



Mary Taylor, CPA
Auditor of State

MEIGS LOCAL SCHOOL DISTRICT
PERFORMANCE AUDIT

MAY 19, 2009



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Auditor of State

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

In accordance with House Bill 119, the Auditor of State's Office (AOS) conducted a performance audit of the Meigs Local School District (Meigs LSD or the District) to identify programs or areas of operation in which it believed greater operational efficiency, effectiveness, or accountability could be achieved. In July 2008, AOS initiated the performance audit based on the District's May 2008 five-year financial forecast, which projected a negative ending fund balance in Fiscal Year (FY) 2008-09.

The five functional areas assessed in the performance audit were financial systems, human resources, facilities, transportation, and food service. These areas were selected because they are important components of District operations which support its mission of educating children. Improvements in these areas can assist the Meigs LSD administration and Board of Education by reducing costs and improving management practices.

The audit recommendations provide options that the District should consider in its continuing efforts to improve and stabilize its long-term financial condition. The District is also encouraged to assess overall operations and develop alternatives independent of the performance audit.

An executive summary has been prepared which includes the project history; a district overview; the scope, objectives and methodology of the performance audit; and a summary of recommendations and financial implications. This report has been provided to Meigs LSD, 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 operations, service delivery, and financial stability.

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

Sincerely,

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

Mary Taylor, CPA
Auditor of State

May 19, 2009

Executive Summary

Project History

In accordance with House Bill 119, the Auditor of State's Office (AOS) conducted a performance audit of the Meigs Local School District (Meigs LSD or the District) to identify programs or areas of operation in which it believes greater operational efficiency, effectiveness, or accountability may be achieved. In July 2008, AOS initiated the performance audit due to the District's May 2008 five-year forecast, which projected a negative ending fund balance in Fiscal Year (FY) 2008-09. The District developed a revised five-year forecast in September 2008, which again predicted a negative ending fund balance that was projected to grow to \$3.74 million by FY 2012-13. AOS analyzed the revised forecast because it contained updated information and revisions based on more recent events.

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

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

Audit work concluded in November 2008. The goal of the performance audit process was to assist the Meigs LSD administration and Board of Education in identifying opportunities for cost savings and improving management practices. The ensuing recommendations provide options that the District should consider in its continuing efforts to improve and stabilize its long-term financial condition.

District Overview

Meigs LSD is located in Meigs County in Southeastern Ohio and, in FY 2007-08, provided educational services to 1,984 preschool through grade twelve students. For FY 2007-08, the Ohio Department of Education (ODE) reported that the District received 14.6 percent of its revenues from local sources, 71.5 percent from the State, and 13.9 percent from federal sources. ODE also reported that the District's expenditures per pupil were \$10,796,¹ compared to the Statewide

¹ However, \$634 of the District's per pupil spending is devoted to career-technical programming, which explains a significant portion of Meigs LSD's variance from the Statewide average.

average of \$9,939. The District met 7 of 30 academic performance indicators established by ODE in FY 2007-08 and was categorized as a *continuous improvement* district.

In FY 2008-09, the District employed approximately 249 full-time equivalent (FTE) staff, consisting of 15 FTE administrators, 159 FTE educational personnel, 2 FTE professional/technical personnel, 14 FTE office/clerical staff, and 59 FTE operations and other staff. The regular education student-to-teacher ratio in FY 2008-09 was 17.5 to 1. District employees are covered under two bargaining agreements: one for certificated staff and one for classified staff.

Meigs LSD has experienced declining student enrollment over the past several years, with total enrollment in FY 2007-08 down nearly 9 percent from FY 2002-03. The District operates three school buildings: one elementary school building (which is separated into separate schools for grades K-2 and grades 3-5), one middle school (grades 6-8), and one high school (grades 9-12). An Ohio School Facilities Commission project was completed in 2004. The project consolidated seven regional elementary schools into one new elementary school building, constructed a new middle school building, and renovated the high school (see **facilities** for additional information).

Meigs LSD also houses a regional vocational high school within its high school building and serves as the career planning district for all of Meigs County. In addition to its own students, the District provides career-technical programming for students from Eastern LSD and Southern LSD in Meigs County. The District offers twelve programs in eight unique career fields, although because of the District's size, it is only required by the State to offer ten programs. Student participation in the career-technical program has declined in recent years (see **human resources**).

One of the principal challenges facing the District is the economic condition in Meigs County. According to the U.S. Census Bureau, the County's median income in 2004 was \$28,859, well below the State average of \$43,371. The poverty rate was 18.1 percent, compared to the Statewide rate of 11.7 percent. Finally, between 2000 and 2006, the County's population grew by only 0.1 percent, compared to the State average of 1.1 percent and the national average of 6.4 percent. These demographic trends are reflected in the District's gradually declining enrollment and low local funding level, and lead to a challenging financial outlook for Meigs LSD.

In terms of operational challenges, Meigs LSD spends significantly more than peer districts on its employee benefits. In FY 2007-08, expenditures from the District's employee retirement and insurance benefits line item accounted for more than 28 percent of overall spending. The District's health insurance premiums are 21.1 percent higher for single coverage and 24.5 percent higher for family coverage, compared to the Southeast Ohio average compiled by the State Employment Relations Board (SERB). Moreover, District employee contribution rates for health care of 5 percent (classified employees) and 6 percent (certificated employees) are significantly below the industry averages. A more detailed discussion of employee benefits is contained in the **human resources** section.

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

Objectives, Scope and Methodology

Performance audits are defined as engagements that provide assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.²

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

To complete this report, auditors gathered and assessed data from various sources pertaining to key operations, conducted interviews with District personnel, and assessed requested information from Meigs LSD and other school districts. AOS developed a composite of ten selected districts which were used for peer comparisons. The selected districts were Ridgewood LSD (Coshocot County), Logan-Hocking LSD (Hocking County), Garaway LSD (Tuscarawas County), Leipsic LSD (Putnam County), New London LSD (Huron County), Springfield LSD (Mahoning County), East Guernsey LSD (Guernsey County), Celina City LSD (Mercer County), Southeast LSD (Wayne County), and East Holmes LSD (Holmes County). These peer districts were specifically selected in order to compare the cost efficiency of Meigs LSD's operations and approaches to service delivery to other rural/agricultural districts with low costs and high academic performance.

