee.
- Update the maintenance plan to include enrollment projections, space utilization, input from stakeholders, and links to the financial and educational plans. The District should also regularly update the plan to reflect completed work and other changing conditions. Taking these actions will provide WLS D with a roadmap for addressing current and future facility needs, planned educational programs, and changing conditions within the District.

- Purchase a computerized maintenance management system that can automatically schedule and track preventive maintenance activities, prioritize multiple work requests, and help anticipate needed facility maintenance, equipment repairs and replacements.

*In the area of transportation, WLS D should:*

- Reduce its fleet by two active buses. To accomplish this reduction and potential future reductions, the District should conduct annual surveys of parents to determine the number of students that will be using other methods of transportation and adjust the bell schedules to allow for improved bus capacity utilization, particularly during the elementary bus runs. The District should also consider selling two spare buses.
- Address its high bus driver salaries by negotiating new salary schedules with additional steps and lower corresponding rates, and/or granting lower negotiated wage increases in the future. Taking these measures would, over time, help bring compensation more in line with the peer districts.
- Explore the potential for contracting or pooling maintenance services with a neighboring district.
- Develop a written preventive maintenance plan that specifies the frequency and level of vehicle inspections and maintenance activities. The District should also develop and approve a bus replacement plan that includes criteria for bus replacement. This will help the District anticipate future bus maintenance costs and ensure cost-effective replacement decisions.
- Reduce special needs transportation costs by negotiating parent/guardian contracts based on cost-benefit analyses that compare the costs of in-house transportation to potential contracted costs, periodically soliciting bids from contractors, discussing alternatives with neighboring school districts to share costs and services, and including special needs riders on regular runs, where appropriate. Furthermore, including transportation staff in individualized education program (IEP) meetings would help ensure cost-effective services.

## **Issues for Further Study**

Auditing standards require the disclosure of significant issues identified during an audit that AOS did not review in depth. These issues may not be directly related to the audit objectives or may be issues that the auditors do not have time or resources to pursue. AOS has identified monitor/bus aid staffing levels as issues for further study. See the **human resources** section for more information.

## Summary of Financial Implications

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

**Table 1-1: Summary of Performance Audit Recommendations**

	Estimated Cost Savings	Estimated One-Time Revenue Enhancement	Estimated Annual Costs	Estimated One-Time Costs
<b>Recommendations Not Subject to Negotiations</b>				
<b>R3.1</b> Reduce 13.0 FTE regular education teachers and 5.0 FTE ESP positions.	\$744,000			
<b>R3.7</b> Implement a drug free workplace policy.	\$6,100			
<b>R3.9</b> Purchase sub-calling system.			\$480	\$900
<b>R4.1</b> Develop formal energy management policies and procedures, and assign someone to monitor energy use.	\$39,500			
<b>R4.4</b> Purchase a computerized maintenance management system (CMMS)			\$1,000	
<b>R5.1</b> Eliminate and sell two active buses	\$25,000	\$2,500		
<b>R5.2</b> Eliminate and sell two spare buses	\$1,200	\$2,500		
<b>R5.4</b> Merge bus maintenance function with another district	\$25,000			
<b>Total Recommendations Not Subject to Negotiation</b>	<b>\$840,800</b>	<b>\$5,000</b>	<b>\$1,480</b>	<b>\$900</b>
<b>Recommendations Subject to Negotiations</b>				
<b>R3.6</b> Increase certificated and classified contributions to 10% for healthcare.	\$31,000			
<b>R3.9</b> Eliminate sub-calling stipend.	\$4,400			
<b>R5.3</b> Negotiate reduced wage increases during the next contract period (FY 2009-10 through FY 2011-12).	\$15,300			
<b>Total Recommendations Subject to Negotiation</b>	<b>\$50,700</b>			
<b>Total Financial Implications</b>	<b>\$891,500</b>	<b>\$5,000</b>	<b>\$1,480</b>	<b>\$900</b>

Source: Financial implications identified throughout this performance audit

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# Financial Systems

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## Background

This section of the performance audit focuses on financial systems within the Waterloo Local School District (WLSD or the District). The purpose of this section is to analyze the current and future financial condition of the District and examine financial management policies and procedures. WLSD's five-year financial forecast was also analyzed to ensure the projections appear reasonable. WLSD's policies, procedures, and operations were evaluated against information from relevant sources, such as the Government Finance Officers Association (GFOA), American Institute of Certified Public Accountants (AICPA), and selected peer school districts.<sup>1</sup>

### *Financial History and Condition*

Ohio Revised Code (ORC) § 3316 outlines conditions that would place a school district in fiscal caution, watch or emergency. Although WLSD has not been assigned a fiscal designation at this time, its forecast projections indicate approaching deficits (see **Table 2-1**).

WLSD is funded at the local level through a variety of levies, including the following:

- 48.6 operating mills for the General Fund (20.0 effective mills);
- A five-year emergency levy for the General Fund (1.2 mills); and
- A 7.45 mill bond retirement levy and a 0.5 mill classroom facility levy that are associated with the Ohio Schools Facilities Construction (OSFC) project (generate approximately \$856,000 annually).

In total, WLSD's property tax levies generate approximately \$3.3 million in local revenues for the General Fund.

The District ended FY 2006-07 with a surplus balance in the General Fund of approximately \$1.2 million. However, the Treasurer's forecast anticipates that the District's financial condition will decline substantially, beginning in FY 2007-08. More specifically, the Treasurer projects that the District's ending fund balances will decline to approximately \$927,000 in FY 2007-08, \$635,000 in FY 2008-09 and \$9,000 in FY 2009-10. The Treasurer further projects that the District will encounter negative fund balances of approximately \$2.0 million in FY 2010-11 and approximately \$4.0 million in FY 2011-12. WLSD placed a 4.95 mill levy proposal on the ballot in March 2008 to eliminate the projected deficits. This levy would have replaced the 1.2 mill

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<sup>1</sup> See **executive summary** for a list of the peer districts and an explanation of the selection methodology.

emergency levy and was structured to generate approximately \$792,000 annually. However, the voters defeated the levy proposal.

**Table 2-1** presents historical and projected revenues and expenditures, as of February 2008. This forecast was used as the starting point for assessing the District's financial condition.

**Table 2-1: WLSD 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	\$3,049	\$2,781	\$3,060	\$3,174	\$3,174	\$3,205	\$3,238	\$3,302
Tangible Personal Property Tax	\$292	\$275	\$238	\$130	\$113	\$55	\$0	\$0
Unrestricted Grants-in-Aid	\$5,520	\$5,734	\$6,128	\$6,087	\$6,087	\$6,087	\$6,087	\$6,087
Restricted Grants-in-Aid	\$37	\$25	\$27	\$21	\$21	\$21	\$21	\$21
Property Tax Allocation	\$386	\$388	\$477	\$572	\$639	\$727	\$689	\$624
Other Revenues	\$261	\$394	\$437	\$353	\$328	\$278	\$223	\$223
<b>Total Operating Revenues</b>	<b>\$9,546</b>	<b>\$9,596</b>	<b>\$10,367</b>	<b>\$10,337</b>	<b>\$10,363</b>	<b>\$10,374</b>	<b>\$10,258</b>	<b>\$10,258</b>
Salaries & Wages	\$5,421	\$5,655	\$5,726	\$5,735	\$5,925	\$6,097	\$6,203	\$6,328
Fringe Benefits	\$2,240	\$2,240	\$2,401	\$2,466	\$2,658	\$2,836	\$3,017	\$3,216
Purchased Services	\$1,194	\$1,333	\$1,460	\$1,519	\$1,579	\$1,643	\$1,708	\$1,777
Supplies, Materials & Textbooks	\$393	\$387	\$327	\$369	\$376	\$384	\$392	\$400
Capital Outlay	\$127	\$183	\$138	\$138	\$138	\$138	\$138	\$138
Debt Service	\$21	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Expenditures	\$266	\$296	\$331	\$361	\$391	\$391	\$391	\$391
<b>Total Operating Expenditures</b>	<b>\$9,661</b>	<b>\$10,094</b>	<b>\$10,383</b>	<b>\$10,588</b>	<b>\$11,068</b>	<b>\$11,489</b>	<b>\$11,849</b>	<b>\$12,250</b>
Net Transfers/Advances	\$20	\$1	\$12	(\$24)	\$0	\$0	\$0	\$0
Other Financing Sources	\$5	\$2	\$6	\$6	\$6	\$6	\$6	\$6
<b>Net Financing</b>	<b>\$25</b>	<b>\$3</b>	<b>\$18</b>	<b>(\$18)</b>	<b>\$6</b>	<b>\$6</b>	<b>\$6</b>	<b>\$6</b>
<b>Result of Operations (Net)</b>	<b>(\$90)</b>	<b>(\$495)</b>	<b>\$2</b>	<b>(\$269)</b>	<b>(\$699)</b>	<b>(\$1,109)</b>	<b>(\$1,585)</b>	<b>(\$1,986)</b>
Beginning Cash Balance	\$2,818	\$2,728	\$2,233	\$2,236	\$1,967	\$1,268	\$159	(\$1,426)
<b>Ending Cash Balance</b>	<b>\$2,728</b>	<b>\$2,233</b>	<b>\$2,236</b>	<b>\$1,967</b>	<b>\$1,268</b>	<b>\$159</b>	<b>(\$1,426)</b>	<b>(\$3,413)</b>
Encumbrances	\$628	\$529	\$532	\$532	\$532	\$150	\$532	\$532
Budget Reserve	\$358	\$408	\$458	\$508	\$100	\$0	\$0	\$0
<b>Ending Fund Balance</b>	<b>\$1,742</b>	<b>\$1,296</b>	<b>\$1,246</b>	<b>\$927</b>	<b>\$636</b>	<b>\$9</b>	<b>(\$1,958)</b>	<b>(\$3,944)</b>

Source: WLSD

Note: Totals may vary from actual due to rounding.

After testing the District's projections and related methodology, the total annual revenues and expenditures shown in **Table 2-1** appear understated, with the exception of expenditures appearing overstated in FY 2008-09 (see **R2.2** and **R2.3**). As a result, certain assumptions were revised and applied to the adjusted forecast presented in **Table 2-7**. AOS also analyzed the

historical figures presented in **Table 2-1** and determined that they are materially reliable for forecasting purposes. Lastly, WLSD's forecast complies with the textbook and capital outlay set-aside requirements.

### *Revenues and Expenditure Comparisons*

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

**Table 2-2: Revenues by Source, Expenditures by Object (in 000's)**

	WLSD	Peer Average
Property & Income Taxes	\$2,350	\$2,358
Intergovernmental Revenues	\$4,972	\$5,173
Other Revenues	\$381	\$635
<b>Total Revenues</b>	<b>\$7,703</b>	<b>\$8,166</b>
Wages	\$4,182	\$4,638
Fringe Benefits	\$1,788	\$1,658
Purchased Services	\$1,096	\$849
Supplies and Textbooks	\$246	\$288
Capital Outlays	\$104	\$156
Debt Service	\$0	\$12
Miscellaneous	\$247	\$210
Other Financing Uses	\$38	\$150
<b>Total Expenditures</b>	<b>\$7,701</b>	<b>\$7,961</b>

**Source:** WLSD and peer 4502s.

**Note:** Totals may vary from actuals due to rounding.

**Table 2-2** shows the District's total revenues are lower than the peer average by \$463 per student. The lower revenues are attributed to the lower intergovernmental revenues and other revenues. The lower other revenues are primarily due to lower tuition revenues (see **R2.4** for additional analysis of WLSD's other revenues). **Table 2-2** also shows that in total, the District spent \$260 less per student when compared to the peer average. Explanations for areas where the District's expenditures exceeded the peer average include the following:

- *Fringe Benefits* – WLSD spent \$130 more per student on fringe benefits in comparison to the peer average. Allowing part-time employees hired before July 1, 2004 to participate

in the health insurance program, providing employees with generous health care plan provisions, and missing an opportunity to reduce workers compensation costs contribute to the higher benefit costs per student (see **R3.6** and **R3.7** in the **human resources** section).

- *Purchased Services* – WLSD spent \$247 more per student on purchased services when compared to the peer average. The higher costs are primarily attributed to the District lacking formal policies and procedures for energy management, and large increases in tuition costs for special education students attending locations outside the District. See **R4.1** in the **facilities** section for an additional discussion on the District’s energy management practices. See **Table 2-3** below for an additional discussion of the District’s special education costs.
- *Miscellaneous* – The District spent \$37 more per student on miscellaneous costs when compared to the peer average. WLSD’s high level of expenditures for this category can be attributed to the dues and fees increasing approximately 16 percent in FY 2006-07. The Treasurer indicated that the dues and fees line-item includes education service center (ESC) fees and deductions, financial audit fees, county auditor and treasurer fees, and bank fees. The large increase is likely due to higher county auditor and treasurer fees associated with the property reappraisal that took place in FY 2006-07. WLSD’s real estate tax collections increased 10 percent as a result of the property reappraisal.

**Table 2-3** shows the governmental fund expenditures per pupil posted to various Uniform School Accounting System (USAS) function codes for WLSD and the peer districts. The function codes report expenditures by their nature or purpose. In addition, **Table 2-3** shows the corresponding percentage of operational expenditures by function for all funds that are classified as governmental funds.

**Table 2-3: Governmental Expenditures by Function in FY 2006-07**

USAS Function Classification	WLSD		Peer Average	
	\$ Per Pupil	% of Exp	\$ Per Pupil	% of Exp
<b>Instructional Expenditures:</b>	<b>\$4,914</b>	<b>57.4</b>	<b>\$5,308</b>	<b>62.1</b>
Regular Instruction	\$3,886	45.4	\$4,030	47.1
Special Instruction	\$994	11.6	\$935	11.0
Vocational Education	\$29	0.3	\$207	2.4
Other Instruction	\$5	0.1	\$136	1.6
<b>Support Service Expenditures:</b>	<b>\$3,320</b>	<b>38.9</b>	<b>\$2,892</b>	<b>33.7</b>
Pupil Support Services	\$393	4.6	\$343	4.0
Instructional Support Services	\$367	4.3	\$386	4.5
Board of Education	\$15	0.2	\$26	0.3
Administration	\$767	9.0	\$690	8.0
Fiscal Services	\$248	2.9	\$225	2.6
Business Services	\$35	0.4	\$1	0.0
Plant Operation & Maintenance	\$762	8.9	\$790	9.2
Pupil Transportation	\$720	8.4	\$404	4.8
Central Support Services	\$13	0.2	\$27	0.3
<b>Non-Instructional Services Expenditures</b>	<b>\$73</b>	<b>0.9</b>	<b>\$7</b>	<b>0.1</b>
<b>Extracurricular Activities Expenditures</b>	<b>\$243</b>	<b>2.8</b>	<b>\$353</b>	<b>4.1</b>
<b>Total Governmental Fund Operational Expenditures</b>	<b>\$8,550</b>	<b>100.0</b>	<b>\$8,560</b>	<b>100.0</b>

Source: FY 2006-07 District and peer 4502s

Note: Totals may vary from actuals due to rounding.

Explanations for the higher per student expenditures include the following:

- *Special Instruction* – The District spent \$59 more per student than the peer average on special instruction in FY 2006-07. However, the expenditures reported in **Table 2-3** are based on a per student basis using the District's total average daily membership (includes regular education and special education students). When this ratio is revised to reflect special needs students, WLSD's special education costs per special education student was \$6,502 in FY 2006-07 while the peer average was \$9,477. Therefore, the large disparity in the expenditure ratios in **Table 2-3** are attributed to WLSD educating approximately 203 special education students while the peer average is only 133.
- *Pupil Support Services* – WLSD spent \$50 more per student than the peer average on pupil support services in FY 2006-07. The Treasurer attributed the variance to severance payouts associated with the retirement of a school nurse and two guidance counselors. When excluding the \$44,590 that was expended for severance pay, the District's pupil support service expenditure per student declines to \$360, which is closer to the peer

average (\$343). The remaining difference is likely due to the longevity of the employees (three retirements), which impacted the salaries that were paid in FY 2006-07.

- *Administration* – WLS D spent \$77 more per student than the peer average on administration in FY 2006-07. This line-item accounts for the District’s share of the ESC dues and fees that are automatically deducted from WLS D’s State funding. In FY 2006-07, the ESC dues and fees equaled approximately \$228,000.
- *Fiscal Services* – WLS D spent \$23 more per student than the peer average on fiscal services in FY 2006-07. The higher expenditures can be attributed to financial audit fees, county auditor and treasurer fees, and higher salary costs due to the longevity of the Treasurer.
- *Business Services* – WLS D spent \$34 more per student than the peer average on business services in FY 2006-07. The District’s copier lease and the related supply and material costs are the only expenditures accounted for in this line-item. The District spent approximately \$47,000 on these items in FY 2006-07.
- *Pupil Transportation* – WLS D spent \$316 more per student than the peer average on pupil transportation in FY 2006-07. The higher expenditures are primarily due to the District’s salary and benefit levels for bus drivers, bus driver longevity, and maintenance and repair costs. See the **transportation** section for additional information.
- *Non-Instructional Services Expenditures* – WLS D spent \$66 more per student than the peer average on non-instructional services in FY 2006-07. The majority of the expenditures in this line-item are for the District’s food service operations. In FY 2006-07, the District’s food service revenues equaled approximately \$339,500 while the expenditures were approximately \$330,000, which indicates that the food service program is generating sufficient revenue to cover the operating costs.

Despite the higher expenditures in certain line-items and the recommendations in the other sections of the performance audit that could result in cost savings, **Tables 2-2** and **2-3** show that in total, WLS D’s General Fund and governmental fund expenditures per student are lower than the respective peer averages. Furthermore, in a separate analysis of the District’s discretionary spending, WLS D’s total discretionary expenditures per student equaled \$806 in FY 2006-07. This is much lower than the peer average of \$1,003. These comparisons indicate that District management has taken action to control and limit spending.

## Recommendations

### *Financial Planning*

- R2.1 The Board should adopt a policy that specifies the process to be used in developing the financial forecast, including the participation of other District administrators and use of supporting information. To better understand the forecast and its components, Board members should consider requiring that the document present more detailed historical and projected information, supporting schedules, and additional explanations.**

WLSD does not have a Board policy that stipulates the process to be used in preparing the financial forecast, the specific roles of other administrators, or the level of note disclosures and supporting materials to be used in developing the forecast. In actual practice, the Treasurer prepares the forecast based on discussions with the Superintendent and other administrators, and a review of historical information, trend analyses, and information obtained from outside sources, such as the Portage County Auditor's Office (County Auditor) and the Ohio Department of Education (ODE). Once developed, the Treasurer conducts a formal presentation for the Board where the forecast and the supporting documentation are reviewed and discussed. Although the Treasurer includes assumptions to help explain the forecast projections, the notes to the forecast generally do not provide adequate disclosure concerning issues that have a significant impact on WLSD. For example, the notes lack disclosures for the following:

- Historical and projected growth rates for property taxes including the impact of scheduled property reappraisals, updates, and potential levy renewals;
- Historical and projected student enrollment, staffing levels, wage increases and anticipated retirements during the forecast period;
- Information regarding technology, building, and equipment needs; and
- Explanations when projected amounts deviate from historical trends.

Upon request, the Treasurer was able to provide detailed schedules and reasonable explanations to support the majority of the figures shown in the forecast. However, providing more explanations and supporting information in the published forecast notes would assist stakeholders and other interested parties in understanding the District's financial situation.

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 the financial forecast, monitor

attained results relative to the forecast, and prepare revisions to, or otherwise update, the forecast. Financial forecasts may also be prepared via a formal work program. If such a program is used in place of a formal system, it should adequately define the procedures, methods, and practices to be employed. This publication also includes numerous guidelines for preparing and reviewing financial forecasts, including the following:

- Key factors should be identified as a basis for assumptions. Assumptions used in preparing financial forecasts should be appropriate, reasonable, and well-supported and could include market surveys, general economic indicators, trends and patterns developed from the entity's operating history (historical trends), and internal data analysis (union contracts and labor rates).
- The process used to develop financial forecasts should provide adequate documentation of the financial forecasts and the process used to develop them. Documentation involves recording the underlying assumptions and summarizing the supporting evidence for the assumptions. As a result of well supported documentation, users can trace forecasted results back to the support for the basic underlying assumptions.
- The process used to prepare financial forecasts should include adequate review and approval by the responsible party at the appropriate levels of authority.

The creation of a forecast policy which reflects the abovementioned items will help ensure that the District develops reliable projections. This, in turn, would help WLSD detect future problems and related solutions in a timely manner.

**R2.2 The Treasurer should review the methodology and assumptions used in projecting future State funding receipts (unrestricted and restricted grants-in-aid). Specifically, because it comprises approximately 60 percent of total revenues, the Treasurer should ensure that the State funding projections account for significant factors, such as existing legislation and the impact of adjustments in the State funding formula relative to the District's enrollment trends, with notes to fully explain any deviations (see R2.1).**

As a component of the performance audit, the District's revenue projections (see **Table 2-1**), including the underlying assumptions and supporting documentation, were reviewed for overall reasonableness. Based on this review that included factors like historical trends, legislation, and information from outside sources, AOS determined that the District's projections for real estate property taxes, tangible property taxes, property tax allocation, and other revenues appeared reasonable. However, the projection for State funding (unrestricted and restricted grants-in-aid) warranted further review.

**Table 2-1** shows that the District projected State funding to remain constant at the FY 2007-08 levels throughout the forecast period. The projection for FY 2007-08 (\$6.1 million) appears reasonable as it is approximately equal to the SF-3 report published by ODE. The Treasurer indicated that State funding was held constant from FY 2008-09 through FY 2011-12 in consideration of the District's declining enrollment and the State eliminating certain "guarantees" and the cost of doing business factor (CODBF) from the school funding formula. However, the forecast projections are inconsistent with the District's historical State funding receipts from FY 2001-02 through FY 2007-08. For example, the District's total State funding increased approximately 7.0 percent in FY 2002-03, declined 1.3 percent in FY 2003-04, declined 0.4 percent in FY 2004-05, increased 3.6 percent in FY 2005-06, increased 6.9 percent in FY 2006-07, and declined 0.7 percent in FY 2007-08, with an overall average annual increase during the six-year period of 2.5 percent. In addition, ODE is projecting the District's total State funding to increase slightly in FY 2008-09 to approximately \$6.2 million. The overall increase in historical State funding levels have occurred despite the District's enrollment declining approximately one percent annually since FY 2001-02, which indicates that the annual adjustments in the State funding formula have been sufficient to offset the loss of students over the long-term. Lastly, although the District's assumption that certain "guarantees" and the CODBF will be eliminated is accurate, the majority of the adjustments were completed by the end of FY 2006-07 and should not significantly impact the remaining years of the forecast.

Based on the issues outlined above, the District's State funding projection will be adjusted in FY 2008-09 to equal the projection developed by ODE. The projections for FY 2009-10 through FY 2011-12 will be adjusted to increase 2.0 percent annually. This is close to the District's historical growth rate of 2.5 percent, but allows for a potential decline due to larger than expected loss of enrollment or other modifications to the State funding formula. **Table 2-4** shows the impact this revision will have on WLSD's forecast.

**Table 2-4: Impact of State Funding Adjustments**

	FY 2008-09 <sup>1</sup>	FY 2009-10	FY 2010-11	FY 2011-12
State Funding Projections	\$6,108,539	\$6,108,539	\$6,108,539	\$6,108,539
AOS Revised Projection	\$6,163,437	\$6,286,706	\$6,412,440	\$6,540,689
<b>Net Impact on Forecast</b>	<b>(\$54,898)</b>	<b>(\$178,167)</b>	<b>(\$303,901)</b>	<b>(\$432,150)</b>

Source: AOS analysis

<sup>1</sup> AOS used ODE's SF-3 report as a baseline to project FY 2009-10 through FY 2011-2012.

**R2.3 The Treasurer should review the methodology and assumptions used in projecting the key expenditure line-items within the forecast. Specifically, the Treasurer should include estimated severance payments based on projected retirements (personnel services line-item). In addition, the Treasurer should consider developing separate assumptions for the major components within the purchased services line-item. This will help prevent the District from underestimating the purchased service expenditures by ensuring that consideration has been given to the primary cost drivers for each area.**

Based on the review of WLSD's projected forecast expenditures that included factors like historical trends, legislation, and year-to-date expenditures as of February 2008, AOS determined that the District's projections for supplies and materials, capital outlay, debt service and other expenditures appeared reasonable. However, the projections for personal services, employee benefits, and purchased services warranted further review. A summary analysis of these line-items includes the following:

- **Personnel Services:** This line-item represents employee salaries and wages, including supplemental, substitute, and overtime costs. **Table 2-1** shows the Treasurer projected personnel services to increase an average of 2.0 percent annually during the forecast period (FY 2007-08 through FY 2011-12). The Treasurer's projection for FY 2007-08 (\$5.7 million) appears reasonable based on the year-to-date expenditures through February 2008. In addition, the Treasurer used a sound methodology by plotting out the actual salary for each employee and then adjusting for estimated overtime, supplemental, and substitute costs. However, the Treasurer excluded estimates for severance payouts associated with employee retirements. In subsequent meetings and forecast discussions, the Treasurer estimated the severance payouts for FY 2007-08 at approximately \$105,000.

The wage projections for FY 2008-09 through FY 2011-12 were prepared in a similar manner, by plotting the actual salary for each employee during the remainder of the forecast period. In doing so, the Treasurer assumed a 2.75 percent annual wage increase for all employees. This assumption appears reasonable based on WLSD negotiating a 2.75 percent wage increase for certificated staff in FY 2007-08 and 2.75 percent wage increases for classified staff through FY 2008-09. Additionally, the Treasurer projected anticipated retirements throughout the forecast period based on the longevity of each employee (i.e., staff members with 35 or more years of service were assumed to retire). Although the Treasurer's assumption that the District will replace the majority of the retired employees with less experienced staff members appears reasonable, the projections for FY 2008-09 and beyond also lack estimates for the severance payouts. According to the Treasurer and Superintendent, the District

had more employees retire at the end of FY 2007-08 than usual and the normal yearly severance payout is approximately \$30,000.

- **Benefits:** This line-item consists of WLSD's contributions for employee retirement, health insurance, workers compensation, and Medicare. The Treasurer's overall methodology for projecting employee benefits appears reasonable. For example, the Treasurer projected health insurance costs by reviewing the plan enrollment choices for each employee in FY 2007-08 and increasing the estimates nine percent annually thereafter. The nine percent growth rate is generally consistent with the District's historical rate of increase (7.25 percent) and the State Employee Relations Board (SERB) standards for health insurance costs (8.6 percent for family coverage in 2006). The Treasurer determined the estimates for the remaining fringe benefits (retirement, Medicare, workers' compensation) by applying the appropriate contribution rates (14.0 percent, 1.45 percent, and 1.6 percent, respectively) to the District's salary projections. Using this methodology, the Treasurer's total projection for employee benefits in FY 2007-08 was approximately \$2.4 million, which appears reasonable based on the year-to-date expenditures through February 2008. However, during the course of the audit, WLSD received notification from the Portage County Health Insurance Consortium that the District had accumulated large reserve balances due to lower than expected health insurance claims. As a result, WLSD will receive a one-time adjustment in FY 2008-09 that will reduce the premiums by approximately 24 percent. The Superintendent indicated that the premiums should return to the normal levels in FY 2009-10 and continue to increase from those levels through the remainder of the forecast.
- **Purchased Services:** This line-item reflects amounts paid for contracted services, such as maintenance agreements, legal services, utilities, and tuition paid for students attending other school districts. In FY 2007-08, the Treasurer estimated that purchased services would increase by four percent (approximately \$1.5 million), which appears reasonable based on the year-to-date expenditures through February 2008.

The Treasurer projected purchased services to increase four percent annually from FY 2008-09 through FY 2011-12. However, this growth rate is inconsistent with the District's historical trends. For example, the District's total purchased service costs increased an average of eight percent annually from FY 2000-01 to FY 2006-07. In addition, the Treasurer's assumption does not consider utility and tuition costs independently of the other purchased services, despite tuition being outside the District's direct control. While the District could implement some measures to control and potentially reduce utility costs (see **R4.1** in the **facilities** section), some factors impacting utilities are outside its direct control. For

example, the District is currently receiving discounted electric rates through their participation in the Energy for Education Program II. However, this program is scheduled to expire on December 31, 2008. In addition, First Energy Inc. has requested a rate increase through the Public Utilities Commission of Ohio (PUCO) that will take effect January 1, 2009. Similarly, the District has experienced large fluctuations in their tuition payments since FY 2000-01, with the average annual increase equaling approximately 19 percent and tuition costs increasing each year after FY 2001-02. Furthermore, tuition and utilities represent the highest expenditures within purchased services, comprising 59.5 and 21.4 percent of total purchased service expenditures in FY 2006-07, respectively. As a result, the District could have certain years during the forecast period where utility and tuition costs increase more than four percent.

Based on the issues noted above, WLSD's salary projections for FY 2008-09 through FY 2011-12 will be adjusted to include the impact of the additional retirements in FY 2007-08 and estimates for severance payouts in all remaining years. The severance payout for FY 2008-09 is estimated to be \$30,000 with all remaining years increasing by 2.75 percent annually to account for projected negotiated wage increases. Furthermore, the District's benefit projections will be adjusted to account for the health insurance premium reduction in FY 2008-09 and the updated salary projections. Lastly, the utilities portion of the purchased services line-item will be calculated assuming a 7.0 percent increase in FY 2009-10 to account for the expiration of the Energy for Education Program II (first full year after contract expiration). All other years are projected to increase 3.5 percent annually based on the *Annual M & O Cost Study* (American Schools & University, 2002-2006), which indicates that the average annual increase in the national median utility costs was 3.5 percent from FY 2001-02 through FY 2005-06. The other components of the purchased services are projected to increase based on the District's average growth rate from FY 2002-03 through FY 2006-07. **Table 2-5** shows the impact these revisions will have on WLSD's forecast.

**Table 2-5: WLSD Expenditure Forecast Revisions (in 000's)**

	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
<b>District Projections:</b>					
<b>Personnel Services</b>	\$5,736	\$5,925	\$6,097	\$6,203	\$6,328
<b>Retirement/Insurance Benefits</b>	\$2,466	\$2,658	\$2,836	\$3,017	\$3,216
<b>Purchased Services</b>	\$1,519	\$1,579	\$1,643	\$1,708	\$1,777
<b>Total</b>	<b>\$9,721</b>	<b>\$10,162</b>	<b>\$10,576</b>	<b>\$10,928</b>	<b>\$11,321</b>
<b>AOS Projections:</b>					
<b>Personnel Services</b>	\$5,876	\$5,877	\$6,127	\$6,242	\$6,377
<b>Retirement/Insurance Benefits</b>	\$2,496	\$2,166	\$2,725	\$2,896	\$3,084
<b>Purchased Services</b>	\$1,519	\$1,709	\$1,956	\$2,250	\$2,609
<b>Total</b>	<b>\$9,891</b>	<b>\$9,752</b>	<b>\$10,808</b>	<b>\$11,388</b>	<b>\$12,070</b>
<b>Difference Between AOS Projection and District Projection</b>	<b>(\$170)</b>	<b>\$410</b>	<b>(\$232)</b>	<b>(\$460)</b>	<b>(\$749)</b>

Source: WLSD and AOS recommendations

### *Revenue Analysis*

**R2.4 WLSD should consider pursuing various options to increase other revenues. Specifically, the Treasurer should prepare a quarterly or monthly investment report for the Board that shows the principal value, market value, rate of return, maturity date, and specific transactions executed during the last quarter or month. This would allow the Board to take a more active role in overseeing the District's investments and share in the decision-making responsibilities. This would also provide the Board with greater assurance that WLSD's monies are invested appropriately and are earning a competitive rate of return. WLSD should also identify a specific employee to be responsible for coordinating the District's grant activities. Doing so could help the District obtain additional grant awards to help fund activities that are outside the constraints of the normal operating budget. Lastly, the District should consider using a separate cost center to account for the revenues and expenditures associated with non-routine transportation services. This would allow the District to easily monitor the cost of providing non-routine transportation services, which would subsequently facilitate a more accurate cost reimbursement/billing procedure (see R5.10 within the transportation section).**

**Table 2-6** shows WLSD's other revenues on a per student basis as compared to the peers.

**Table 2-6: FY 2006-07 Other Revenues per Pupil**

Other Revenues	WLSD	Peer Average	Difference
<b>Total Other Revenues</b>	\$380.78	\$635.48	(\$254.70)

**Source:** FY 2006-07 District and peer 4502s.

**Note:** Formulas may vary due to rounding.

<sup>1</sup> This line-item includes local grants, donations, and revenue from leasing and rental of facilities, etc..

As shown in **Table 2-6**, WLSD's other revenues per pupil are lower than the peer average. The District's other revenues are comprised of tuition receipts, transportation fees, investment earnings, miscellaneous, and refunds. A summary analysis of these revenue sources includes the following:

- *Tuition:* WLSD's tuition receipts represent revenue associated with students attending WLSD through open enrollment, which is beyond the District's direct control. WLSD's SF-3 report shows that the District had a negative adjustment for open enrollment of \$146,150 in FY 2006-07, which indicates that the District lost students through open enrollment. In contrast, the peer average open enrollment adjustment was a positive \$110,404, which indicates that the majority of the peer districts gained students through open enrollment.
- *Transportation Fees:* Transportation fees represent revenues for transporting pupils to and from school activities (non-routine transportation services). WLSD does not record transportation fees as a receipt in the General Fund. Rather, WLSD accounts for the reimbursements as direct offsets to transportation expenditure line-items. Although this accounting practice results in an accurate ending General Fund balance, it is more difficult to understand the true cost of providing non-routine transportation services as the ending account balances do not reflect the actual costs or receipts. Additionally, **R5.10** in the **transportation** section indicates that the District does not charge the athletic fund for transporting students on athletic trips, which also potentially contributes to incomplete transportation cost information. During a performance audit of the Canton City School District in 2007, it was noted that the district established a separate account code to record the non-routine transportation activities, which allowed for improved monitoring of this program.
- *Investment Earnings:* WLSD's Board policies state that the primary objective for investments is the preservation of principal and liquidity and return on investment. The Board policies allow for a variety of investments including United States Treasury bills, notes, bonds, State issued securities, the State Treasury Asset Reserve of Ohio (STAR Ohio), no load money market mutual funds, overnight

repurchase agreements, and banker's acceptances and commercial paper notes as stipulated in the Ohio Revised Code. The Board policy goes on to state that the District will diversify its investments by security, type and institution as determined by the Treasurer. However, as of April 2008, the District invested 61 percent of its General Fund monies with STAR Ohio and 39 percent in an interest bearing checking account. While the Board's policy gives the Treasurer the authority to make investment decisions, it does not require the Treasurer to provide them with detailed investment reports. Therefore, it is difficult to determine if the Board takes an active role in overseeing the District's investments. GFOA recommends that government agencies prepare quarterly or monthly investment reports for the chief administrative officer and the legislative body that include the status of the current investment portfolio and the individual transactions executed over the last quarter or month.