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

² Government Auditing Standards, July 2007 Revision, United States Government Accountability Office.

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

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

Subsequent Events

Pursuant to ORC §5705.391, Meigs LSD submitted a revised five-year forecast in October 2008. This forecast projected a small but positive fund balance in FY 2009-10 with deficits starting in FY 2010-11.

Noteworthy Accomplishments

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

- The District has sought to reduce the cost of workers' compensation through participation in premium discount programs such as the employer group rating, and risk mitigation programs such as the local safety council and a transitional work program. Over the past three years, discounts have increased substantially and premium rates have decreased by 57.7 percent.
- While the District employs a greater number of teachers per special education student than the peer districts, spending per special education student is 27.4 percent less than the peer districts. Moreover, the District is maximizing resources and sharing the cost of special education through the use of the Athens-Meigs ESC and the regular evaluation of programs to improve educational services. The District also employs leading practices such as the mainstreaming or inclusion of special education students in regular education classrooms and investment in early intervention and prevention strategies.
- For FY 2008-09, the District modified the provision of gifted services from a pull-out resource room to classroom differentiation with team teaching. Also, the District received an additional gifted unit to hire a second gifted teacher. Through these changes, the

District was able to serve nearly four times as many students, at a cost per student that is 42.8 percent less than the previous year.

Conclusions and Key Recommendations

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

In the area of finance and strategic management, Meigs LSD should:

- Amend its purchasing policies to increase the effectiveness of internal controls and ensure that its purchasing practices are in line with its written purchasing policies.
- Enhance its written payroll policies and guidelines to improve the District's internal controls and update them as payroll processes change.
- Implement the recommendations contained in the performance audit to help offset projected deficits.

In the area of human resources, Meigs LSD should:

- Eliminate 2.0 FTE building administrator positions at its elementary schools to bring staffing levels more in line with the peer districts and save approximately \$163,000 in salaries and benefits starting in FY 2009-10.
- Eliminate 3.0 FTE educational service personnel (ESP) positions within the nursing and librarian categories, and replace one of the librarians with an FTE library aide to bring staffing levels more in line with the peers and save approximately \$154,000 in salaries and benefits starting in FY 2009-10.
- Seek to reduce its health insurance funding rates by renegotiating the design of its health insurance plan to include more cost sharing features. If the District can reduce its health insurance funding rates to be in line with health insurance premiums for Southeast Ohio, it could reduce General Fund expenditures by about \$622,500 annually.
- Seek to renegotiate employee health care contributions with the goal of increasing contributions to 15 percent, which would be more in line with industry benchmarks and save the General Fund approximately \$253,000 annually.

- Negotiate employee contributions toward dental and vision coverage that are in line with averages for Southeast Ohio. Additionally, the District should work to achieve dental insurance premium rates that are more in line with the regional averages through modifications in plan design. Bringing dental and vision benefits and employee contributions in line with the regional averages would save the District about \$47,000 annually.
- Examine its career-technical program and work to attract additional students, eliminate and/or replace unpopular programs, explore contracting with a JVSD for the provision of some programs, or implement a combination of these strategies in order to reduce the cost of providing career-technical programming to its students.

In the area of facilities, Meigs LSD should:

- Conduct comprehensive building audits and establish a formal preventative maintenance plan.
- Develop and implement formal performance standards and measures to clarify staff expectations, evaluate individual performance, and assess the overall effectiveness of maintenance and operations (M&O) activities.
- Develop and implement a work order system for maintenance activities that would enable the District to track the completion of requests, assign materials, assign tasks, set priorities, and review productivity statistics.
- Consider eliminating 4.0 FTE custodian positions to bring M&O Department staffing closer to industry standards and save approximately \$181,400 in salaries and benefits starting in FY 2009-10.
- Adopt a Board policy on energy conservation and develop a formal District-wide energy conservation program, which includes training and awareness programs and requires regular reviews of utility usage. By implementing aggressive energy management policies, procedures, and practices, Meigs LSD should be able to save at least 10 percent on gas and electric expenditures, which would be approximately \$42,400 based on FY 2007-08 expenditures.

In the area of transportation, Meigs LSD should:

- Document its procedures for completing, reconciling, and submitting T-forms in accordance with ODE instructions. Most importantly, the methodology for separating and allocating costs should be documented to ensure compliance and consistency in reporting transportation costs to ODE.

- Negotiate to eliminate contractually-stipulated, guaranteed paid hours to bus drivers, and instead pay drivers for the actual hours worked.
- Establish and implement a formal preventive maintenance plan to ensure that its buses are properly maintained and remain safe for students. In addition, Meigs LSD should develop a formal bus replacement plan in conjunction with the preventive maintenance plan to help ensure that bus replacement needs are effectively evaluated and communicated.

In the area of food service, Meigs LSD should:

- Develop a strategic plan for the food service operation. Based on the specific strategic goals and objectives, Meigs LSD should develop a budget and five-year forecast for the Food Service Fund and a comprehensive set of performance measures.
- Charge all food service-related expenses to the Food Service Fund, regardless of the Fund's ability to maintain a positive fund balance.
- Consider options to enhance revenue, including charging for breakfast and/or increasing breakfast participation.