- *Miscellaneous*: WLSD's miscellaneous receipts consist of e-rate reimbursements (grants) and gas well income. The District received \$26,292 in e-rate reimbursements, more than the peer average. However, according to the Uniform School Accounting System (USAS), miscellaneous income can consist of other sources of revenue, such as fines, commissions, rentals, and other miscellaneous income that WLSD does not account for in the miscellaneous line-item. According to the Treasurer, the District does not collect commissions and fines are assessed as fees and recorded in other line-items. Likewise, rental income is recorded as an offset to the custodial expense accounts when users pay for building use, which is infrequent.

This line-item also accounts for a variety of miscellaneous revenues including local grants. The Superintendent and his secretary, the Treasurer, and the Title 1 Coordinator are responsible for locating and administering grants. The District does not have a formal policy on grants management or a specific person responsible for coordinating grant applications. In *Helping Schools Make Technology Work* (Texas School Performance Review, 2003), the Texas School Performance Review (TSPR) indicates that aggressive pursuit of grants and other financial support is critical to funding comprehensive technology programs and that centralized coordination of the grant process is an important step to successfully locating and receiving grant monies.

- *Refunds*: Refunds are usually a function of overpayments in the prior year and are not necessarily an active revenue generation activity.

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*Financial Policies & Management Reporting*

**R2.5 WLSD should supplement existing financial policies to include stabilization of funds, fees and charges, use of one-time revenues, revenue diversification, and contingency planning. Addressing such areas would help guide decision-making, thereby reducing the risk of making uninformed decisions. WLSD should also consider updating posting all policies on the website to help ensure employees and stakeholders have a clear understanding of the policies.**

The Board has developed comprehensive financial policies to help guide the District's financial decision making. However, the District does not place the policies on the website for public viewing and lacks certain policies recommended by *Best Practices in Public Budgeting* (GFOA, 2000). A summary description of these policies includes the following:

- **Stabilization of funds:** A government should maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures. The policies should establish how and when a government builds up stabilization funds and the purposes for which they may be used. Once developed, the policies should be identified in other government documents, including planning and management reports.
- **Fees and charges:** A government should adopt policies that identify the manner in which fees and charges are set and the extent to which they cover the cost of the service provided. Policies that require identification of both the cost of the program and the portion of the cost that will be recovered through fees and charges allow governments and stakeholders to develop a better understanding of cost of services and consider the appropriateness of established fees and charges.
- **Use of one-time revenues:** A government should adopt policies limiting the use of one-time revenues for ongoing expenditures. One-time revenues and allowable uses for those revenues should be explicitly defined. The policy should be publicly discussed before adoption and should be readily available to stakeholders during the budget process.
- **Revenue diversification:** A government should adopt policies that encourage a diversity of revenue sources. The policy should identify approaches that will be used to improve revenue diversification. An analysis of particular revenue sources is often undertaken in implementing the policy. This assessment should review the sensitivity of revenues to changes in rates, the fairness of the tax or fee, administrative aspects of the revenue source, and other relevant issues.

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

GFOA also indicates that once the financial policies are developed, they should be publicly available and reviewed on a periodic basis. In addition to the financial policies noted above, several operational policies are identified throughout this performance audit that the District should consider developing and/or updating including a financial forecasting policy (see **R2.1**) and a purchasing price threshold policy (see **R2.7**).

**R2.6 WLSD should consider preparing and issuing its annual financial statements in the comprehensive annual financial report (CAFR) format. Similarly, the District should also consider supplementing the annual financial statements with the “simpler” format of the popular annual financial report (PAFR). The District should also include these reports and other financial information on its website. By using its website, WLSD would be using a relatively inexpensive method to help stakeholders better understand the District’s operations and financial condition.**

WLSD is required by Ohio Administrative Code (OAC) § 117-2-03 to issue financial statements prepared on an accrual basis in accordance with Generally Accepted Accounting Principles (GAAP). The financial audit results for FY 2003-04, FY 2004-05 and FY 2005-06 indicate that WLSD complies with this statute. However, the District does not make the financial statements available on its website. Instead, the District publishes a notice in the local newspaper when the financial statements can be obtained through a public records request or viewed at District offices. In addition, the District does not prepare a comprehensive annual financial report (CAFR) or a popular annual financial report (PAFR). According to the Treasurer, staffing and time availability prevent the District from preparing a CAFR or PAFR.

*Recommended Practices: Government Accounting, Auditing, and Financial Reporting* (GFOA, 2006) indicates that state and local governments should not be satisfied with only issuing basic financial statements required by GAAP, but should instead publish a CAFR. The CAFR would expand the reporting model to include information on WLSD’s operating environment, explanations for past spending decisions and future commitments, as well as budgetary statements and statistical information. Likewise, *Recommended Practices: Preparing Popular Reports* (GFOA, 2001) encourages governments to supplement their annual financial reports with simpler, “popular” annual financial reports (PAFR) designed to assist those who need a less detailed overview of a government’s financial activities. According to GFOA, the PAFR supplements the GAAP basis financial statements and is used to describe a government entity’s operations in a

consolidated, aggregated or condensed format. The intent of a PAFR is to provide objective information to local citizens in a clear and concise manner, using charts and graphs to interpret financial data and to help identify trends.

According to *Using Websites to Improve Access to Budget Documents and Financial Reports* (GFOA, 2003), a government should publish its budget documents and its comprehensive annual financial reports on its website. Furthermore, this publication notes that a government effectively using its website to convey financial information can realize a number of benefits including increased public awareness, increased public usage of the information, and availability of information for use in public analysis.

### *Purchasing*

**R2.7 The District should develop a more comprehensive purchasing policy that establishes minimum thresholds for obtaining price quotes and using competitive bidding. The Treasurer's office should help devise the new thresholds with the intent of subjecting more items to competitive pricing without being overly cumbersome for operational units. In addition, the District should develop the purchasing policy that covers the process for requests for proposals, including when they should be used in contracting for purchased services. These policies will provide the Board with greater assurance that goods and services are being purchased at a fair price and that objective decisions are being made regarding vendor selection.**

The District's purchasing policies state that "...the Board declares its intention to purchase competitively without prejudice and to seek maximum educational value for every dollar expended." However, the District's purchasing policies are broad and do not address when price quotes and competitive bidding should be used in making a purchase. In addition, the policies do not address requests for proposals (RFPs), including when they should be used in contracting for purchased services. In actual practice, the Treasurer indicated that the District usually requires price quotes when the cost of a good or service reaches \$3,000 to \$4,000. The Treasurer also indicated that the District regularly uses purchasing consortiums to help ensure that the District is receiving the best price for goods and services. However, these are informal practices and are not documented through Board policy.

The Akron City School District requires employees to obtain three price quotes on anything costing more than \$6,000. Similarly, the Cincinnati Public School District requires various forms of competitive pricing for goods and services costing more than \$500. The Office of Program Policy Analysis and Government Accountability (Florida) also recommends that school districts take maximum advantage of the purchasing

function by ensuring that effective price quotation policies are in place that require quotes for small dollar purchases, but less than dollar limits requiring competitive bidding.

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

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

Without more stringent competitive purchasing policies and defining the RFP process, the Board increases the risk of employees not obtaining fair prices for significant purchases and not objectively selecting vendors.

*Revised Financial Forecast*

**R2.8 WLSD should analyze and use Table 2-7 to evaluate the effect of recommendations presented in this performance audit. The District should consider implementing the recommendations in this performance audit and other appropriate actions to avoid the projected operating deficits. In addition, the Treasurer should update Table 2-7 on an on-going basis to reflect changes, monitor revenue and expenditure activities, and review performance against projected figures. Lastly, WLSD should regularly discuss potential options for reducing costs and/or increasing revenues with stakeholders to help determine long-term strategies for addressing the projected deficits.**

**Table 2-7** presents a revised forecast to demonstrate the impact the performance audit recommendations will have on the District's financial condition. **Table 2-7** also includes the revised projections discussed throughout this section of the audit report.

The District will need to make difficult management decisions in order to avoid deficit balances during the next five years. For example, the forecast shown in **Table 2-7** assumes the District will reduce the certificated staffing levels, negotiate higher employee contributions for healthcare, and eliminate two buses. However, even when the financial implications for all the performance audit recommendations are included, **Table 2-7** shows that the District is projected to experience a negative ending fund balance in FY 2011-12. WLSD placed a 4.95 mill levy proposal on the ballot in March 2008 to eliminate the projected deficits. This levy would have replaced the 1.2 mill emergency levy and was structured to generate approximately \$792,000 annually. However, the voters defeated the levy proposal. As a result, it will be necessary for the District to consider other options for addressing the projected deficit including revised levy proposals and cost reduction strategies not identified in this performance audit.

Finally, the forecast projections in **Table 2-7** will depend, in part, on the attainment of the District and AOS revised projections. Therefore, monitoring the attainment of the projections and updating the forecast as necessary will ensure the District bases future decisions on the most current information. For example, if the District was able to realize only 4 percent annual increases in purchased services as originally projected by the Treasurer (see **R2.3**) and assuming implementation of all of the performance audit recommendations, WLSD would achieve a positive ending fund balance in FY 2011-12.

**Table 2-7: Revised Financial 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	\$3,049	\$2,781	\$3,060	\$3,174	\$3,174	\$3,205	\$3,238	\$3,302
Tangible Personal Property Tax	\$292	\$275	\$238	\$130	\$113	\$55	\$0	\$0
State Funding	\$5,557	\$5,759	\$6,155	\$6,109	\$6,163	\$6,287	\$6,412	\$6,541
Property Tax Allocation	\$386	\$388	\$477	\$572	\$639	\$727	\$689	\$624
Other Revenues	\$261	\$394	\$437	\$353	\$328	\$278	\$223	\$223
<b>Total Operating Revenues</b>	<b>\$9,546</b>	<b>\$9,596</b>	<b>\$10,367</b>	<b>\$10,337</b>	<b>\$10,417</b>	<b>\$10,552</b>	<b>\$10,562</b>	<b>\$10,690</b>
Salaries & Wages	\$5,421	\$5,655	\$5,726	\$5,876	\$5,877	\$6,127	\$6,242	\$6,377
Fringe Benefits	\$2,240	\$2,240	\$2,401	\$2,496	\$2,166	\$2,725	\$2,896	\$3,084
Purchased Services	\$1,194	\$1,333	\$1,460	\$1,519	\$1,709	\$1,956	\$2,250	\$2,609
Supplies & Materials	\$393	\$387	\$327	\$369	\$376	\$384	\$392	\$400
Capital Outlay	\$127	\$183	\$138	\$138	\$138	\$138	\$138	\$138
Debt Service	\$21	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Expenditures	\$266	\$296	\$331	\$361	\$391	\$391	\$391	\$391
<b>Total Operating Expenditures</b>	<b>\$9,661</b>	<b>\$10,094</b>	<b>\$10,383</b>	<b>\$10,759</b>	<b>\$10,657</b>	<b>\$11,721</b>	<b>\$12,309</b>	<b>\$12,999</b>
Net Transfers/ Advances	\$20	\$1	\$12	(\$24)	\$0	\$0	\$0	\$0
Other Financing Sources	\$5	\$2	\$6	\$6	\$6	\$6	\$6	\$6
<b>Net Financing</b>	<b>\$25</b>	<b>\$3</b>	<b>\$18</b>	<b>(\$18)</b>	<b>\$6</b>	<b>\$6</b>	<b>\$6</b>	<b>\$6</b>
<b>Result of Operations (Net)</b>	<b>(\$90)</b>	<b>(\$495)</b>	<b>\$3</b>	<b>(\$440)</b>	<b>(\$234)</b>	<b>(\$1,163)</b>	<b>(\$1,741)</b>	<b>(\$2,303)</b>
Beginning Cash Balance	\$2,818	\$2,728	\$2,233	\$2,236	\$1,796	\$1,562	\$399	(\$1,342)
<b>Ending Cash Balance</b>	<b>\$2,728</b>	<b>\$2,233</b>	<b>\$2,236</b>	<b>\$1,796</b>	<b>\$1,562</b>	<b>\$399</b>	<b>(\$1,342)</b>	<b>(\$3,645)</b>
Encumbrances	\$628	\$529	\$532	\$532	\$532	\$150	\$532	\$532
Budget Reserve	\$358	\$408	\$458	\$508	\$100	\$0	\$0	\$0
<b>Ending Fund Balance</b>	<b>\$1,742</b>	<b>\$1,296</b>	<b>\$1,246</b>	<b>\$756</b>	<b>\$930</b>	<b>\$249</b>	<b>(\$1,874)</b>	<b>(\$4,177)</b>
<b>Cumulative Impact of Performance Audit Recs.</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$879</b>	<b>\$1,799</b>	<b>\$2,765</b>	<b>\$3,780</b>
<b>Revised Ending Fund Balance</b>	<b>\$1,742</b>	<b>\$1,296</b>	<b>\$1,246</b>	<b>\$756</b>	<b>\$1,809</b>	<b>\$2,048</b>	<b>\$891</b>	<b>(\$397)</b>

Source: WLSD

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

**Table 2-8** summarizes the performance audit recommendations reflected in the revised five-year forecast. Recommendations are divided into two categories, those requiring negotiation and those not subject to negotiation.

**Table 2-8: Performance Audit Recommendations Included in Recovery Plan**

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
<b>Recommendations Not Subject to Negotiation</b>				
<b>R3.1</b> Reduce 13.0 FTE regular education teachers and 5.0 FTE ESP positions.	\$744,000	\$775,620	\$808,584	\$842,949
<b>R3.7</b> Implement a drug free workplace policy.	\$6,100	\$6,100	\$6,100	\$6,100
<b>R3.9</b> Purchase sub-calling system.	(\$1,380)	(\$494)	(\$509)	(\$525)
<b>R4.1</b> Develop formal energy management policies and procedures, and assign someone to monitor energy use.	\$39,500	\$40,883	\$42,313	\$43,794
<b>R4.4</b> Purchase Computerized Maintenance Management System (CMMS)	(\$1,000)	(\$1,030)	(\$1,061)	(\$1,093)
<b>R5.1</b> Eliminate and sell two active buses	\$27,500	\$25,750	\$26,523	\$27,318
<b>R5.2</b> Eliminate and sell two spare buses	\$3,700	\$1,200	\$1,200	\$1,200
<b>R5.3</b> Negotiate reduced wage increases during the next contract period (FY 2009-10 through FY 2011-12).	N/A	\$7,488	\$15,257	\$23,315
<b>R5.4</b> Merge Maintenance with another district	\$25,000	\$25,750	\$26,523	\$27,318
<b>Subtotal Not Subject to Negotiations</b>	<b>\$843,420</b>	<b>\$881,266</b>	<b>\$924,929</b>	<b>\$970,377</b>
<b>Recommendations Subject to Negotiation</b>				
<b>R3.6</b> Increase certificated and classified contributions to 10 percent for healthcare.	\$31,000	\$34,100	\$37,169	\$40,514
<b>R3.9</b> Eliminate sub-calling stipend.	\$4,400	\$4,400	\$4,400	\$4,400
<b>Subtotal Subject to Negotiations</b>	<b>\$35,400</b>	<b>\$38,500</b>	<b>\$41,569</b>	<b>\$44,914</b>
<b>Total all Recommendations</b>	<b>\$878,820</b>	<b>\$919,766</b>	<b>\$966,498</b>	<b>\$1,015,291</b>

Source: AOS recommendations



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# Human Resources

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## Background

This section of the performance audit focuses on Waterloo Local School District's (WLSL or the District) human resource operations. Operations were evaluated against recommended or leading practices, industry benchmarks, operational standards, and selected peer school districts.<sup>1</sup> Sources of comparative information include the Ohio Revised Code (ORC), the Ohio Administrative Code (OAC), the Ohio Department of Education (ODE), the Ohio Department of Administrative Services (DAS), the State Employment Relations Board (SERB), the Bureau of Workers' Compensation (BWC), the Kaiser Family Foundation 2007 National Survey, and the Government Finance Officers Association (GFOA).

### *Organizational Structure and Function*

WLSL does not have a separate department dedicated to human resource functions. The District's Treasurer and Superintendent complete the major human resource functions, including hiring, terminating, managing and evaluating employees; negotiating collective bargaining agreements; administering the health insurance programs; processing payroll; monitoring compliance with minimum employment standards; and overseeing the process for reporting information through the Education Management Information System (EMIS).

### *Staffing*

**Table 3-1** compares WLSL's full-time equivalent (FTE) employees per 1,000 average daily membership (ADM) to the peer average for FY 2006-07. During the course of the audit, the FY 2007-08 staffing information became available through EMIS. The FY 2007-08 EMIS report shows that the District's total employees only declined by approximately 3.0 FTEs. The reductions occurred in professional staff (0.7), technical staff (1.0), maintenance (1.0) and food service (1.5), while offsetting increases occurred in transportation (0.3) and educational (0.9). Where applicable, the staffing assessments in **R3.1** and **R3.2** have been adjusted to reflect changes in the FY 2007-08 staffing levels.

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<sup>1</sup> See the **executive summary** for a list of the peer districts, and an explanation of the selection methodology.

**Table 3-1: FY 2006-07 Staffing Comparison (FTEs per 1,000 Students)**

	WLSD	Peer Average	FTE Differences
<b>Students Educated (FTE)<sup>1</sup></b>	1,259	1,083	176
<b>Administrators</b>	4.27	6.29	(2.02)
<b>Educational</b>	73.57	67.55	6.02
<b>Professional</b>	1.59	1.38	0.21
<b>Technical</b>	1.65	3.21	(1.56)
<b>Office / Clerical</b>	5.16	10.16	(5.00)
<b>Maintenance Workers</b>	3.18	1.90	1.28
<b>Custodians/Grounds</b>	5.56	6.06	(0.50)
<b>Bus Drivers</b>	10.91	8.27	2.64
<b>Food Service Workers</b>	6.62	7.25	(0.63)
<b>All Other</b>	4.70	1.72	2.98
<b>Total FTEs</b>	<b>117.21<sup>2</sup></b>	<b>111.58</b>	<b>5.63</b>

Source: FY 2006-07 EMIS data reported to ODE as of 02/02/07

<sup>1</sup> Includes students receiving educational services from the district and excludes the percent of time students are receiving educational services outside the district.

**Table 3-1** shows that WLSD's staffing levels exceed the peer average by more than 1.0 FTE per 1,000 ADM in the educational, maintenance, bus driver and all other classifications. The higher educational staffing levels are attributed to the District employing more tutor/small group instructor FTEs per 1,000 students, having a higher percentage of the student population enrolled in the special education program, and employing more education service personnel (ESP) teachers per 1,000 students. Although the District employs more tutor/small group instructor FTEs, it does not employ any remedial specialists, teaching aides, or instructional paraprofessionals. When combining these classifications, the District employs 7.8 FTEs per 1,000 students, which is lower than the peer average (8.1). Additionally, special education students represented approximately 16 percent of WLSD's student population in FY 2006-07 while the peer average was only 10 percent. As a result, the District employed approximately 10.3 special education and supplemental special education teacher positions in FY 2006-07 while the peer average was only 8.3. Despite maintaining higher staffing levels, WLSD's special education costs per special education student were \$6,502 in FY 2006-07 while the peer average was \$9,477. **R3.2** indicates that the District's special education staffing levels may not comply with State minimum requirements. Furthermore, **R3.1** indicates that while the District's regular student-to-regular teacher staffing ratios are comparable to the peer average, they are lower than the State minimum requirements. Lastly, **R3.1** further assesses ESP staffing levels.

The higher staffing levels within the all other classification are due to the District employing more monitors than the peer average (see **Issues for Further Study**). See the **facilities** and **transportation** sections for further assessments of maintenance and bus driver staffing levels.

*Salaries*

**Table 3-2** compares WLSD's average salaries by EMIS classification to the peer average.

**Table 3-2: FY 2006-07 Average Salaries**

	WLSD	Peer Average	Percent Difference
Administrators	\$73,917	\$66,566	11.0%
Educational Staff	\$45,331	\$48,548	(6.6%)
Professional Staff	\$54,577	\$42,167	29.4%
Technical Staff	\$16,586	\$19,653	(15.6%)
Office/Clerical Staff	\$28,986	\$22,450	29.1%
Maintenance Workers	\$37,368	\$39,467	(5.3%)
Operative	\$20,216	\$14,943	35.3%
Service Worker	\$20,099	\$20,263	(0.8%)
<b>Total Average Salary</b>	<b>\$39,184</b>	<b>\$39,982</b>	<b>(2.0%)</b>

Source: WLSD and Peer EMIS Reports FY 2006-07

As shown in **Table 3-2**, WLSD's average salary for all positions (\$39,184) is 2.0 percent lower than the peer average (\$39,982). The Superintendent and Treasurer complete annual salary comparisons to the neighboring school districts in Portage County to help maintain appropriate compensation levels. Although **Table 3-2** shows the District's salaries are higher than the peer average in the administrative, professional, and office/clerical functions, the variances are attributed to employee longevity. The higher operative salaries are due to the longevity of bus drivers and structural differences in the negotiated salary schedules for bus drivers (see **R5.3** in the **transportation** section).

*Negotiated Agreements*

The following collective bargaining agreements cover the District's certificated and classified personnel:

- **Waterloo Education Association:** (Certificated contract) covers certificated employees and is effective through June 30, 2008.
- **Waterloo Administrative Secretaries:** (Classified contract) covers most clerical employees and is effective through June 30, 2008.
- **Ohio Association of Public School Employees/AFSCME AFL-CIO Local 575:** (Classified contract) covers classified employees and is effective through June 30, 2009.

As part of the performance audit, certain contractual and employment issues were assessed and compared to Ohio law and industry benchmarks. See **R3.4** for more information.

### **Issue 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 Monitor/Bus Aide Staff as an issue for further study. **Table 3-1** shows that the District's staffing levels within the "All Other" classification equals 4.7 FTEs on a per 1,000 ADM basis while the peer average is only 1.7. The District's staffing in this classification consists of 2.1 FTEs that function as bus aides for special needs children, and 3.8 FTEs that perform clerical functions and monitor the playgrounds and lunchrooms. When excluding the 2.1 FTE bus aides based on potential requirements to support special education transportation, the District's revised "All Other" classification equals 3.0 FTEs per 1,000 ADM, which is still higher than the peer average. Monitoring staffing levels are partially affected by the certificated bargaining agreement, which states "no elementary teacher shall be responsible for supervising student lunch time or recess periods." Based on the above, WLSD should consider conducting an in-depth review of its monitor/bus aide staffing levels to determine the following:

- If the 2.1 FTE bus aides are required by individual educational programs (IEP) to support the special needs transportation program.
- The actual amount of time that monitors are completing clerical functions and the impact reductions in monitor staffing levels will have on the clerical staff.
- The funding source for each monitor/bus aide as some of these positions may be funded through grants and/or other funds (food service fund), which would have minimal impact on the deficits projected in the General Fund.
- The extent that monitors are needed to comply with the provisions in the certificated bargaining agreement.

Taking these actions will help ensure that WLSD considers all appropriate factors before making a final decision regarding the monitor/bus aide staffing levels.

## Recommendations

### Staffing

**R3.1 WLSD should continually monitor student-to-teacher ratios and Educational Service Personnel (ESP) staffing ratios, and regularly evaluate the impact of potential staffing changes, both financially and educationally. If the District does not implement the performance audit recommendations and other strategies to reduce costs, it should consider reducing regular education and ESP staffing levels. The District could reduce its regular education and ESP teachers by 18 FTEs and still meet State minimum requirements. However, WLSD should weigh decisions to reduce teacher and ESP staffing levels against the impact the reductions may have on the quality of education.**

**Table 3-3** compares WLSD's teacher staffing ratios and local district report card performance to the peer average.

**Table 3-3: Regular Classroom Teacher Staffing Comparison**

	WLSD	Peer Average	Difference
<b>Teachers-to-Students</b>			
Regular Classroom Teachers (FTE)	56.0	57.3	(1.3)
Regular Student-to-Regular Teacher	19.3 to 1	18.4 to 1	4.9%
Total ADM per Regular Teacher	22.5 to 1	21.3 to 1	5.6%
<b>District Report Cards</b>			
FY 2005-06 Performance Indicators Met (out of 25)	21.0	24.5	(14.3%)
FY 2005-06 Performance Index (out of 120)	96.2	103.9	(7.4%)
FY 2006-07 Performance Indicators Met (out of 30)	25.0	29.3	(14.7%)
FY 2006-07 Performance Index (out of 120)	95.0	102.9	(7.7%)

**Source:** WLSD and peer FY 2006-07 EMIS data and ODE Local District Report Cards

**Table 3-3** shows that WLSD's student-to-teacher ratios are higher than the peer averages, which indicates that the District employs fewer teachers than the peer average. **Table 3-3** also shows that the District met fewer performance indicators and achieved lower performance index scores on the State report cards issued for FY 2005-06 and FY 2006-07, when compared to the respective peer averages.

For regular education staffing levels, WLSD is required by Ohio Administrative Code (OAC) § 3301-35-05 to maintain at least one FTE classroom teacher for every 25 regular education students on a district-wide basis. Although WLSD's regular student-to-regular teacher staffing ratio (19.3:1) is higher than the peer average (18.4:1), it is still lower than the State minimum requirements. Based on the FY 2006-07 staffing levels, the District could reduce approximately 12.0 FTE regular education teachers and still comply with

State minimum requirements. However, the District hired one additional regular education teacher in FY 2007-08, which would increase the potential reduction to 13.0 FTEs<sup>2</sup>.

**Table 3-4** compares WLSD's ESP staffing ratios to the peer average.

**Table 3-4: ESP Staffing Comparison**

	WLSD		Peer Average	
	FTEs	Per 1,000 Students	FTEs	Per 1,000 Students
ESP Teachers <sup>1</sup>	7.0	6.5	5.5	5.2
Counselors	2.0	1.8	2.0	1.9
Librarian/Media Specialist	1.0	0.9	1.2	1.1
School Nurses (Registered Nurses)	1.0	0.9	0.8	0.8
Social Workers	0.0	0.0	1.0	1.0
<b>Total Education Service Personnel (FTE)</b>	<b>11.0</b>	<b>10.0</b>	<b>8.7</b>	<b>8.3</b>

**Source:** FY 2006-07 EMIS data as reported to the ODE

Note: Totals may vary due to rounding

<sup>1</sup> ESP teachers include K-8 art, music, and physical education teachers.

**Table 3-4** shows that the District employs more ESP FTEs on a per 1,000 student basis when compared to the peer average. Further, OAC § 3301-35-05(A)(4) requires that school districts employ a minimum of five education service personnel for every 1,000 regular education students. Based on OAC requirements and the District's regular education enrollment in FY 2006-07 (1,083), the District is required to employ a minimum of 5.4 ESP FTEs. **Table 3-4** shows that the District currently employs 11.0 ESP FTEs, or 5.6 more than required by the OAC.

*Financial Implication:* By reducing 13 regular education teachers and 5 educational service personnel, the District could save approximately \$774,000 annually in salaries and benefits. This is based on the starting salary for a certificated employee according to the collective bargaining agreement and an estimate of the health and payroll benefits based on the District's historical trends.

**R3.2 The District should conduct an in-depth review of its special education program to determine if the staffing levels comply with the OAC, and obtain further consultation from ODE. If the staffing levels are less than the State minimum requirements, the District should either obtain the necessary waiver from ODE or**

<sup>2</sup> The regular student population reported in the June 6, 2008 SF-3 report was 1,043, which is a decline from 1,083 in FY 2006-07. Based on enrollment and regular education staffing in FY 2007-08, the District could reduce 15 regular teacher FTEs and still comply with State minimum requirements. However, the final SF-3 report was not available during this assessment of the performance audit, which would contain the final regular student count. Therefore, the performance audit only identified 13 potential reductions.

**hire additional teachers with appropriate certification for special education instruction. Establishing the formal staffing plan identified in R3.3 would help ensure the District maintains appropriate special education staffing levels and identifies instances when it should file waivers with ODE.**

Ohio Administrative Codes (OAC) § 3301-51-09 and § 3301-24-05 include a number of provisions that govern school district special education programs, including minimum staffing levels by student disability type, appropriate teacher certifications, and waivers that must be filed with ODE if a school district deviates from these provisions. Based on the minimum staffing provisions, it is estimated that the District should have employed a minimum of 14.2 teachers licensed for special education instruction in FY 2006-07. However, the District only employed 12.9 special education teachers in FY 2006-07. According to the Superintendent, the special education teachers are assisted by tutors. However, the Superintendent also indicated that the tutors are not specifically licensed for special education instruction and the District did not apply with ODE to waive the special education staffing requirements. As a result, the District's special education instructional staffing levels may not comply with the requirements stipulated in OAC § 3301-51-09 and § 3301-24-05.

**R3.3 WLSD should develop a formal plan to address current and future staffing needs. This would help ensure that the District complies with State minimum requirements and meets the goals of the strategic plan by efficiently allocating its staffing resources. To assist in developing the staffing plan, WLSD should review R3.1, R3.2, and the other sections of this performance audit because they contain variables (e.g., workload measures) that should be considered when analyzing staffing levels for the District's specific operations.**

WLSD adopted a strategic plan in 2007 that identifies "providing students with the best possible educational program within available resources" and "maintaining staffing at appropriate levels based on enrollment and special program needs" as primary goals of the District. However, the strategic plan does not identify specific criteria to use in determining and allocating staffing resources. Additionally, the Superintendent indicated that the District does not have a formal policy or guidelines outside the strategic plan to help determine appropriate staffing levels. Without considering objective standards such as workload drivers, the District increases the risk of not meeting State minimum standards or maintaining inefficient staffing levels. For example, **R3.2** indicates that the District's special education staffing levels appear slightly lower than the State minimum standards established by OAC § 3301-51-09. Similarly, **R5.1** in the **transportation** section shows that although the total ridership declined approximately nine percent in FY 2007-08, the District purchased an additional bus. Consequently, WLSD is using more bus drivers to transport fewer students.

The Tulsa Public Schools has established guidelines for determining the appropriate staffing levels within the regular and special education teacher, administrative, other 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 levels are based on a consideration of various workload measures. For example, the custodial staffing levels are based on a calculation that considers the number of teachers, students, rooms, and the total area of the buildings. The food service staffing allocations are based on a minimum target meals per labor hour calculation established by the District. The staffing plan also outlines the procedures for developing the allocations in each area.

### *Negotiated Agreements*

#### **R3.4 The District should consider renegotiating several provisions in its collective bargaining agreements. Specifically, it should consider reducing the number of holidays, the minimum amount provided for call-in pay, and the number of sick days paid at retirement to certificated and classified staff.**

As a component of the performance audit, certain provisions within the District's collective bargaining agreements were compared to State requirements and relevant standards. The following provisions were identified as comparable to these requirements and/or standards: length of workday, minimum staffing, employee evaluations, number of sick days accrued, number of personal days, board pension contributions, retirement incentives, and negotiated wage increases. A summary analysis of the areas that exceeded these standards includes the following:

- **Holidays:** According to ORC § 3319.087, 11 and 12 month employees are entitled to a minimum of 7 holidays and 9 and 10 month employees are entitled to 6 holidays. WLSD's administrative secretaries receive 7 holidays<sup>3</sup> while the other classified positions receive 10 holidays. Providing full-time employees with more holidays can reduce productivity since there are fewer workdays devoted to District operations.
- **Minimum Call-In Hours:** WLSD guarantees that classified employees will receive a minimum of four hours of pay if they are called in for emergencies during unscheduled work hours. By comparison, the Chardon Local School District, the Painesville Township Local School District, and the Chillicothe

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<sup>3</sup> The collective bargaining agreement does not define months worked by secretaries. Instead, it defines the annual days worked for secretaries as follows: high school at 224 days, middle school at 214 days, elementary school at 204 days, and high school guidance at 192 days.

Local School District all provide two-hour minimum guarantees<sup>4</sup>. Maintaining a higher minimum guarantee can result in additional costs for the District.

- Severance Payouts:** Assuming an employee meets a variety of requirements, the District allows for maximum severance payouts of 87 days for certificated personnel, 55 days for clerical employees, and 87 days for all other classified staff. ORC §124.39 stipulates that if an individual retires with 10 or more years of service with the State, they are entitled to be paid 25 percent of the value of their accrued but unused sick leave, up to 30 days. During FY 2006-07, the District incurred severance payouts of approximately \$97,000 for six employees.

*Financial Implication:* The savings associated with a reduction in severance payouts will vary depending on the number and rate of pay for retirees in a given year. However, if the District had reduced the maximum severance payout to ORC minimum requirements in FY 2006-07, the savings would have been approximately \$54,800.

**R3.5 WLSD should strive to reduce the amount of sick leave used by its employees by developing a policy to ensure its proper use. More specifically, the District should include prohibitions against “pattern abuse,” disciplinary actions for misusing or abusing sick leave, and the ability to request physician statements within the policy. These prohibitions should indicate that if employees engage in “pattern abuse,” they will be subject to discipline. In addition, the District should consider the American Society for Public Administration’s (ASPA) suggestions for effectively monitoring sick leave abuse.**

**Table 3-5** compares the District’s average sick leave use to the State Council of Professional Educators, Ohio Education Association (SCOPE/OEA) and the American Federation of State, County, and Municipal Employees (AFSCME) averages reported by the Ohio Department of Administrative Services (DAS).

**Table 3-5: Waterloo LSD Sick Leave**

	<b>WLSD Sick Leave Hours Per Employee</b>	<b>ODAS Averages (FY 2005-06)<sup>1</sup></b>	<b>Excess Hours Used</b>
<b>Certified</b>	59.1	53.71	5.4
<b>Classified</b>	71.3	56.20	15.1

**Source:** Waterloo LSD and Ohio Department of Administrative Services

<sup>1</sup> State Average is based on FY 2005-06 data, since the FY 2006-07 data is unavailable. Certificated average represents State Council of Professional Educators (SCOPE) and classified average represents the Ohio Civil Service Employees Association (OCSEA)/American Federation of State, County, and Municipal Employees (AFSCME) agreement.

<sup>4</sup> This is based on data reported in prior performance audits.