Issues for Further Study

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

- **Bus storage at drivers' residences:** Meigs LSD allows some of its bus drivers to take buses home at night, rather than storing them at the District's bus garage. According to District officials, this practice has been put in place for multiple reasons. First, the bus garage is not large enough to accommodate the District's entire fleet. In addition, District officials believe that taking buses home at night makes the transportation operation more efficient and reduces costs. Because the District is so large, they feel that it is more economical to have drivers take buses home so they can begin and end routes close to their homes, rather than drive to the garage, pick up the bus, and go back out to complete those routes. In addition, allowing drivers to take these buses home at night provides added security for the fleet as a whole, because the buses are not concentrated in one location. Based on the information available in this audit, AOS was not able to determine whether or not the practice of allowing drivers to take buses home is actually beneficial to the District.

The District should study this issue and determine the actual net benefit (if any) of allowing drivers to take buses home. If the practice is to be continued, it should be formally authorized in the Board policies and the benefits should be documented (see **R5.1**).

Summary of Financial Implications

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

Summary of Performance Audit Recommendations ¹

	Estimated Annual Savings
Recommendations Not Subject to Negotiation	
R3.2 Eliminate 2.0 FTE assistant principal positions.	\$163,000
R3.3 Eliminate 1.0 FTE nurse position, 1.0 FTE librarian position, and replace an additional 1.0 FTE librarian position with 1.0 FTE library aide.	\$154,000
R4.4 Web-based work order system.	(\$2,500)
R4.7 Eliminate 4.0 FTE custodial staff positions.	\$181,400
R4.8 Develop energy management and conservation procedures.	\$42,400
R6.2 Use cost allocation to account for all expenses of the food service operation.	\$89,700
<i>Sub Total Cost Savings Not Subject to Negotiation</i>	<i>\$628,000</i>
Recommendations Subject to Negotiation	
R3.4 and R3.5 Renegotiate health insurance plan design to reduce funding rates and increase employee contributions for health insurance to 15 percent.	\$814,500
R3.6 Require employee contributions for dental and vision coverage and renegotiate plan design to reduce dental insurance funding rates.	\$47,000
<i>Sub Total Cost Savings Subject to Negotiation</i>	<i>\$861,500</i>
Total Cost Savings from Performance Audit Recommendations	\$1,489,500

Source: Performance audit recommendations

¹ Dollar amounts shown impact the General Fund. See **Food Service** section for additional recommendations impacting the Food Service Fund.

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Financial Systems

Background

This section focuses on the financial systems in the Meigs Local School District (Meigs LSD, or the District). It analyzes the current and future financial condition of Meigs LSD for the purpose of developing recommendations to improve financial management and identifying opportunities for greater efficiency. Operations were evaluated against leading practices, industry benchmarks, operational standards, and selected peer districts¹ in order to develop recommendations that will improve efficiencies and business practices. Leading practices and industry standards were drawn from various sources, including the Ohio Department of Education (ODE), the Government Finance Officers Association (GFOA), the National State Auditors Association (NSAA), and the United States Government Accountability Office (GAO).

Treasurer's Office Operations

The Treasurer's Office consists of four full-time employees, including the Treasurer and three assistants. The Treasurer has been with the District for approximately eight years and reports directly to the Board of Education (the Board). The three Assistants to the Treasurer, who report directly to the Treasurer, are also long-time District employees. The Treasurer tracks all revenues and expenditures, develops financial statements, and maintains the District's five-year forecast. The Assistants to the Treasurer are responsible for reporting staff data to ODE, accounts receivable, Board minutes, invoicing, clerical duties, employee contracts, payroll and benefits, accounts payable, and fixed assets. The District does not have a Business Manager, so the Treasurer's Office is also responsible for handling bidding and insurance issues. The Treasurer's Office operations are guided by Board-approved Bylaws and Policies² and Administrative Guidelines, which were developed with the assistance of NEOLA.

Financial History and Condition

The last successful levy for new money was a building assistance levy passed in 1999 for \$5.7 million, which is set to expire in 2022. Money from the building assistance levy can only be used to maintain and repair buildings, and to purchase or replace equipment. The District receives 3.8 mills of unvoted (or inside) millage and 16.2 mills of voter approved (or outside) millage, which

¹The peers include: Celina CSD (Mercer County), East Guernsey LSD (Guernsey County), East Holmes LSD (Holmes County), Garaway LSD (Tuscarawas County), Leipsic LSD (Putnam County), Logan-Hocking LSD (Hocking County), New London LSD (Huron County), Ridgewood LSD (Coshocton County), Southeast LSD (Wayne County), and Springfield LSD (Mahoning County).

² <http://www.neola.com/meigs%2Doh/>

puts the District at the 20 mill floor.³ The District developed a revised five-year forecast in September 2008 and provided it to the Auditor of State (AOS) for analysis because the May 2008 forecast submitted to ODE did not include the most up-to-date information (see **Table 2-1**).

Table 2-1: Meigs LSD Five-Year Forecast (in 000's)