**Table 3-5** shows that the WLSD's certificated and classified staff averaged more sick leave hours per employee than the respective DAS averages. The District's higher rate of sick leave can be partially attributed to a lack of measures for identifying and disciplining employees suspected of abuse. The only exceptions include the OAPSE and Administrative Secretary contracts allowing the District to request a physician's statement after an employee has been absent for five consecutive days and containing a provision indicating that falsification of the statement may be grounds for termination. Likewise, the District lacks a Board policy that addresses sick leave use. To monitor sick leave and identify potential patterns of abuse, the Treasurer indicated that District administrators regularly review sick leave reports. However, the District only requested physician statements to justify the use of sick leave from two employees in FY 2006-07.

The State of Ohio has collective bargaining agreements with the SCOPE and the OCSEA/AFSCME, Local 11. Teachers, librarians and educational specialists comprise the majority of positions represented by SCOPE. OCSEA Local 11 represents numerous classifications including clerks, administrative assistants, custodial workers, electricians, equipment operators, food service workers, and maintenance repair workers. Both of these collective bargaining agreements (2006-2009) contain provisions for disciplining employees for sick leave abuse and 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.

Additionally, the SCOPE agreement indicates that for absences exceeding seven consecutive calendar days, a physician's statement is routinely required that specifies the employee's inability to work and probable recovery date.

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 problem 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.

*Financial Implication:* Although not readily quantifiable, savings related to reductions in classified sick leave use will depend on the frequency of using substitutes to cover for absences and the potential impact on reducing overtime costs. Savings from reductions in certificated sick leave use was not quantified because the higher leave use, when compared to DAS, amounted to less than one day.

*Benefits*

**R3.6 The District should negotiate to require all employees receiving health benefits to contribute at least 10.0 percent towards the monthly health care premiums. In addition, the District should consider altering its annual deductibles, employee out-of-pocket maximums, and prescription co-payments.**

**Table 3-6** compares WLSD’s expenditures for employee health benefits per FTE to the peer average.

**Table 3-6: Employee Health Insurance Benefit Expenditures per FTE**

	WLSD FY 2006	WLSD FY 2007	Peer Average FY 2007
<b>Fringe Benefits</b>	\$9,315	\$9,639	\$7,936

**Source:** FY 2005-06 and FY 2006-07 District 4502

**Table 3-6** shows that WLSD spent \$1,703 more per FTE for employee health insurance than the peer average in FY 2006-07. The District’s level of employee contributions and premium costs contribute to the higher health insurance expenditures per FTE (see **Table 3-7**). **Table 3-6** also shows that health insurances expenditures per FTE increased by 3.5 percent from FY 2005-06 to FY 2006-07.

The District offers medical, prescription, dental, vision and life insurance coverage to all employees through its membership in the Portage County Health Insurance Consortium (the Consortium). District employees are provided coverage based on employee status as certificated or classified; however, both plans are offered through Medical Mutual as preferred provider organization (PPO) plans. To help control future health insurance expenditures, the District negotiated to require all employees hired after July 1, 2004 to work 35 hours per week to receive health benefits. Prior to this, District employees were only required to work 25 hours per week. This contributes towards the District’s high cost of health insurance shown in **Table 3-6** as the majority of the bus drivers and certain part-time employees work 25 hours per week and participate in the District’s health plans (hired before July 1, 2004).

**Table 3-7** compares WLSD’s premiums and employee contributions to data reported by the Kaiser Survey and SERB. Premium costs reported by SERB and the Kaiser Survey have been increased for inflation, to allow for a reliable comparison to WLSD’s premiums in FY 2007-08.

**Table 3-7: Monthly Health Insurance Premiums and Employee Contributions**

	WLSD FY 2007-08	Kaiser Estimated FY 2007-08	SERB Estimated FY 2007-08
<b>Average Annual Premiums (PPO Plans)</b>	<p><b>Certificated:</b> Single: \$517.13 Family: \$1,274.37</p> <p><b>Classified:</b> Single: \$513.22 Family: \$1,264.30</p>	<p>Single: \$409.55 Family: \$1,100.26</p>	<p>Single: \$427.77 Family: \$1,126.32</p>
<b>Average Monthly Employee Contributions</b>	<p><b>Certificated: 8%</b> Single: \$41.37 Family: \$101.95</p> <p><b>Classified: 5%</b> Single: \$25.75 Family: \$63.30</p>	<p>Single: 16% Family: 28%</p>	<p>Single: 7.3% Family: 8.6%</p>
<b>Prescription Rx Drug Coverage Average Annual Premiums</b>	<p><b>Certificated and Classified Rx (only):</b> Single: \$151.02 Family: \$361.78</p>	<p>Not Reported</p>	<p>Single: \$117.45 Family: \$260.33</p>

Source: WLSD, Kaiser Family Foundation 2007 Annual Report, and SERB 2006 Annual Report

**Table 3-7** shows that although WLSD’s certificated employee contributions (8 percent) are comparable to SERB, they are significantly lower than those reported by the Kaiser Survey. **Table 3-7** also shows that the District’s classified employee contributions (5

percent) are lower than the certificated staff (8 percent), and the SERB and Kaiser Survey averages. Furthermore, SERB published its 2007 report during the course of this performance audit, which shows a Statewide employee average contribution rate of 12.3 percent for single coverage and 13.3 percent for family coverage, for plans that required employee contributions. Lastly, **Table 3-7** shows that WLSD's single and family premiums for medical and prescription insurance are higher than the SERB and Kaiser Survey averages, which can be partially attributed to the District's benefit plan provisions<sup>5</sup>. A summary analysis of the provisions which appear generous include the following:

- **Average Annual Deductibles:** WLSD's annual deductibles are \$50 for single coverage and \$100 for family coverage. In contrast, SERB reported that the average annual deductible for in-network services is \$251 for single coverage and \$534 for family coverage.
- **Annual Out-of-Pocket Maximums:** WLSD's annual out-of-pocket maximums under the certificated plan are \$150 for single coverage and \$700 for family coverage while the classified employees pay \$350 for single coverage and \$1,400 for family coverage. According to the Kaiser Survey, 93 percent of the respondents require an out-of-pocket maximum of more than \$1,000 for single coverage. Similarly, the Kaiser Survey reported that 90 percent of respondents require an out-of-pocket maximum of more than \$2,000 for family coverage.
- **Multi-tier drug plan co-payments:** WLSD requires employees to pay \$3 for generic prescriptions and brand name prescriptions when a generic drug is not available. If a brand name prescription is preferred, the patient must pay the price difference between the generic and brand name prescriptions. By comparison, the Kaiser Survey reported that the average employee co-payments were \$11 for generic, \$25 for preferred drugs and \$43 for non-preferred prescription drugs. Likewise, SERB reported average school district retail co-payments of \$9.03 for generic, \$18.79 for formulary, \$29.76 for non-formulary brand, and \$23.57 for non-formulary brand/generic available.

In contrast to the medical and prescription plans, the District appears effective in controlling the cost of the dental, vision, and life insurance. For example, the District's dental premiums are \$35.18 for single coverage and \$86.87 for family coverage while the estimated SERB averages are \$50.54 and \$84.38, respectively. Similarly, the District's vision premium is \$8.17 per covered employee (single and family) compared to the

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<sup>5</sup> During the course of the performance audit, the Portage County Health Insurance Consortium notified WLSD that the District had built up large reserve balances due to lower than expected health insurance claims. As a result, WLSD will receive a one-time adjustment in FY 2008-09 to reduce the premiums by approximately 24 percent.

estimated SERB average of \$10.52 for single coverage and \$21.19 for family coverage. Furthermore, the District's life insurance premiums in FY 2007-08 at \$0.13 per \$1,000 in coverage is significantly lower than the SERB average in 2004 of approximately \$0.19 per \$1,000 in coverage (updated SERB information was not available during the course of this audit).

*Financial Implication:* If WLSD required all employees to contribute 10 percent toward the health insurance premiums, the District would save approximately \$31,000 annually.

**R3.7 WLSD should implement the Drug Free Workplace Program (DFWP) in an effort to re-qualify for group rating through the Bureau of Workers' Compensation (BWC), improve workplace safety, and achieve additional discounts. This, in turn, would help the District reduce workers compensation costs.**

Table 3-8 presents the District's historical workers compensation data from 2004 through 2006.

**Table 3-8: Workers Compensation Data**

	2004	2005	2006
Total Claims	1	1	2
Total Claims Costs	\$85	\$119	\$97,271
Premium Cost	\$37,525	\$63,475	\$82,993
Experience Modifier	0.62	1.05	1.32

Source: Ohio Bureau of Workers Compensation

Table 3-8 shows that the District's claim costs and experience modifier increased each year from 2004 through 2006. However, the District anticipates that the experience modifier for 2007 will decline slightly to 1.18 (premium costs and claims were not finalized at time of audit). The experience modifier is used by BWC to establish the annual premiums and is based upon several factors, including the number of claims in any previous time period, the severity of those claims, and the extent to which lost time claims went into effect. According to a BWC representative, an experience modifier less than 1.00 indicates that the entity is generally effective in managing workers compensation costs and would be eligible for group rating. Group rating allows employers who are substantially similar in business type to merge their experiences together (as one large employer) in an effort to achieve a lower premium rate than they could on their own. As of August 3, 2007, WLSD was determined to be ineligible for group rating due to the claims costs that occurred from 2003 to 2006.

In response to being ineligible for group rating, WLSD enrolled in the PDP through the BWC. The PDP is an incentive program designed by the BWC to help an entity design a safer, more cost effective workplace. Entities participating in the PDP receive a 10 percent premium discount in the first two years of participation and five percent in the

third year, upon implementing the BWC's ten-step business plan. As additional incentives, the District can receive a 10 percent premium rebate if they can achieve a 15 percent reduction in claim severity in a given year, a five percent rebate if they achieve a 15 percent claims frequency reduction, and another five percent rebate if they achieve both incentives. However, entities enrolled in the PDP are only eligible to receive these discounts for a three-year period.

While the District is using the PDP to receive discounted premiums, it has not taken advantage of additional discounts available through the Drug Free Workplace Program (DFWP), which is also administered by the BWC. The DFWP was established by the BWC to encourage employers to detect and deter substance use and abuse, and to take appropriate corrective action in an effort to improve workplace safety. Employers participating in the DFWP must develop a substance abuse policy that describes their program and conduct random drug tests of employees. If implemented, the District could receive premium discounts ranging from 10 to 20 percent annually for five years, with the range depending on the number of employees subjected to drug tests.

*Financial Implication:* The District spent an average of \$61,000 on workers compensation from 2004 through 2006. If the District achieved a 10 percent premium savings by negotiating a Drug Free Workplace Program, the savings would be approximately \$6,100 annually.

### *Human Resource Management*

**R3.8 WLSD should consider conducting annual surveys of its employees to solicit feedback, determine employee satisfaction, and assist the District in determining areas for improvement. The survey should be conducted on an annual basis and designed to cover all aspects of the District's operations, including administration, instructional programs, support programs/functions (facilities, transportation, food service, etc.), and human resources issues (benefits, wages, contractual, etc.).**

The District does not regularly conduct surveys to evaluate the work climate, obtain employee feedback, or measure job satisfaction. Additionally, the District does not have formal mechanisms in place to obtain feedback regarding the effectiveness of school support functions, such as building maintenance and transportation. According to the Treasurer, feedback is obtained through a variety of formal and informal meetings, and through quarterly building walkthroughs by the principals.

*Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting* (Government Finance Officers Association (GFOA), 1999) indicates that a government should develop mechanisms to identify stakeholder concerns, priorities and needs. This publication goes on to indicate that surveys are one mechanism

that should be considered in promoting stakeholder participation. The presentation *Taking the Pulse: Engaging the Staff with Employee Opinion Surveys* (HR Solutions Inc, 2007) indicates that conducting regular employee surveys allows an agency to streamline communication, improve management credibility, identify employee perceptions of different management styles, improve the quality of supervision, identify cost saving opportunities, assess employee training needs, and help curb absenteeism (see **R3.5** for sick leave use information).

### *Technology*

**R3.9 WLSD should purchase and implement an automated substitute calling system. This would provide the District with an efficient, cost-effective method for contacting substitute employees. In addition, an automated system could be used to help monitor sick leave usage (see R3.5).**

WLSD does not have an automated system to handle substitute placement. Rather, the Superintendent's Secretary receives an annual stipend of \$4,414 to locate substitutes. According to the article *Education World, Sub-Searching Made Easier* (Educationworld.com, 2006), school districts across the nation have begun to use automated substitute calling systems that are either web or phone-based. These systems automatically contact substitute(s) from a pre-established list of available certificated substitutes. Some systems allow district staff to record their own call-offs or report their own leave requests. Additionally, supervisors are able to print reports on employee leave use as needed.

Based on information from the aforementioned article and certain vendors, the following are benefits of an automated phone-based substitute calling system:

- Eliminates the labor-intensive task of calling substitutes manually;
- Provides greater control over employee absences and substitute placement;
- Links teachers to preferred substitutes or substitute groups;
- Allows teachers who do not need substitutes to choose their own calling times;
- Allows privatization of each school's substitute lists; and
- Tracks employee absenteeism and leave usage; and
- Process leave requests in a more efficient and cost effective manner by eliminating paperwork, reducing data entry and allowing for better record keeping of employee time for payroll purposes.

*Financial Implication:* Based on a particular system, the initial costs of an automated substitute calling system would be approximately \$900 for software, training, and installation fees, along with an annual maintenance and support fee of \$480. However, the savings associated with eliminating the supplemental contract for the Superintendent's Secretary is \$4,414 annually, for a net savings of \$3,000 the first year and \$3,900 each year thereafter.

## Financial Implications Summary

The following table presents a summary of annual cost savings and implementation costs identified in this section of the report. The financial implications are divided into two groups: those that are, and those that are not subject to negotiation with the bargaining units.

**Table 3-9: Recommendations Not Subject to Negotiation**

Recommendation	Annual Cost Savings	Implementation Cost (One Time)	Annual Cost
<b>R3.1 Reduce 13.0 FTE regular education teachers and 5.0 FTE ESP positions.</b>	\$744,000		
<b>R3.7 Implement a drug free workplace policy.</b>	\$6,100		
<b>R3.9 Purchase sub-calling system.</b>		\$900	\$480
<b>Total</b>	<b>\$750,100</b>	<b>\$900</b>	<b>\$480</b>

Source: AOS Recommendations

**Table 3-10: Recommendations Subject to Negotiation**

Recommendation	Annual Cost Savings
<b>R3.6 Increase certificated and classified contributions to 10% for healthcare.</b>	\$31,000
<b>R3.9 Eliminate sub-calling stipend.</b>	\$4,400
<b>Total</b>	<b>\$35,400</b>

Source: AOS Recommendations



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# Facilities

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## Background

This section of the performance audit focuses on Waterloo Local School District's (WLSD or the District) facility operations. Throughout this section, WLSD's operations are evaluated against selected peer school districts,<sup>1</sup> and recommended practices and operational standards from applicable sources, including the American Schools and University Magazine (AS&U), the National Center for Education Statistics (NCES), and the Association of School Business Officials (ASBO).

### *Organizational Structure and Function*

In FY 2000-01, the District issued general obligation bonds to provide long-term financing for the construction and renovation of school buildings in accordance with the terms of a grant from the Ohio Schools Facilities Commission (OSFC). The OSFC project encompassed the demolition of the elementary and middle school buildings and the renovation of the high school building to house three wings: the elementary school wing (kindergarten through 5<sup>th</sup> grade), the middle school wing (6<sup>th</sup> through 8<sup>th</sup> grades) and the high school wing (9<sup>th</sup> through 12<sup>th</sup> grades). The total cost of the OSFC project was \$25.5 million, of which OSFC paid approximately \$15.1 million. The District passed a 7.45 mill tax levy to provide the local portion of the OSFC project. The District also passed a 0.5 mill levy that is used to maintain the renovated school building. WLSD completed the OSFC project in FY 2004-05 and now consists of one school building, an administrative building, and an athletic field house.

### *Staffing*

**Table 4-1** illustrates the custodial, maintenance and groundskeeping staffing levels, and the number of full-time equivalents (FTEs) responsible for maintaining WLSD's facilities.

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<sup>1</sup> See the **executive summary** for a list of the peer districts and an explanation of selection the methodology.

**Table 4-1: Number of Positions and FTEs for FY 2007-08**

Classification	Number of Positions	Facility Related FTEs
Administrative Assistant to the Superintendent	1.0	0.3
<b>Total Administration</b>	<b>1.0</b>	<b>0.3</b>
Head Custodian <sup>1</sup>	3.0	1.0
Custodian	4.0	4.0
<b>Total Custodial</b>	<b>7.0</b>	<b>5.0</b>
<b>Total Maintenance<sup>2</sup></b>	<b>N/A</b>	<b>2.3</b>
<b>Total Groundskeepers<sup>2</sup></b>	<b>N/A</b>	<b>0.7</b>
<b>Total</b>	<b>9.0<sup>3</sup></b>	<b>8.3</b>

**Source:** WLSO interviews and Education Management Information System (EMIS)

**Note:** Totals may vary from actuals due to rounding.

<sup>1</sup> The head custodians separate their time between custodial, maintenance, and grounds responsibilities throughout the school year.

<sup>2</sup> Maintenance and groundskeeping FTEs represent work completed by the maintenance/grounds employee and head custodians.

<sup>3</sup> Total positions includes the one employee spending time on maintenance and grounds functions.

**Table 4-1** shows that WLSO employs a 8.3 FTEs related to facility operations. The Administrative Assistant to the Superintendent collaborates with the principals to supervise the custodial, maintenance, and groundskeeping employees to ensure the day-to-day care, upkeep, cleanliness, and safety of the school building. However, the Administrative Assistant to the Superintendent also supervises the transportation function approximately 75 percent of the time, leaving approximately 25 percent of the time supervising the custodial, maintenance, and groundskeeping employees. This equates to 0.3 FTEs (rounded).

The head custodians are responsible for directing the work of all custodial staff in their wing of the building, assisting in cleaning the building, and keeping the Administrative Assistant to the Superintendent and principals informed of any building maintenance issues. The head custodians also perform various building maintenance and groundskeeping duties throughout the year. The custodians are responsible for maintaining building cleanliness by sweeping and mopping floors, and cleaning all classrooms, restrooms and hallways daily. The custodians also perform minor building maintenance including changing light bulbs and filters, fixing switch plates and some painting. **Table 4-1** shows that WLSO's custodial staff consists of 7.0 positions. However, because the head custodians regularly complete building maintenance and groundskeeping duties, the FTEs dedicated to custodian functions is estimated to equal 5.0.

The maintenance/grounds employee and the head custodians use varying amounts of time (depends on the time of year) to complete these functions. As a result, the FTE for groundskeeping is estimated to equal 0.7 while the FTE for building maintenance is estimated to equal 2.3. The total FTEs devoted to maintenance and grounds are based on District's estimates of time devoted to these tasks throughout the year. The District's building maintenance

responsibilities include maintaining the heating, cooling, plumbing, and electrical systems, while the groundskeeping duties include mowing grass, trimming bushes, controlling weeds, preparing and cleaning athletic fields/facilities, and performing snow and ice removal during the winter months.

### Key Statistics and Indicators

**Table 4-2** compares key statistics and performance indicators for WLSD's facilities and maintenance operations to benchmarks from the *Planning Guide for Maintaining School Facilities* (NCES, 2003) and averages of data reported by the Annual American School and University (AS&U) *Maintenance and Operations Cost Study* from 2003 through 2007.

**Table 4-2: FY 2006-07 Key Statistics and Indicators**

<b>Number of Buildings</b>	2
- School Buildings <sup>1</sup>	1
- Administration Building	1
<b>Total Square Feet Maintained</b>	<b>215,380</b>
- Elementary Wing	42,970
- Middle School Wing	85,790
- High School Wing	83,933
- Administration Building	2,687
<b>Square Feet Per FTE Custodial Staff Member (5.0 FTEs)</b>	<b>42,969</b>
<b>NCES Level 3 Standard Square Feet per FTE</b>	29,500 <sup>2</sup>
<b>Square Feet Per FTE Maintenance Staff Member (2.3 FTEs)</b>	<b>94,155</b>
<b>AS&amp;U Median Square Ft. per Maintenance FTE (Five-Year Average)</b>	92,000
<b>Acres (22) per Groundskeeper FTE (0.7 FTE)</b>	<b>31</b>
<b>AS&amp;U Standard Acres per Grounds FTE (Five-Year Average)</b>	42

**Source:** WLSD, AS&U, and NCES

**Note:** A five-year average for maintenance square feet and acres per grounds FTE was calculated using the AS&U 32<sup>nd</sup> through the 36<sup>th</sup> Annual Maintenance and Operations Cost Surveys.

<sup>1</sup> WLSD has one school building that houses an elementary wing, a middle school wing, and a high school wing.

<sup>2</sup> This represents the mid-point of the Planning Guide range of 28,000 to 31,000 square feet. Level 3 is the normal standard for most school facilities.

As illustrated in **Table 4-2**, WLSD's custodial and maintenance staff is responsible for maintaining more square feet per employee than the NCES and AS&U benchmarks. In contrast, the District's groundskeeping employees are maintaining the equivalent of 31 acres per FTE, which is lower than the AS&U average of 42 (see **R4.2**).

### Financial Data

**Table 4-3** compares WLSD's custodial and maintenance-related expenditures on a per square footage basis to the peer average and the AS&U national benchmarks for FY 2006-07.

**Table 4-3: Expenditures per Square Foot**

Object Code	WLSD	Peer Average	Difference	AS&U National Median
Salaries/Benefits	\$2.37	\$1.91	24%	\$2.56
Purchased Services	\$0.39	\$0.51	(23%)	\$0.01
Utilities	\$1.44	\$1.25	15%	\$1.71
Supplies and Materials	\$0.24	\$0.25	(4%)	\$0.32
Capital Outlay	\$0.04	\$0.05	(30%)	N/A
Other	N/A	N/A	N/A	\$0.49
<b>Total General Fund</b>	<b>\$4.48</b>	<b>\$3.98</b>	<b>13%</b>	<b>\$5.09</b>
All Fund Utilities	\$1.44	\$1.26	14%	\$1.71
<b>Total All Funds</b>	<b>\$4.71</b>	<b>\$4.42</b>	<b>7%</b>	<b>\$5.09</b>

Source: WLSD, peers, and AS&U

**Table 4-3** shows that although the District's General Fund personal service (salaries and benefits) and utility costs were lower than the AS&U National Median, they exceeded the peer averages by 24 percent and 15 percent, respectively. The higher personal service costs can be attributed to the longevity of the custodial staff. Specifically, the District's custodial staff has an average of 19 years of service. Additionally, 3 of the 7 custodial employees have more than 29 years of service while the remaining employees range from 4 to 15 years of service (4, 8, 9 and 15 years of service). The higher utility costs can be partially attributed to a lack of formal energy management policies and procedures (see **R4.1**).

## Recommendations

### *Energy Management*

**R4.1 WLSD should develop formal energy management and conservation policies, procedures and guidelines. In doing so, the District should review information from industry sources (e.g., NCES and Ohio's Energy Smart Schools Program). Subsequently, the District should distribute and discuss the policies, procedures, and guidelines with the administration, faculty, staff, and students to educate and train them about energy conservation and ensure implementation of the appropriate energy management practices. In addition, the District should consider assigning an employee to monitor energy consumption. For example, centrally tracking energy use as reported on monthly invoices would provide trend comparisons that could be used to identify potential issues of waste and/or inefficient equipment. To ensure that appropriate monitoring is taking place, the District should consider requiring that the Superintendent be provided with copies of the energy usage reports on a monthly basis.**

As previously shown in **Table 4-3**, the District's utility cost per square foot in FY 2006-07 (\$1.44) is significantly higher than the peer average (\$1.26), but lower than the AS&U national median (\$1.71). To help manage the cost of utilities, the District purchases natural gas and electricity at discounted rates through various consortiums, maintains control of room temperatures through a centralized computer system, and installed sensor activated lighting, sinks, and toilets in the school building.

While the District has some measures in place to control utility costs, it does not have formal energy management policies, procedures, or guidelines for staff to follow. Furthermore, the District does not have an employee that is responsible for monitoring energy use as a means to identify trends and possible waste. According to the *Planning Guide for Maintaining School Facilities* (NCES, 2003), the cost of energy is a major item in any school budget. Thus, school planners should embrace ideas that can lead to reduced energy costs. The following guidelines will help a school district to accomplish more efficient energy management:

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

- Institute performance contracting (i.e., contracts requiring desired results rather than simply a list of needed products) when replacing older, energy-inefficient equipment.

Additionally, the Ohio's Energy Smart Schools Program (OESSP) provides materials and programs for teachers and/or students to improve the learning environment in schools while saving energy and money, utilizing the school building as a learning laboratory. OESSP helps reduce school energy consumption and costs by empowering teachers and students to make sustainable energy choices and affecting the attitudes and behaviors of teachers, students, and staff about energy conservation. Types of activities available through the OESSP include:

- Energy audits and comfort surveys of buildings to determine where the building's energy efficiency and learning environment can be improved;
- Signing an EnergySmart Schools contract to encourage students to reduce the amount of energy they use everyday;
- Waste Audits that demonstrate where waste occurs in the building and ways to improve the situation with cooperative action; and
- Supporting Ohio Schools Going Solar, complete with a solar array that generates electricity and serves as a powerful teaching tool.

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

*Financial Implication:* The District could save approximately \$39,500 annually if it reduced its utility costs per square foot to the peer average (\$1.26).

## Staffing

**R4.2 WLSD should review the factors affecting its overtime costs and conduct a cost-benefit analysis to determine if it would be more cost effective to hire a part-time or seasonal employee. In addition, the District should regularly monitor overtime costs. If overtime costs increase in the future, it may be more cost-effective to hire a full-time employee.**

**Table 4-2** shows that WLSD's custodial staff is responsible for 42,969 square feet per FTE while the NCES benchmark ranges from 28,000 to 31,000 square feet per custodian. In addition, the District's maintenance staff is responsible for 94,155 square feet per FTE, slightly above the five-year AS&U average of 92,000 square feet per FTE. Lastly, the District's groundskeepers maintain the equivalent of 31 acres per FTE, below the five-year AS&U average of 42. To achieve the NCES mid-point of 29,500 square feet per

custodian and the five-year averages from AS&U, the District would need to employ approximately 10.2 FTEs for custodial, maintenance and grounds work. By comparison, the District employs only a total of approximately 8.0 custodian, maintenance and grounds FTEs.

Although WLSD's total staffing levels for facility operations are collectively more efficient than the NCES and AS&U standards, the District incurs a significant amount of overtime to meet the current work requirements. For example, in FY 2005-06, the District incurred approximately \$37,000 in overtime costs (15 percent of total facility wages). This amount increased to \$41,000 in FY 2006-07, but still represented 15 percent of the total facility wages. By comparison, the estimated cost to hire a full-time custodian would be \$42,300 annually (includes salary at beginning step of the salary schedule and health benefits). Similarly, the estimated cost to hire a part-time employee to assist during the growing season with grounds work and any other needed tasks (assumed to be six months) would be \$17,100 (includes part-time benefits). This would subsequently allow the head custodians to dedicate additional time to the custodial function during the school year. The Administrative Assistant to the Superintendent indicated that the District does not use temporary or seasonal help to assist with groundskeeping duties during the growing season. The collective bargaining agreement does not appear to have any provisions that would prevent District from hiring seasonal employees.

While the above shows that the District would need to eliminate all overtime costs to offset the costs of employing a full-time custodian, it also shows that employing a part-time employee could be more cost effective than incurring overtime. Specifically, the District would need to reduce overtime costs by \$17,100 to offset the costs of employing a part-time employee. This would reduce overtime costs to approximately nine percent of salaries, based on FY 2006-07 costs. Reducing overtime costs below nine percent would result in a net savings for WLSD. Moreover, even with one more part-time employee, the District would still operate with fewer total FTEs when compared to the NCES and AS&U benchmarks.

### *Facilities Management*

**R4.3 The District should update the maintenance plan to include enrollment projections, space utilization, input from stakeholders, and links to the financial and educational plans. The District should also regularly update the plan to reflect completed work and other changing conditions. Taking these actions will provide WLSD with a roadmap for addressing current and future facility needs, planned educational programs, and changing conditions within the District.**

Upon completing the OSFC project, the District submitted a plan for maintaining the school building to the OSFC for review and approval. This plan was approved by the

OSFC on May 26, 2005 and includes detailed schedules, budgets, and staff requirements for maintaining the building. However, the maintenance plan does not link the use of the school building to the District's educational and financial plans, and lacks some relevant items, such as long-term enrollment projections, long-term capacity/space utilization analyses and input from stakeholders. Additionally, the District has not updated the plan to reflect work that has been completed since FY 2004-05.

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

**R4.4 WLSL should consider purchasing a computerized maintenance management system (CMMS). This would allow the District to automatically schedule and track preventive maintenance activities, prioritize multiple work requests, and track and monitor the amount of supplies and materials used on a project and the cost of labor (including staffing levels and overtime usage). This, in turn, would help the District anticipate needed facility maintenance, equipment repairs, and replacements; track the performance of assigned personnel; and estimate future costs and timeframes for potential projects.**

The District does not centrally monitor implementation of the PM plan. Instead, WLSL relies on the head custodians at each school wing to ensure that preventative maintenance is occurring in accordance with the adopted schedules. Additionally, the District does not use a work order system to schedule maintenance work and track facility related information. Rather, the principal of each school wing verbally communicates work order requests.

According to the *Planning Guide for Maintaining School Facilities* (NCES, 2003), work order systems help school districts register and acknowledge work requests, assign tasks to staff, confirm that a work order has been addressed, and track the cost of parts and labor. A work order system can be a manual, paper-based, tracking tool. However, more efficient work order systems come in the form of computerized maintenance management systems. Their purpose is to manage work requests as efficiently as possible and meet the

basic information needs of a district. In terms of utility, a good CMMS program will do the following:

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

*Financial Implication:* A CMMS could cost approximately \$1,000 annually, based on vendor advertised prices. However, the exact price will depend on the features desired by WLSD and the contract terms negotiated with the vendor.

### *Operational Procedures and Efficiency*

**R4.5 WLSD should develop and implement a procedures manual for custodial and maintenance staff. Once the manual is complete, the District should establish a schedule to regularly review the procedures and update them as needed. Developing a manual will better ensure that all personnel are familiar with work expectations and employment protocols.**

The WLSD Board of Education has a general policy specifying that all District facilities be well maintained, free from hazards, conducive to learning, and in compliance with applicable fire and safety laws and regulations of the State Board of Education. It further states that building principals are responsible for planning the maintenance and daily schedule for their respective building wings. However, the District does not have a procedure manual to guide principals, custodians, and maintenance staff in determining work priorities, daily work schedules, appropriate cleaning procedures, or other similar work items. In the absence of a manual to guide decision-making, staff may not consistently apply the appropriate procedures.

*Custodial Methods and Procedures Manual* (Association of School Business Officials International (ASBO), 2000), indicates that school boards of education should establish standard procedures for custodial service and building and grounds maintenance. The ASBO goes on to provide sample procedures in various areas including staffing standards, daily job duties and tasks, job descriptions and schedules, employee evaluations, and cleaning procedures and work methods for various job tasks.

**R4.6 WLSD should evaluate the efficiency and effectiveness of the custodial and maintenance programs by regularly tracking and reporting key performance measures, such as cost per square foot and cost per student for major object codes (staffing, benefits, purchased services, utilities, supplies, etc.), the number of square feet cleaned and maintained per FTE, and acres maintained per FTE. Doing so would help WLSD establish benchmarks to measure staff and organizational performance and provide the District with objective information to use in making future decisions.**

The District does not regularly use performance measures to help manage the custodial and maintenance functions. **Table 4-4** displays the District's current custodial staffing allocation by grade level.

**Table 4-4: Custodial Staffing Allocation**

Buildings	Square Feet Maintained per FTE
Elementary (K-5)	32,127
Middle (6-8)	46,688
High (9-12)	45,678

Source: WLSD EMIS and District interviews

**Table 4-4** indicates that the District maintains significantly more square feet per custodian FTE at the middle and high schools, when compared to the elementary school. Additionally, in total, the District's custodians maintain approximately 43,000 square feet per employee, significantly more than the NCES average of 29,500. The higher square footage per FTE can contribute to higher overtime costs (see **R4.2**). While other factors may impact the staffing allocations in **Table 4-4**, the lack of regularly monitoring performance measures increases the risk of maintaining inefficient staffing levels and not using objective data to make decisions about the custodial and maintenance program.

The National Center for Educational Statistic's (NCES), *Planning Guide for Maintaining School Facilities* (February 2003) indicates that to effectively evaluate a facilities management program, a school district must collect and maintain accurate, timely, and comprehensive data about its facilities. The NCES goes on to cite maintenance/operations cost per square foot, cost per student, visual inspections, customer surveys, changes in maintenance costs, number of work orders completed, and floor space or rooms maintained per employee as examples of performance measures.

### *Training*

**R4.7 WLSD should develop a comprehensive professional development plan for its custodial and maintenance staff based on relevant industry sources and designed to cover critical aspects of employee responsibilities. This would ensure that staff is**

**apprised of effective work methods and the most up-to-date health and safety issues. Additionally, the District should begin tracking the total number of hours and types of training an employee receives, and should seek feedback from participants.**

The District does not have a formal professional development program for custodial and maintenance staff. According to the Administrative Assistant to the Superintendent, most training opportunities are limited to vendor-sponsored events when the District purchases new equipment and informal mentoring opportunities during the summer months when custodians clean the school building using a team approach. Additionally, the District does not track the type of training received or the associated hours.

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

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

## Financial Implications Summary

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

### Summary of Financial Implications for Facilities

<b>Recommendation</b>	<b>Estimated Annual Cost Savings</b>	<b>Estimated Annual Implementation Costs</b>
<b>R4.1</b> Develop formal energy management policies and procedures, and assign someone to monitor energy use.	\$39,500	
<b>R4.4</b> Consider purchasing a Computerized Maintenance Management System (CMMS)		\$1,000
<b>Total</b>	<b>\$39,500</b>	<b>\$1,000</b>



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# Transportation

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## Background

This section of the performance audit focuses on Waterloo Local School District's (WLSD or the District) transportation operations. The operations were evaluated against leading or recommended practices, operational standards, and selected peer school districts.<sup>1</sup> Leading or recommended practices and operational standards were drawn from various sources, including the American Association of School Administrators (AASA), the Government Finance Officers Association (GFOA), and the National Association of State Directors of Pupil Transportation Services (NASDPTS).

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. In addition, Ohio Administrative Code (OAC) § 3301-83-13 states that students may walk up to one-half mile to a bus stop. Furthermore, school districts must provide transportation to disabled students who are unable to walk to school regardless of the distance. The District's actual transportation practices exceed the state minimum standards (see **R5.5** and **R5.9** for more information on transportation services and policies).