	Actual			Forecasted				
	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Revenue:								
General Property Tax	\$1,844	\$1,897	\$1,912	\$1,930	\$1,953	\$2,086	\$2,184	\$2,212
Tangible Personal Property Tax	\$383	\$391	\$343	\$296	\$253	\$250	\$248	\$246
Unrestricted Grants-in-Aid	\$11,911	\$12,244	\$12,531	\$12,833	\$12,839	\$12,845	\$12,904	\$13,187
Restricted Grants-in-Aid	\$1,398	\$1,527	\$1,418	\$1,461	\$1,442	\$1,441	\$1,447	\$1,453
Property Tax Allocation	\$292	\$314	\$394	\$447	\$416	\$390	\$401	\$405
All Other Revenues	\$748	\$836	\$788	\$767	\$790	\$813	\$850	\$887
Total Revenues	\$16,577	\$17,210	\$17,386	\$17,733	\$17,693	\$17,825	\$18,034	\$18,389
Total Other Financing Sources	\$28	\$56	\$71	\$23	\$35	\$35	\$35	\$35
Total Revenues and Other Financing Sources	\$16,604	\$17,265	\$17,457	\$17,756	\$17,728	\$17,860	\$18,069	\$18,424
Expenditures:								
Personal Services	\$8,540	\$8,565	\$8,841	\$8,716	\$8,768	\$8,917	\$8,998	\$9,115
Employees' Retirement/Insurance Benefits	\$4,858	\$4,744	\$5,107	\$4,862	\$5,072	\$5,470	\$5,895	\$5,000
Purchased Services	\$1,546	\$1,691	\$1,775	\$1,900	\$1,976	\$2,055	\$2,155	\$2,259
Supplies and Materials	\$667	\$822	\$922	\$795	\$769	\$847	\$827	\$852
Capital Outlay	\$448	\$183	\$260	\$198	\$174	\$179	\$260	\$193
Intergovernmental	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Debt Service	\$45	\$43	\$154	\$152	\$150	\$149	\$157	\$155
Other Objects	\$947	\$967	\$1,058	\$1,111	\$1,166	\$1,224	\$1,286	\$1,350
Total Expenditures	\$17,052	\$17,016	\$18,117	\$17,733	\$18,075	\$18,841	\$19,577	\$18,923
Other Financing Uses								
Operating Transfers-Out	\$64	\$11	\$5	\$35	\$35	\$35	\$35	\$35
All Other Financing Uses	\$11	\$40	\$48	\$50	\$50	\$50	\$50	\$50
Total Other Financing Uses	\$74	\$51	\$53	\$85	\$85	\$85	\$85	\$85
Total Expenditures and Other Financing Uses	\$17,126	\$17,067	\$18,170	\$17,818	\$18,160	\$18,926	\$19,662	\$19,008
Result of Operations (Net)	(\$522)	\$198	(\$713)	(\$62)	(\$432)	(\$1,066)	(\$1,594)	(\$584)
Balance July 1	\$1,109	\$587	\$785	\$72	\$10	(\$421)	(\$1,487)	(\$3,081)
Cash Balance June 30	\$587	\$785	\$72	\$10	(\$421)	(\$1,487)	(\$3,081)	(\$3,665)
Estimated Encumbrances June 30	\$171	\$191	\$68	\$75	\$50	\$50	\$50	\$50
Reservation of Fund Balance	\$270	\$363	\$0	\$35	\$52	\$70	\$12	\$30
Fund Balance / June 30 for Certification of Appropriations	\$147	\$231	\$5	(\$99)	(\$523)	(\$1,607)	(\$3,143)	(\$3,744)
Unreserved Fund Balance June 30	\$147	\$231	\$5	(\$99)	(\$523)	(\$1,607)	(\$3,143)	(\$3,744)

Source: Meigs Local School District

Note: Subsequent to the September forecast provided to AOS, the District filed its statutorily required October 31st five-year forecast with ODE.

³ Pursuant to HB 920 and the reduction factor, a school district's outside millage combined with its inside millage cannot be reduced beyond 20 mills.

By its nature, forecasting requires estimates of future events. Therefore, differences between projected and actual revenues and expenditures are common, as circumstances and conditions frequently do not occur as expected. At the time the forecast in **Table 2-1** was developed, the District was projecting a small negative unreserved fund balance beginning in FY 2008-09 that was expected to grow to a \$3.7 million deficit by FY 2012-13. According to the Treasurer, the District will be considering various levy options, including an emergency levy and/or a bond issue, because of the projected deficits.

The performance audit includes a review of the assumptions that have a significant impact on the forecast, such as general property tax, unrestricted and restricted grants-in-aid, personal services, employees' retirement and insurance benefits, purchased services, and supplies and materials. AOS analyzed the District's assumptions and methodologies, and recommended changes where appropriate (see **R2.10**). Overall, the District's assumptions were sound and based upon well-documented methodologies.

Financial Operations – Expenditures & Revenues

The allocation of resources between the various functions of a school district is one of the most important aspects of the budgeting process. Given the limited resources available, operational expenditures by function level should continually be evaluated and prioritized. **Table 2-2** compares Meigs LSD's FY 2006-07 expenditures on a per pupil basis to the peer average.

Table 2-2: FY 2006-07 Expenditure per Pupil Comparison

	Meigs LSD			Peer Average			Difference Per Student	Percent Difference
	Total \$	\$ Per Student	Percent of Total	Total \$	\$ Per Student	Percent of Total		
Administration	\$2,954,804	\$1,488	15.4%	\$1,716,589	\$1,011	11.8%	\$477	47.2%
Operations Support	\$4,247,574	\$2,139	22.2%	\$2,896,009	\$1,669	19.9%	\$469	28.1%
Staff Support	\$218,031	\$110	1.1%	\$360,017	\$183	2.5%	(\$73)	(39.9%)
Pupil Support	\$1,442,915	\$727	7.5%	\$1,441,981	\$772	9.9%	(\$45)	(5.9%)
Instruction	\$10,274,461	\$5,173	53.7%	\$8,170,187	\$4,685	56.0%	\$488	10.4%
Total	\$19,137,785	\$9,636	100.0%	\$14,584,782	\$8,319	100%	\$1,317	15.8%

Source: Ohio Department of Education, Expenditure Flow Model

As **Table 2-2** shows, Meigs LSD spent 15.8 percent more per pupil than the peer average in FY 2006-07. The recommendations in this performance audit, if implemented, would help bring the District's expenditures per pupil more in line with the peer average, particularly in non-instructional areas. The following is a brief explanation of the differences in spending levels between the District and the peers, the majority of which can be associated with expenditures relating to employee salaries and benefits:

- **Administration:** In FY 2006-07, Meigs LSD spent about 47 percent more per pupil than the peers. Aside from salary and benefit expenses, these costs were associated with the Board of Education, Superintendent's Office, fiscal services, support services, and building principals. These expenditures do not relate directly to the education of students. Instead, they encompass expenses relating to planning, research, information services, staff services, and data processing (See **R3.2** and **R3.4-R3.6**).
- **Operations Support:** When compared to the peers, Meigs LSD operations support costs on a per-pupil bases were about 28 percent above the peer average. These expenditures are comprised of salaries for the Director of Facility Maintenance, transportation, and the food service operation. Operations Support also includes facilities-related operations at the building and central office levels, as well as any purchasing for the enterprise funds, the largest of which is the lunchroom operation (see **food service** section and **R3.3-R3.6**).
- **Instruction:** In FY 2006-07, Meigs LSD spent 10 percent more per pupil on instruction than the peer average. This function includes costs for teachers, teacher aides, and paraprofessionals, in addition to costs associated with instructional materials such as computers, books, and other supplies and materials that are used in the classroom setting. These expenditures are directly related to the education of students and the difference from the peer average can be partially attributed to the District's vocational program. Although the District reports spending 10 percent more per pupil than the peers on instruction, it has only met 11 of the 30 ODE performance indicators in FY 2006-07 and only 7 of the 30 ODE performance indicators in FY 2007-08 . Although instructional cost reductions may not be ideal, they may be necessary in order for the District to avoid a future deficit (See **R3.4-R3.6**).

During the course of the audit, FY 2007-08 actual expenditures became available. Meigs LSD expenditures per pupil increased about 12 percent from \$9,636 in FY 2006-07 to \$10,798 in FY 2007-08. About 5 percent of the increase in per pupil expenditures was the result of a decrease in its student population by about 86 pupils in FY 2007-08. Overall expenditures increased by about 7 percent from FY 2006-07.

Table 2-3 compares the District's revenues by object to the peer average for FY 2006-07.

Table 2-3: Revenue Comparison: FY 2006-07

	Meigs LSD	Meigs LSD \$ Per Student	Peer Average	Peer Average \$ Per Student	Difference Per Student	Percent Difference
General Property Tax	\$1,897,336	\$955	\$4,200,902	\$2,368	(\$1,413)	(54.8%)
Tangible Personal Property Tax	\$391,198	\$197	\$826,781	\$470	(\$273)	(52.7%)
Income Tax	\$0	\$0	\$397,297	\$214	(\$214)	(100.0%)
Unrestricted Grants-in-Aid	\$12,244,150	\$6,165	\$6,627,785	\$3,804	\$2,361	84.7%
Restricted Grants-in-Aid	\$1,527,343	\$769	\$694,059	\$368	\$401	120.1%
Property Tax Allocation	\$313,526	\$158	\$772,667	\$468	(\$310)	(59.4%)
Other Revenue	\$836,072	\$421	\$906,103	\$517	(\$96)	(7.7%)
Total	\$17,209,625	\$8,665	\$14,425,594	\$8,210	\$456	19.3%

Source: Meigs Local School District and Ohio Department of Education

As shown in **Table 2-3**, the District received approximately 19 percent more revenue per student than the peer average. In general, Meigs LSD receives more State revenue through unrestricted and restricted grants-in-aid than the peers, but receives less revenue locally through general property taxes, personal tangible property taxes, and income taxes. The District receives additional State funding because it operates a comprehensive vocational high school program that serves all of Meigs County. It also has a lower assessed valuation than the peer districts, which results in a higher level of state aid, as well as a higher poverty rate, which results in the District receiving a larger amount of poverty based assistance (PBA).

Audit Objectives for the Financial Systems Section

The following is a list of the audit objectives used to evaluate the District's financial management practices:

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

Recommendations

Planning

R2.1 Meigs LSD should develop a clearly written, multi-year strategic plan to guide the District's operations and aid in decision-making. The plan should incorporate the Comprehensive Continuous Improvement Plan (CCIP) and any other educational and operational plans. In developing the strategic plan, the Board should identify and formally adopt a limited number of District priorities to guide its strategies and major operational, financial, and program decisions.

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

The District has not developed a multi-year strategic plan incorporating all elements of its operations. Instead, the District handles planning on a year-to-year basis by taking into consideration current issues and the District's financial condition. According to *Recommended Budget Practices on the Establishment of Strategic Plans* (GFOA, 2005), entities should develop multi-year strategic plans that provide long-term perspectives for services delivered and budgeting, thus establishing logical links between authorized spending and annual goals based on identified needs, projected enrollment, and revenues. Accordingly, the District should take the following actions when developing its strategic plan:

- Prepare a mission statement;
- Assess environmental factors and critical issues;
- Agree on a small number of goals and develop strategies and action plans to achieve them;
- Develop measurable objectives and incorporate performance measures;
- Approve, implement, and monitor the plan; and
- Reassess the strategic plan annually.

The District-wide strategic plan should be adopted as part of each school's improvement plan and should link educational and operational goals to the District's overall goals. The goals, objectives, and strategies of the strategic plan should be listed in their order of

importance. By implementing a strategic plan, Meigs LSD can gain a better perspective on its future financial needs and develop a more comprehensive approach to balancing its finances with its educational mission. In addition, a strategic plan could help improve communication between the District and the community, provide direction for the Board, and align planning and budgeting processes to the District-wide strategic plan.

Financial Reporting

R2.2 Meigs LSD should develop a popular annual financial report (PAFR) and consider developing a comprehensive annual financial report (CAFR). These reports should be reviewed by Board members and administrators as a way to increase their understanding of District finances. The District should also ensure that these reports are made available to the public upon request and are publicized through several forms of communication such as postings at public libraries, mailings to major businesses, posting on the District’s website, and press releases to the local media.

Meigs LSD does not publish a PAFR or a CAFR. The Treasurer does not believe it would be cost-beneficial to produce a CAFR since the Generally Accepted Accounting Principles (GAAP) conversion statement is seldom requested by residents and other stakeholders. The Treasurer stated that he would consider issuing a PAFR in the future because this could be easily produced by his forecasting software.