### *Operational and Cost Comparisons*

The Administrative Assistant to the Superintendent oversees the District's transportation function. According to the transportation forms (T-forms) filed with the Ohio Department of Education (ODE), WLSD provided Type-I pupil transportation services to 920 regular needs and 22 special needs riders in FY 2007-08. Type-I services pertain to those provided on District-owned yellow buses.

**Table 5-1** compares WLSD's transportation operational data to the peer average for FY 2006-07, and includes WLSD's data for FY 2007-08.

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<sup>1</sup> See the **executive summary** for a list of the peer districts, and an explanation of the selection methodology.

**Table 5-1: Key Statistics and Operating Ratios**

	WLSD FY 2006-07	WLSD FY 2007-08	Peer Average FY 2006-07	% Difference vs. Peers
<b>Key Statistics</b>				
Square Miles	56.0	56.0	60.6	(7.6%)
ODE Enrollment	1,388	1,354	1,316	5.4%
Total Students Transported – All Types	1,062	965	741	43.3%
<b>Yellow Bus Riders (Type I)</b>				
Public	988	896	718	37.6%
Non-Public	34	24	2	1,378.3%
Special Needs	21	22	11 <sup>1</sup>	90.9%
Total Bus Riders	1,043	942	731	42.7%
<b>Buses (Type I)</b>				
Active Buses	16	16	12	31.1%
Regular Buses	13	14	10	27.5%
Special Needs Buses	3	2	1	200.0%
Spare Buses	6	6	3	100.0%
<b>Miles (Type I)</b>				
Annual Routine Miles	247,140	239,040	146,988	68.1%
Annual Non Routine Miles	13,432	NA	24,585	(45.4%)
<b>Operating Ratios</b>				
Enrollment per Square mile	24.8	24.2	22.6	9.5%
Type I Riders per Square Mile	18.6	16.8	12.3	51.1%
<b>Total Riders per Active Bus</b>				
Total Riders per Active Bus	65.2	58.9	58.3	11.8%
Riders per Regular Active Bus	78.8	66.3	62.6	25.9%
Riders per Special Needs Active Bus	6.3	7.0	6.6 <sup>2</sup>	(3.5%)
Routine Miles per Active Bus	15,446	14,940	11,585	33.3%
Spare Bus Percentage	27.3%	27.3%	21.3%	28.3%
<b>Percent State Reimbursement</b>				
Percent State Reimbursement	55.2%	NA	94.9% <sup>3</sup>	(41.8%)
<b>Total Transportation Expenditures as Percent of General Fund</b>				
Total Transportation Expenditures as Percent of General Fund	8.5%	NA	4.5%	89.1%

Source: District and peer T-1 and T-2 reports

Note 1: Totals may vary from actual figures due to rounding.

Note 2: NA- Some statistical data for FY 2007-08 are not available until after fiscal year end.

<sup>1</sup> Only eight of the ten peers reported special needs riders

<sup>2</sup> Only includes the four districts with riders per special needs bus.

<sup>3</sup> Excluding one peer that reported a 289 percent reimbursement reduces the peer average to 73.4 percent.

Table 5-1 shows that in FY 2006-07, WLSD transported an average of 65.2 total riders per active bus, which is approximately 12 percent higher than the peer average (58.3). While the District's average number of riders per active bus declined in FY 2007-08, WLSD's average of 58.9 is still comparable to the peer average (58.3). Likewise, although the District's number of

riders per regular active bus declined in FY 2007-08, its ratios are higher in both years (78.8 and 66.3) when compared to the peer average (62.6). However, **Table 5-1** also shows that the District is more densely populated than the peer average, as evidenced by its higher ratios of students per square mile and riders per square mile. Having a higher population density can help the District transport more riders per active bus than the peer average. Furthermore, **R5.1** shows that the District could improve the overall efficiency of the transportation function to FY 2006-07 levels by improving the bus capacity utilization. **Table 5-1** also shows that the District's spare buses comprise approximately 27 percent of its active fleet while the peer average is only 21 percent (see **R5.2**). Lastly, **Table 5-1** shows that WLSD's percent of transportation costs reimbursed by the State is significantly lower than the peer average even when excluding the one peer reporting a reimbursement rate of 289 percent, while the expenditures as a percent of the total General Fund are higher. The District's practice of transporting students that live within one mile of the school building contributes to the lower reimbursement rate. According to ODE guidelines, students living within one mile of the school building are not eligible for reimbursement (see **R5.9** for discussion on transportation policies). **Table 5-2** compares the District's transportation costs to the peer average for FY 2006-07.

**Table 5-2: Transportation Cost Ratio Comparison**

	WLSD	Peer Average	Percent Difference
<b>Salaries</b>			
• Per Bus Rider	\$341.31	\$254.02	34.4%
• Per Active Bus	\$22,249	\$14,310	55.5%
• Per Routine Mile	\$1.44	\$1.24	16.1%
<b>Benefits</b>			
• Per Bus Rider	\$224.84	\$119.50	88.2%
• Per Active Bus	\$14,657	\$6,914	112.0%
• Per Routine Mile	\$0.95	\$0.57	65.7%
<b>Maintenance &amp; Repairs</b>			
• Per Bus Rider	\$120.62	\$86.99	38.7%
• Per Active Bus	\$7,863	\$4,809	63.5%
• Per Routine Mile	\$0.51	\$0.42	22.4%
<b>Fuel</b>			
• Per Bus Rider	\$92.70	\$85.55	8.4%
• Per Active Bus	\$6,043	\$4,706	28.4%
• Per Routine Mile	\$0.39	\$0.41	(5.5%)
<b>Bus Insurance</b>			
• Per Bus Rider	\$12.95	\$19.31	(33.0%)
• Per Active Bus	\$844	\$1,059	(20.3%)
• Per Routine Mile	\$0.05	\$0.10	(45.9%)
<b>All Other Costs</b>			
• Per Bus Rider	\$20.54	\$22.83	(10.0%)
• Per Active Bus	\$1,339	\$1,214	10.3%
• Per Routine Mile	\$0.09	\$0.10	(11.8%)
<b>Total Expenditures</b>			
• Per Bus Rider	\$812.96	\$588.20	38.2%
• Per Active Bus	\$52,995	\$33,012	60.5%
• Per Routine Mile	\$3.43	\$2.84	20.7%

Source: District and peer T-1 and T-2 reports.

**Table 5-2** shows that the District's FY 2006-07 salary, benefit and maintenance costs were all significantly higher than the peer average on a per rider, bus, and mile basis. The higher salary costs are attributed to bus driver longevity (13 of 22 drivers at top of salary schedule) and a generous salary schedule for bus drivers (see **R5.3**). The higher benefit costs are due to the higher salaries which drive some benefit costs (e.g., retirement) and to the District offering health benefits to all bus drivers that work 25 hours per week and were hired before July 1, 2004. Although WLSD increased the hour threshold to 35 for all employees hired after July, 2004, the District still has 14 bus drivers that were hired before this date and receive health insurance benefits. The higher maintenance costs are partially attributed to the District employing two mechanics at the start of FY 2006-07 while the peer average was only one. While the District

reduced one mechanic position during FY 2006-07, it may be able to implement other strategies to reduce maintenance and repair costs (see **R5.4**). Although **Table 5-2** shows that the District's fuel costs are higher than the peer average on a per bus and rider basis, they are 5.5 percent lower on a per mile basis. Therefore, the higher fuel costs per bus and per rider are due to the District's active buses traveling more miles (average of 14,940) than the peer average (12,249).

## Recommendations

### *Operating Efficiency*

**R5.1 WLSD should consider reducing its fleet by two active buses. This will help bring the District's bus capacity utilization rate more in line with historical trends and other benchmarks. To accomplish this reduction and potential future reductions, the District should conduct annual surveys of parents to determine the number of students that will be using other methods of transportation (own car, friends, parents, etc.) and adjust the routes accordingly. The District should also consider adjusting the bell schedules to allow for improved bus capacity utilization, particularly during the elementary bus runs. As the District reviews adjustments to the bell schedules, it should review the potential of having some buses complete three runs, which could allow for additional bus reductions. This review should ensure that such a decision would be cost-effective, consider student ride times, and ensure the adjusted pick up and drop off times are appropriate.**

The District completes two runs (grades K-5 and grades 6-12) per bus to transport all students. **Table 5-3** presents a summary of the District's ridership on active regular buses since FY 2005-06.

**Table 5-3: Change in Ridership and Students per Bus for WLSD**

	FY 2005-06	FY 2006-07	FY 2007-08
<b>Ridership on Regular Buses<sup>1</sup></b>	1,153	1,024	928
<b>Active Regular Buses</b>	16	13	14
<b>Students per Bus</b>	73	79	67
<b>Capacity Utilization Rate<sup>2</sup></b>	52.4%	56.1%	49.7%

**Source:** District and peer T-1 and T-2 report

<sup>1</sup> Includes regular needs and special needs riders on regular buses

<sup>2</sup> The maximum capacity of a District bus is 65-72 students, or 130 to 144 students if the bus completes two runs.

**Table 5-3** shows that total ridership has declined approximately 20 percent since FY 2005-06 and nine percent since FY 2006-07. The decrease from FY 2006-07 to FY 2007-08 is due, in part, to the drop in enrollment. Despite the decrease in ridership, the District purchased and operated an additional bus in FY 2007-08. As a result, the students transported per bus and the capacity utilization rate declined from the FY 2006-07 levels.

According to the article “Hidden Savings in Your Bus Budget” (AASA, December 2005)<sup>2</sup>, “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 rated capacity as a goal.” The District’s average utilization rate of approximately 50 percent falls well below this goal. Similarly, ODE has developed an efficiency measure for each school district that considers variables such as square miles, number of regular education active buses, regular riders over one mile, and rider density. WLSD’s efficiency score declined from 1.16 in FY 2006-07 to 0.99 in FY 2007-08. According to ODE, districts with a ratio over 1.0 are considered to be efficient relative to other districts in Ohio.

Collectively, the above comparisons indicate that the efficiency of the District’s transportation function declined in FY 2007-08. While achieving 80 percent capacity utilization may be difficult based on the District’s size and the subsequent impact on student ride times, certain operational changes may allow the District to improve overall efficiency to at least the FY 2006-07 levels. The District would need to eliminate two active regular buses in order to achieve the FY 2006-07 service level of approximately 79 riders per regular bus. This would increase the utilization rate to 59 percent, assuming the District eliminated one bus with a maximum capacity of 72 riders and one with 66 riders. This is still well below the aforementioned benchmark of 80 percent.

According to the Administrative Assistant to the Superintendent, the District operated an additional bus in FY 2007-08 due to the following:

- The size of the district and distance between student homes;
- Overcapacity on buses for high school runs; and
- Number of students attending non-public schools.

Despite the above assertion, the number of non-public riders actually declined from 34 in FY 2006-07 to 24 in FY 2007-08. In addition, the following factors can contribute to the decline in transportation efficiency:

- **Route Monitoring:** The District does not adjust routes during the year for students who are eligible riders, but have discontinued ridership. In addition, the District does not conduct a survey of potential riders for the upcoming school year. According to ODE, school districts should conduct an annual survey of potential riders prior to designing routes. This will eliminate some students who do not intend to ride district buses, which subsequently will help the District design more efficient routes.

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<sup>2</sup> The author of this article is a private school transportation firm that conducts audits for more than 30 school districts, including New York City and Kansas City, MO.

- Bell Schedules:** The District has not considered altering the bell schedules to help alleviate the potential capacity issues on high school runs and to eliminate buses. For example, the District may be able to alleviate the potential overcrowding on the high school bus runs, and still reduce buses by adjusting the bell schedules to allow for transporting more students on the elementary bus runs (e.g., middle school students). Altering the bell schedules may also enable some buses to complete three runs to further assist in eliminating buses. However, the size of WLSD and student ride times may make it difficult for the District to cost-effectively implement three runs for buses. The current student drop off and release times for the high school and middle school are both 7:50 AM and 2:40 PM, respectively, while the drop off and release times for the elementary school are 8:55 AM and 3:40 PM, respectively.

*Financial Implication:* The District could save approximately \$25,000 annually by eliminating two buses. This estimate is based on the District’s salary and benefit costs for the lower-tenured bus drivers, the lowest number of bus driver hours worked per day, the average substitute cost per active bus in FY 2006-07, and the average bus insurance cost per bus in FY 2006-07. The District could also receive \$2,500 in additional revenue by selling two buses, which is based on the compensation the District received for buses replaced in FY 2005-06 and FY 2006-07. Furthermore, the District may be able to realize additional costs savings related to fuel, and maintenance and repairs, if the above-mentioned strategies reduce the number of total miles driven each year.

**R5.2 The District should consider selling two spare buses. This would result in a spare bus allocation that is more consistent with ODE’s guidelines and the peer average. Additionally, selling two spare buses would generate additional revenue, reduce the District’s insurance costs, and potentially reduce maintenance and repair costs. Lastly, the District should ensure that it makes appropriate changes to its spare fleet that correspond to changes in its active fleet (see R5.1).**

Table 5-4 compares the District’s spare bus fleet to the peers.

**Table 5-4: Spare Buses for WLSD and the Peers**

	WLSD FY 2006-07 & FY 2007-08	Peer Average FY 2006-07	Percent Above (Below)
<b>Total District Buses</b>	22.0	15.2	44.7%
• <b>Active</b>	16.0	12.2	31.1%
• <b>Spare</b>	6.0	3.0	100.0%
<b>Spare Buses percent of Total Buses</b>	<b>27.3%</b>	<b>19.7%</b>	<b>38.2%</b>

Source: ODE T-1 report

**Table 5-4** shows that WLSD's spare buses represent approximately 27 percent of its fleet while the peer average is only 20 percent. In addition, according to a representative from ODE, spare buses typically comprise approximately 20 percent of the fleet. The District would need to reduce two spare buses in order to achieve the 20 percent benchmark. Maintaining excessive spare buses can contribute to higher insurance and maintenance costs (see **R5.4** for more information on maintenance and repair costs).

*Financial Implication:* The District could receive \$2,500 in revenue by selling two spare buses, which is based on the compensation the District received for buses replaced in FY 2005-06 and FY 2006-07. Additionally, the District would save approximately \$1,200 in annual insurance costs, based on the average insurance cost per bus in FY 2006-07.

### *Operating Costs*

**R5.3 WLSD should address its high bus driver salaries by negotiating new salary schedules with additional steps and lower corresponding rates, and/or granting lower negotiated wage increases in the future. Taking these measures would, over time, help bring compensation more in line with the peer districts.**

**Table 5-2** shows that the District's salary expenditures are significantly higher than the peer average on a per rider, bus, and mile basis. Similarly, the District reported through the Education Management Information System (EMIS) that the average bus driver salary was \$20,216 in FY 2006-07, which is approximately 35 percent higher than the peer average (\$14,989). To further assess the higher salaries, the beginning and ending steps from the bus driver salary schedule were compared to the salary schedules at Bluffton Exempted Village School District, Clear Fork Valley Local School District, and North Central Local School District.<sup>3</sup> Based on the comparison, WLSD's beginning step on the salary schedule (\$14.70) is higher than each of the peers and the three peer average (\$13.20). Additionally, although the District's ending step (\$16.35) is comparable to the three peer average (\$16.47), WLSD has fewer steps in the negotiated salary schedule, which results in the District's employees reaching the maximum pay rate faster than the peers. For example, WLSD's salary schedule for bus drivers only consists of 8 steps while the three peers range from 16 to 30 steps. WLSD has 13 bus drivers out of 22 that are paid at the maximum rate.

The District's current contract stipulates wage increases of 3.5 percent in FY 2006-07, 2.75 percent in FY 2007-08, and 2.75 percent in FY 2008-09. The District would have to negotiate annual wage increases of one percent from FY 2009-10 through FY 2023-24 before the average certificated salary would be lower than the peer average, assuming the peers negotiate three percent annual wage increases during this timeframe. Altering the

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<sup>3</sup> The three peer school districts were selected due to their proximity to WLSD.

salary schedules would also help reduce the disparity when compared to the peer average salary. However, the impact of doing so would mainly be realized when hiring new bus drivers because the majority of current bus drivers are already paid at the maximum rate.

*Financial Implication:* If WLSD negotiated wage increase of one percent during the next contract period (assumed to be three years) as assumed in the District's five-year forecast (see **financial systems**), the estimated savings would be \$7,488 in FY 2009-10, \$15,257 in FY 2010-11, \$23,315 in FY 2011-12 (based on the FY 2006-07 total salaries). The total savings to the District would be \$46,060 or an average of approximately \$15,300 per year, assuming the District would have otherwise negotiated annual wage increases of 2.75 percent.

**R5.4 WLSD should explore the potential for contracting or pooling maintenance services with a neighboring district, and develop more defined purchasing policies (see financial systems). This would potentially allow the District to reduce its costs for maintaining and repairing buses.**

**Table 5-5** compares WLSD's maintenance and repairs costs to the peer average for FY 2006-07.

**Table 5-5: Cost Ratio Comparison**

	WLSD	Peer Average	% Difference
<b>Maintenance and Repairs<sup>1</sup></b>			
• Per Yellow Bus Rider	\$120.62	\$86.99	38.7%
• Per Active Bus	\$7,863	\$4,809	63.5%
• Per Total Buses <sup>2</sup>	\$5,718	\$4,135	38.3%
• Per Routine Mile	\$0.51	\$0.42	22.4%

Source: ODE T-2 reports

<sup>1</sup> Includes mechanics' salaries, maintenance and repairs, tires and tubes, and maintenance supplies.