According to *Governmental Accounting, Auditing, and Financial Reporting Practices* (GFOA, 2006), state and local governments should not be satisfied with issuing only the basic financial statements required by Generally Accepted Accounting Principles (GAAP), but should instead publish a comprehensive annual financial report (CAFR). According to *Using Websites to Improve Access to Budget Documents and Financial Reports* (GFOA, 2003), a CAFR is an unparalleled means of demonstrating financial accountability, as recognized by the National Council of Governmental Accounting (NCGA) and reiterated by the Governmental Accounting Standards Board (GASB). The Westerville City School District in Franklin County develops both a CAFR and PAFR, which are used by community members, Board members, staff, and local businesses to gain insight into the financial operations of the district.

According to *Preparing Popular Reports* (GFOA, 2001), each government entity should issue a PAFR. A PAFR is designed to assist those who need or desire a less detailed overview of government financial activities than the CAFR provides. A PAFR can take the form of consolidated or aggregated presentations, or a variety of other forms. Although outsourcing the development of a PAFR can be costly, the District can create a PAFR-like document which incorporates the characteristics GFOA recommends.

Providing enhanced financial and statistical reporting through a CAFR and PAFR would provide stakeholders insight into District operations and a better understanding of the District's financial condition and outlook. Although there are costs associated with the preparation and printing of CAFR and PAFR documents, some components of this work could be performed in-house. The District's forecasting software can be used to easily produce a PAFR. The Treasurer's Office could develop the CAFR and the tables and graphs associated with the PAFR and publish these documents on the District website in electronic form. Using electronic media to publish the CAFR and PAFR would greatly reduce the cost of production and distribution.

R2.3 Meigs LSD should include financial information on its website that informs and educates its residents about the District's operations and financial condition. This information should include, but should not be limited to, budget documents, the CAFR and PAFR, the District's five-year forecast, and copies of the monthly financial reports provided to the Board.

The District's website contains copies of Board minutes; administrative contact information; the District's bylaws, policies, and administrative guidelines; the District calendar; and various other types of general information. However, the District's website does not include any information pertaining to the financial operations of the District.

According to *Using Websites to Improve Access to Budget Documents and Financial Reports* (GFOA, 2003), each government entity should publish its budget document and CAFR on its website. GFOA further recommends that governments comply with the following guidelines when presenting these documents on their websites:

- The electronic budget document and the electronic CAFR should be identical to the printed versions of these documents;
- The website should prominently notify users that the information in the CAFR has not been updated for developments subsequent to the date of the independent auditor's report;
- The website should prominently inform users whether the budget document presented represents the preliminary budget or the approved budget;
- If a government elects to present the budget documents and CAFRs from prior years, the website should clearly identify these documents as "dated information for historical reference only" and clearly segregate them from current information. A "library" or "archive" section of the website is advisable for this purpose; and
- The security of the website should be evaluated to protect it from manipulation by external or unauthorized persons;

School districts in Ohio such as Logan-Hocking Local School District (Hocking County), Ridgewood Local School District (Coshocton County), Lakota Local School District (Butler County), Westerville City School District (Franklin County), and Olentangy Local School District (Delaware County) provide a wide range of financial information on their websites. This information includes some or all of the following:

- **Levy Information** – Levy Facts, Reappraised Home Values and School Taxes, Property Tax Calendar, Income Tax Calculator, Ohio School District Income Tax, and a Glossary of Terms;
- **Expenditures By Object/Function** – Illustrates salaries, benefits, purchased services, capital outlay, maintenance, transportation, and extracurricular expenditures;
- **Budget Appropriations** – Current Five-Year Forecast, Tips on Understanding the Five-Year Forecast, FY Appropriations, FY Tax Budget, and Historical Year-End Analysis;
- **Taxes/Millage/Valuations** – Tax Calculator, Presentation of Governor’s Blue Ribbon Task Force on Student Success, County Area Effective Tax Rates (Historical Information), Tax Rate History, and Q&A on Taxes and Millage;
- **Annual Reports** – Historical information, CAFRs, and PAFRs; and
- **Miscellaneous** – Audit Findings, School Finance Terms, State Financial Designations, ODE Local District Report Cards, Reports on enrollment, and Finance and Audit Committee information.

By providing key financial information on its website to the District’s stakeholders, Meigs LSD can increase awareness and understanding of its financial condition. Posting financial information on the District’s website also reduces the time needed for public document requests and eliminates the costs associated with providing the information in paper form. In addition, the electronic format provides the users with a computerized tool to find, extract, and analyze data contained in these often lengthy documents. Although staff time is required to develop, maintain, and update the information on the website, Meigs LSD could use its website to enhance the types of financial reports available to the public at little additional cost to the District.

Internal Controls

R2.4 Meigs LSD should enhance its financial management policies and tailor them specifically to the District and its operations. While the District has developed a set of financial management policies, the policies are lacking certain elements of recommended practices. Once the financial management policies are revised, the District should ensure that its financial and budgetary practices are consistent with these policies.

The District has established financial management policies within its Bylaws and Policies and Administrative Guidelines, with the assistance of NEOLA. While the financial management policies provide some guidance and detail, they do not include all of the elements of leading practices recommended by the GFOA.⁴ Financial management policies should be an integral part of the development of service, capital, and financial plans and the overall budgeting process. All other adopted budgetary practices should be consistent with these policies. To ensure that its financial management practices follow recommended guidelines, Meigs LSD should consider enhancing its current policies to include the following GFOA-recommended practices:

- **Budget Stabilization Funds** - A government should develop policies to guide the creation, maintenance, and use of resources for financial stabilization purposes. Although the District's policies allow for the creation and maintenance of a budget reserve fund, the policies lack guidance on how and when the fund should be created and the purposes for which the fund can be used.
- **Debt Issuance and Management** - A government should adopt policies to guide the issuance and management of debt. While the District has policies in place pertaining to investments and borrowing, these policies do not address the purposes for which debt may be issued and limitations on the amount of outstanding debt.
- **Debt Level and Capacity** - A government should adopt a policy on the maximum amount of debt and debt service that should be outstanding at any one time. Although the District has a borrowing policy in place, the policy is very brief and does not include GFOA-recommended elements such as limitations on outstanding debt, maximum debt service limits, and distinct policies for each type of debt.
- **Use of One Time Revenue** – A government should adopt a policy limiting the use of one time revenues for ongoing expenditures. The District does not have a policy in place addressing the use of one time revenue. By definition, one time revenues cannot be relied on in future budget periods. A policy on the use of one time revenues should explicitly define such revenues and provide guidance to minimize disruptive effects on services due to non-recurrence of these sources.
- **Use of Unpredictable Revenues** - A government should identify major revenue sources it considers unpredictable and define how these revenues may be used. The District does not have a policy in place addressing the use of unpredictable

⁴ *Best Practices in Public Budgeting*. Government Finance Officers Association (GFOA, 2000).
<http://www.gfoa.org>.

revenues. For each major unpredictable revenue source, the District should identify those aspects of the revenue source that make the revenue unpredictable. Most importantly, the District should identify the expected or normal degree of volatility of the revenue source.

- **Revenue Diversification** - A government should adopt a policy that encourages diversity of revenue sources. Although the District's administrative guidelines identify an attempt to diversify revenue through the use of grants, the District's guidelines and policies do not otherwise address revenue diversification. A diversity of revenue sources could improve the District's ability to handle fluctuations in revenues and potentially help to better distribute the cost of providing services.
- **Contingency Planning** - A government should have a policy to guide the financial actions it will take in the event of emergencies, natural disasters, or other unexpected events. While the District's administrative guidelines address actions that should be taken when enrollment fluctuates, other unexpected events such as emergencies and natural disasters are not addressed. When emergencies or unexpected events occur, having a policy that can be applied, or at least serve as a starting point, for financial decisions and actions improves the ability of a government to take timely action and aids in the overall management of such situations.

By enhancing its policies and administrative guidelines to include elements of GFOA-recommended practices, the District could better manage its limited resources and help ensure consistency in financial practices. Such policies can also help the District operate more smoothly, can be used as a tool for financial decision-making, and can improve the ability of the District to take timely action. In addition, strong financial policies aid in the overall management of the budget and achievement of the District's long range goals.

R2.5 Meigs LSD should enhance its current ethics policies for administrators and staff to include elements of leading practices suggested by the Ohio Ethics Commission (OEC). The policies should require all administrators and staff, including financial staff, to conduct themselves in a manner that avoids favoritism, bias, and the appearance of impropriety. Once adopted, the enhanced policies should be distributed and discussed with all administrators and staff. The policies should also be posted on the District's website so that they are readily available to the public.

The District has not developed an ethics policy that applies specifically to financial staff. However, the District has separate ethics policies in place for administrators and staff that include references to the ethical obligations of staff members with access to District funds. The District's ethics policies do not have some of the elements of leading practices

recommended by the OEC. Although there is not any evidence of unethical behavior among administrators or staff, enhancing the policies to include additional elements of leading practices will help ensure that employees are aware of the guidelines for appropriate behavior when acting on behalf of the District.

According to the OEC sample ethics policy⁵ for local governments, officials and employees must, at all times, abide by the protections to the public embodied in Ohio's Ethics Laws. These laws are codified in ORC Chapters 102 and 2921, and have been interpreted by the OEC and various Ohio courts. A copy of these laws should be provided to employees and their receipt acknowledged, as required in ORC § 102.09(D). The OEC recommends the ethics policy prohibit employees from the following:

- Soliciting or accepting employment from anyone doing business with the [District];
- Being paid or accepting any form of compensation for personal services rendered on a matter before any board, commission, or other body of the [District];
- Holding or benefiting from a contract with, authorized by, or approved by, the [District];
- Voting, authorizing, recommending, or in any other way using his or her position to secure approval of a [District] contract (including employment or personal services) in which the official or employee, a family member, or anyone with whom the official or employee has a business or employment relationship, has an interest;
- During public service, and for one year after leaving public service, representing any person, in any fashion, before *any* public agency, with respect to a matter in which the official or employee personally participated while serving with the [District]; and
- Using, or authorizing the use of, his or her title, the name of the [District], or the [District's] acronym, or the [District]'s logo in a manner that suggests impropriety, favoritism, or bias by the [District] or the official or employee.

By amending its ethics policies to include elements of OEC-recommended practices, the District can provide guidance to all staff members, particularly those entrusted with District funds, on how to conduct themselves in a manner that avoids favoritism, bias, and the appearance of impropriety. Furthermore, comprehensive ethics policies provide guidance to employees on how to ensure that their actions are always in the best interest of the District and how they can help the District avoid any appearance of impropriety. After the Board implements enhanced ethics policies that encompass the elements of

⁵ The Ohio Ethics Commission's sample ethics policy for local government officials can be found online at: http://www.ethics.ohio.gov/ModelEthicsPolicy_localagencies.html

OEC-recommended practices, it should have staff read and sign the policies to acknowledge their understanding of the Board's expectations.

R2.6 Meigs LSD should amend its purchasing policies to increase the effectiveness of internal controls over the purchasing process. The policies should require that documentation is consistently maintained for each purchase. In addition, the District should ensure that its purchasing practices are in line with its written purchasing policies. The purchasing policies and corresponding internal controls should be compiled into a purchasing manual and periodically reviewed to determine whether they are being followed and whether they are still relevant to the District's operations.