<sup>2</sup> Includes active and spare buses.

**Table 5-5** shows that the District's repair and maintenance costs were higher than the peer average on a per rider, active bus, total bus, and mile basis. The higher expenditure ratios are partially attributed to having more buses to maintain (see **R5.1** and **R5.2**) and higher historical staffing levels. The District employed two mechanics at the start of FY 2006-07 while the peer average was only one. However, the District reduced one position during FY 2006-07 and is now maintaining mechanic staffing levels that are comparable to the peer average. If the District's maintenance costs were adjusted to reflect the revised staffing levels, the District's cost per mile would equal \$0.42, which is comparable to the peer average. However, according to the American Association of School Administrators (AASA) "*Hidden Savings in Your Bus Budget*" (December 2005), the industry standard cost per mile is \$0.25. When including non-routine miles to capture all miles traveled and accounting for the reduction in the mechanic position, WLSD's revised maintenance

costs per mile of \$0.39 in FY 2006-07, \$0.38 in FY 2005-06 and \$0.35 in FY 2004-05 significantly exceed AASA's benchmark. As a result, the District's maintenance and repair costs appear high, despite reducing staffing by one mechanic position. Furthermore, while the District's adjusted cost per active and per total bus decline to \$6,428 and \$4,675, respectively, the adjusted cost ratios are still higher than the corresponding peer averages.

Although the District has taken some steps to reduce maintenance costs, the District has not considered partnering with other districts as an option for reducing the cost of bus maintenance. By comparison, during a performance audit of the Barberton City School District (Barberton CSD) in 2005, it was noted that the district had a formal agreement with the Norton City School District to share the costs and responsibilities of providing bus repair and maintenance services. According to Barberton CSD's Business Manager, the contract with Norton CSD resulted in a 25 percent decline in the District's maintenance and repair costs, repairs being performed in a timely manner, and all State inspections being satisfactory. Additionally, developing more defined purchasing policies that require competitive pricing for most purchases, including transportation supplies and materials, may also help further reduce the District's cost of transportation maintenance (see **financial systems**). Furthermore, creating a written preventative maintenance plan would help the District ensure that the vehicles receive the appropriate preventative maintenance to minimize the potential for costly and unexpected repairs (see **R5.7**).

*Financial Implication:* If the District was able to achieve a 25 percent savings by contracting or pooling services with a neighboring district (similar to Barberton CSD), the estimated cost reduction would equal approximately \$25,000 annually. This excludes the mechanic position that was eliminated by the District during FY 2006-07. Additionally, this estimated savings is assumed to also account for potential impact of developing more defined purchasing policies and a written preventative maintenance plan.

### *Special Education Transportation*

**R5.5 The District should consider negotiating parent/guardian contracts based on a cost-benefit analysis that compares the costs of in-house transportation to potential contracted costs. The District should also continue to consider the following strategies to potentially reduce special education transportation costs: periodically solicit bids from contractors, discuss alternatives with neighboring school districts to share costs and services, and include special needs riders on regular runs, where appropriate. Furthermore, including transportation staff in individualized education plan (IEP) meetings would help ensure cost-effective services (see R5.6).**

In FY 2006-07, the District used 3 buses to transport 19 special needs students outside of the District. WLSD transports all special needs students educated within the District on regular buses. The District's cost to transport a special needs student on a bus averaged \$8,130 per student, which is approximately 69 percent higher than the Statewide average of \$4,819.

To help control the cost of special education transportation, the District investigated outsourcing certain services and/or coordinating this function with neighboring districts several years ago. However, the Treasurer indicated that the in-house transportation costs were more efficient than the proposed cost of outsourcing and certain scheduling conflicts prevented WLSD from working with neighboring school districts. As a result, the District has attempted to improve efficiency through other measures, such as transporting the majority of special education students on regular buses and adjusting the number of buses based on actual need. For example, the District reduced one special needs bus in FY 2007-08. Although these actions will likely result in reduced transportation costs compared to FY 2006-07 (the FY 2007-08 costs were not available during this audit), the District may be able to further improve efficiency by continuing to explore cost sharing opportunities with neighboring districts and reviewing other alternatives for providing special needs transportation. For example, **R5.1** indicates that the District should review the bell schedules in order to improve the regular education bus capacity utilization. Discussing the bell schedules with the neighboring districts beforehand may allow the District to address some of the scheduling conflicts that were identified in the first attempt to negotiate cooperative agreements. Similarly, ODE permits school districts to contract with parents or guardians to provide transportation of their special needs students under OAC Section 3301-83-19. In certain situations, parent/guardian contracts can sometimes be a cost effective alternative to providing transportation services on District owned buses. However, in FY 2006-07, the District did not incur any expenditure for parent/guardian contracts according to the T-2 form filed with ODE.

**R5.6 The District should include the Administrative Assistant to the Superintendent in IEP meetings. This will help ensure that all costs and constraints associated with transporting special needs students are considered before any commitments are made through the IEP.**

The District's transportation staff is not included in discussions during individualized education program (IEP) meetings. Rather, the Superintendent consults with a member of the District's IEP team and determines the method of transportation that will be provided to special needs students transported outside the District. Ohio Administrative Code (OAC) § 3301-51-07(A) stipulates that each school district adopt and implement written procedures that ensure an IEP is developed and implemented for each child with a disability. In addition, 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. The Office of Special Education and Rehabilitative Services also encourages effective communication between school district personnel and transportation providers before the IEP meeting to determine special needs students' potential transportation needs and problems.

### *Planning and Policies*

**R5.7 The District should develop a written preventive maintenance plan that specifies the frequency and level of vehicle inspections and maintenance activities. This would help ensure long-term consistency in scheduling and performing preventive maintenance activities for all buses. This, in turn, would better ensure that the District maintains its fleet in a cost-effective manner.**

The District does not have a written preventive maintenance plan that specifies the frequency and level of vehicle maintenance that should be performed. Rather, buses are informally scheduled for preventive maintenance when time permits (usually between bus repairs). The mechanic tracks the preventive maintenance activities through maintenance records that summarize the work performed. Based on a sample review of the District's maintenance records, this system appears effective for the current mechanic and the Administrative Assistant to the Superintendent as preventive maintenance activities are taking place. However, developing a written preventive maintenance plan with detailed schedules for performing bus maintenance would help ensure long-term consistency in scheduling and performing preventive maintenance activities. This would be particularly important in the event of a long-term absence by the mechanic or the Administrative Assistant to the Superintendent.

According to the *Public Works Practices Manual* (American Public Works Association, 2001), effective equipment management requires that repairs be made before equipment fails. This involves a PM approach to provide for systematic, periodic servicing of equipment to facilitate operations with a minimum of downtime. Well-planned preventive maintenance programs, which follow the manufacturer's recommendation and schedules, will result in a dependable fleet and extended equipment life with lower operation and maintenance and repair costs. Planning and scheduling PM activities requires providing the right maintenance at the right time at the overall lowest cost. The publication goes on to indicate that PM should be scheduled in advance for all vehicles with the frequency being determined by the distance traveled, hours or time based on past usage, the environment in which the vehicle is used, and the manufacturers' recommended maintenance interval. In addition, *North Carolina School Transportation Fleet Manual* (North Carolina Department of Public Instruction, 2006) and *Metrobus Revenue Vehicle Fleet Management Plan* (Washington Metropolitan Area Transit Authority, 2007) contain

information about preventative maintenance, including preventative maintenances schedules.

**R5.8 The District should develop and approve a bus replacement plan, and update it annually. All bus and equipment replacement should be based upon economic modeling that allows for replacement at the most advantageous point in the equipment's life cycle. The plan should include criteria for bus replacement, such as maintenance costs, estimated cost at the time of replacement, safety inspection results, age, mileage and condition of the buses. Accordingly, the plan should include the buses that would potentially be replaced in the upcoming years. By reviewing and updating the plan annually, the District should be better able to anticipate future costs and ensure cost-effective replacement decisions.**

WLSD adopted a strategic plan in 2007 that identifies “maintenance of an annual bus replacement plan” as a goal of the District. Despite this goal, the District does not have a formal bus replacement plan that projects yearly bus purchases. The Treasurer’s forecast indicates that the District will purchase buses as needed during the next five years due to the lack of a permanent improvement levy and declining State subsidies for new bus purchases. There are no State guidelines for bus replacement beyond the requirement that the bus must be able to pass the annual Highway Patrol inspection. As long as the bus can pass the inspection, a district may continue to use the bus for transportation, regardless of age or mileage. However, the National Association of State Directors of Pupil Transportation Services (NASDPTS) suggests that Type C and D buses (conventional buses) should be replaced after 12-15 years, and Type A and B buses (lighter duty buses) after 8-12 years. The NASDPTS also notes that the State of South Carolina replaces buses after 250,000 miles and/or 15 years of service. Similarly, ODE’s *A District’s Guidebook to School Bus Purchasing in Ohio* (August 2002), indicates that on average, districts are matching the payment provided by the State for bus purchasing with an equal amount of local funding. This has resulted in an average Ohio bus lifespan of 17 years.”

As of FY 2007-08, the average age of WLSD’s active and spare buses is 7.3 years and 12 years, respectively. Additionally, the average miles per active and spare bus are 107,000 miles and 125,000 miles, respectively. However, WLSD is projected to have 1 spare and 3 active buses exceed the 250,000 mile threshold during the next five years. Similarly, the District is projected to have another 3 active and 2 spare buses exceed 200,000 miles during the next five years. Collectively, these projections indicate that while WLSD could potentially operate the next five years without purchasing new buses, the District would likely face a large liability for bus replacements beginning in FY 2012-13. The Treasurer’s financial forecast (**Table 2-1**) includes approximately \$138,000 annually in the capital outlay line-item for non-specific building/equipment needs. These funds could be used to purchase new buses. However, developing a formal bus replacement plan

would help the District better anticipate bus replacement needs and identify potential sources of funding in advance.

The Government Finance Officers Association (GFOA) recommends that governments prepare and adopt comprehensive multi-year capital plans to ensure effective management of capital assets. A prudent multi-year capital plan identifies and prioritizes expected needs based on a strategic plan, establishes project scope and cost, details estimated amounts of funding from various sources, and projects future operating and maintenance costs.

**R5.9 The District should determine the impact of adopting standards that are closer to the State minimum requirements to help it review its transportation policy and identify potential modifications. The District should also consider updating the transportation policies to include formal procedures for identifying and resolving safety hazards within the District. Doing so would assist in effectively planning the routes each year, which subsequently impacts the number of buses and staff that are needed. Lastly, the District should consider posting the updated transportation policies on its website to provide student, parent, and community access.**

According to the District's transportation policies "the Board provides transportation to any student whose distance from their school makes it necessary as directed by State guidelines relative to student transportation." The policies also address transportation of eligible vocational and special education students, transportation of non-public school students, administrative oversight and appropriate distances between bus stops. 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. In addition, Ohio Administrative Code (OAC) § 3301-83-13 states that students may walk up to one-half mile to a bus stop. The District's actual transportation practices exceed state minimum standards in the following areas:

- Transporting kindergarten through eighth grade students living less than two miles from school;
- Transporting high school students; and
- Designing bus stops less than one-half mile from a student's home.

Additionally, the District transports students that live within one mile of the school. According to ODE guidelines, students living within one mile of the school building are not eligible for reimbursement.

The Administrative Assistant to the Superintendent indicated that the District would not be able to eliminate any buses by adopting State minimum standards due to the District's

large area (56 square miles) and rural demographics. However, the District does not regularly monitor or document the financial impact of providing transportation services in excess of state minimum standards.

In developing bus routes, the District considers the lack of sidewalks, railroads, and busy roads as hazardous conditions that necessitate policy waivers. However, the Board policies do not specifically reference the procedures that should be used in identifying safety hazards. In addition, although the District's transportation policies are available upon request, they are not readily accessible. For example, the District does not post its transportation policies on-line or distribute them to students, parents, or the community.

The Board policies for the Snake River School District in Idaho establishes a safety committee, chaired by the district transportation supervisor, that is responsible for reviewing the bus routes for safety hazards and reporting the results to the Board for approval. In carrying out this policy, the Snake River School District has developed procedures that require a re-evaluation of all hazardous areas every three years and that identify specific issues to consider when assessing student safety. Additionally, the Austintown Local School District provides all of its transportation policies on-line to assist students, teachers, parents, and the community in understanding its position on student transportation issues.

**R5.10 The District should develop formal policies and procedures to govern the use of school buses for non-routine purposes. Specifically, the policies should be consistent with OAC § 3301-83-16 and ensure that all billable trips (including athletics) are fully reimbursed through user charges based on the District's actual cost of providing the services. This will provide the District with more accurate cost information to use in making future decisions regarding transportation and the athletic programs, including evaluating potential strategies for eliminating the deficits in the athletic fund.**

**The District should also consider structuring the policy to require an annual update in the non-routine transportation billing rate to reflect changes in the cost of bus drivers' salaries and benefits, maintenance and repairs, fuel, and insurance costs. Doing so would help ensure that the District is recovering the full cost of providing non-routine transportation services and long-term consistency in approach and application.**

The District does not have a Board policy to govern the use of school buses for non-routine purposes. OAC § 3301-83-16 defines the non-routine use of school buses as "transportation of passengers for purposes other than regularly scheduled routes to and from schools. School buses may be used for non-routine trips only when such trips will not interfere with routine transportation services." In addition, OAC § 3301-83-16

indicates that except for field trips on regular school days (for which no transportation charge may be imposed), school boards shall recover the operational costs associated with the non-routine use of school buses, including reimbursements to cover driver salaries and benefits, fuel, maintenance, service, supervision, and insurance.

According to the Assistant Treasurer, WLSD charges users for the non-routine use of a school bus for field trips, band events, and other similar instructional trips. However, the District does not charge the athletic funds for the cost of transporting students to and from sporting events, choosing instead to pay these costs directly from the General Fund. The Assistant Treasurer indicated that the athletic funds typically operate with a small deficit and the charges for non-routine transportation services would require additional transfers from the General Fund.

In addition, the Treasurer indicated that the District regularly reviews the billing rate used for non-routine transportation services. For example, the District currently charges \$0.95 per mile plus the actual cost for salaries and benefits for the non-routine use of school buses. However, the required supporting materials, methodology, and frequency for performing this review are not documented in a Board policy. Formalizing this process through a Board policy would help ensure long-term consistency in the event of a long-term absence among the District's administrative staff.

## Financial Implications Summary

The following table summarizes the estimated revenue enhancements and cost savings identified in this section of the report.

### Summary of Financial Implications for the Transportation Section

<b>Recommendation</b>	<b>Estimated One-Time Revenue</b>	<b>Estimated Annual Cost Savings</b>
<b>R5.1 Eliminate and sell two active buses</b>	\$2,500	\$25,000
<b>R5.2 Eliminate and sell two spare buses</b>	\$2,500	\$1,200
<b>R5.3 Negotiate reduced wage increases during the next contract period (FY 2009-10 through FY 2011-12).</b>		\$15,300
<b>R5.4 Merge maintenance Department with another district</b>		\$25,000
<b>Total</b>	<b>\$5,000</b>	<b>\$66,500</b>

Source: AOS recommendations



## **District Response**

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

During the course of this audit, several status meetings were held with the District to discuss preliminary findings and recommendations. AOS had difficulty determining if the District's special education staffing levels complied with the minimum staffing requirements stipulated in Ohio Administrative Codes (OAC) § 3301-51-09 and § 3301-24-05. This issue was discussed during the status update meetings and the District indicated that it uses a variety of methods to provide special education services that were not considered, including expanded use of tutors and contracting with the Portage County Educational Service Center for specialized services. The District further indicated that these methods, in conjunction with the full-time special education teachers, may allow for compliance with the minimum staffing requirements. However, the District had not discussed the issue with the Ohio Department of Education to determine if its interpretation of the OAC was correct. In response to this issue, AOS developed **R3.2** to encourage the District to review its special education program to determine if the staffing levels comply with the Ohio Administrative Code and to obtain further consultation from ODE. The District's official response indicates that it will comply with the intent of the recommendation by working to clarify the conclusions reported on special education.

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## Waterloo Local Schools

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Honorable Mary Taylor  
Auditor of State  
PO Box 1140  
Columbus, Ohio 43216-1140

Dear Auditor Taylor,

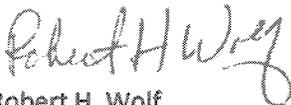
I would like to thank the state audit team headed by Bill Rouse for their dedicated effort in completing the performance audit for the Waterloo Local Schools Board of Education. The audit confirmed that the Waterloo Board of Education has been financially responsible in carrying out its duties of providing a quality educational program for the children of the Waterloo community.

The audit provided the district a variety of interesting information, comments and recommendations. The Board will review these in the spirit of continuing to seek ways to improve the efficiency of operations in the district.

While most of the recommendations will prove useful, there were some that will require negotiations with our certified, classified and secretarial staff. A few recommendations seem to be based on misinformation or erroneous data and therefore the conclusions and/or recommendations are misdirected. Specifically, we will work to clarify the conclusions reported on special education.

The overall conclusion that the district has been financially responsible was anticipated. The commendation regarding the ongoing effort to reduce expenditures is appreciated. We will work to implement additional recommended practices as appropriate and possible over the next months to help maintain the financial health of our district.

Sincerely,



Robert H. Wolf  
Superintendent  
Waterloo Local Schools

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SEP 18 2008

AUDITOR OF STATE  
YOUNGSTOWN REGION