Meigs LSD has numerous written purchasing policies and guidelines which can be found in the District's Bylaws and Policies and Administrative Guidelines. The District's purchasing practices were reviewed by audit staff. A test of the District's purchase orders revealed that the District's written purchasing policies are not being consistently followed. Purchase orders were randomly selected and represented the full spectrum of the District's operations over the past three fiscal years. Examples of some of the inconsistencies that were noted between the purchase orders and the written purchasing policies are as follows:

- Administrative Guideline 6320A requires the Treasurer to sign and date each purchase order and requisition and the Superintendent to sign and date each purchase order and/or requisition. None of the purchase orders tested contained a signature line for the Superintendent. During the course of the audit, the District stated that they plan to amend this guideline so that the Superintendent's signature is no longer required on purchase orders. This will create consistency between the guideline and District practices.
- Administrative Guideline 6320B1 lists areas of the purchase order that should be completed as appropriate. Two such areas are the delivery required by date and the shipping method. However, the District's purchase orders do not contain these elements. The District should either enhance its purchase orders to include all listed elements or revise its policies to reflect its actual purchasing practices.

According to *Enhancing Management Involvement with Internal Control* (GFOA, 2006), a sound framework of internal control is necessary to afford a reasonable basis for finance officers to assert that the information they provide can be relied upon. In addition, GFOA recommends that financial managers periodically evaluate relevant internal control procedures to satisfy themselves that those procedures 1) are adequately designed to achieve their intended purpose, 2) have actually been implemented, and 3) continue to function as designed.

While policies establish what an organization requires, procedures describe how policies will be carried out or implemented. According to *Introduction to Public Procurement* (The National Institute of Governmental Purchasing (NIGP), 2009), procedures manuals are written in detail, intended not just to provide guidance but also to set out the forms, process requirements, and steps for each procurement action. A procedures manual is best structured in exactly the same sequence as the procurement cycle, detailing each step in the process and showing the forms to be used, the information required, and the standard length of time necessary to complete any step in the process. This facilitates operational planning and provides benchmarks for monitoring the process. Procedures manuals should be tailored to meet agency requirements and, at a minimum, should include:

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

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

Some Ohio school districts have developed procedures manuals to guide staff through the purchasing process and ensure regulations and district policies are adhered to. For example, Miami East Local School District in Miami County has a requisition and purchase order handbook that includes reference to ORC statutes for purchase order authorization; detailed procedures for purchase orders, emergency purchases, and creating and managing online requisitions; USAS coding definitions; and sample forms.

While some of the items recommended by NIGP are present in existing policies, Meigs LSD does not have formal procedures in place to guide employees in requisitioning and purchasing. The development, approval, and distribution of a purchasing manual would help the Board, Treasurer, and Superintendent clarify the District's official position on purchasing practices.

By amending its purchasing policies to include effective internal controls over purchasing practices, maintaining consistent documentation, creating a purchasing manual, and ensuring that all written policies are relevant to the District's operations, Meigs LSD can improve both the consistency and the accountability of its purchasing practices.

Payroll

R2.7 Meigs LSD should enhance its written payroll policies and guidelines to improve the District's internal controls. Furthermore, the policies and guidelines should be updated as payroll processes change. Updated procedures for all payroll functions will help ensure the accuracy and efficiency of the payroll process.

The District's payroll processes are governed by its Bylaws and Policies and Administrative Guidelines. However, the District's payroll policies and guidelines do not include all of the elements of internal controls recommended by leading practices.

According to *Enhancing Management Involvement with Internal Control* (GFOA, 2004),⁶ government entities should maintain clearly documented internal control policies over all program areas, which includes the payroll process. Internal controls should be evaluated periodically to ensure that those procedures are adequately designed to achieve their intended purpose, have actually been implemented, and continue to function as designed. Evaluations should also encompass the effectiveness and timeliness of the entity's response to potential control weaknesses. Furthermore, *Assessing Internal Controls in Performance Audits* (GAO, 1990)⁷ recommends a government entity's system of internal controls be clearly documented and address the following issues:

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

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

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

Although Meigs LSD has several internal controls over its payroll processes, the District does not have policies pertaining to supervision of the payroll process or access to and accountability for resources. Without documented procedures in these areas, the District risks payroll errors and, potentially, misuse or abuse of resources. By maintaining appropriate internal controls over payroll operations, the District can promote accountability within the payroll function, while reducing the risk of possible error.

R2.8 Meigs LSD should approach bargaining unit representatives and request a memorandum of understanding requiring mandatory direct deposit for all employees and long-term substitute teachers, regardless of hire date. Furthermore, the District should discontinue the practice of issuing paper pay stubs and mandate that all employees make use of the District's electronic pay stub capabilities. By expanding the use of these practices, the District could reduce the supplies and materials costs associated with producing paper pay checks and stubs while improving the efficiency of operations in the Treasurer's Office. In addition, the District's employees would benefit from ease of access to and availability of historical pay stub information. Once the mandatory direct deposit and electronic pay stub programs are developed, the District will need to adopt formal written procedures to govern the programs and their related processes.

The District offers voluntary payroll direct deposit to all permanent employees and extended this option to its substitute teachers in FY 2008-09. During the most recent round of negotiations, the District was unable to successfully negotiate mandatory direct deposit and electronic pay for all bargaining unit members. However, the District plans to offer a voluntary electronic pay stub program to all employees. Based on a July 28, 2008 sample of payroll transactions, the District issues approximately 268 checks per pay period, of which 193 are direct deposited and 75 (or about 28 percent) are paper checks.

According to the National Automated Clearing House Association (NACHA)- The Electronic Payments Association, direct deposits can be very beneficial to both the organization and its employees. Furthermore, the Electronic Payments Association states that employers and employees can financially benefit from the use of electronic pay stubs while simultaneously increasing efficiencies within a payroll department. The employer benefits because electronic pay stubs eliminate the need to print, mail, and distribute pay stubs or reproduce lost pay stubs. At the same time, the employees benefit because they can easily access their pay information from any computer with a browser and internet connection. Also, a more extensive record of the employee's pay history is available, beginning with the first electronic pay stub. Electronic pay stubs also make it easy for employees to provide pay stub information to third parties, such as accountants, mortgage lenders, and other agencies requiring pay verification. Coventry Local School District (Summit County) is among several school districts that have successfully negotiated

mandatory direct deposit programs for all of their employees, and have consequently seen improvements and cost savings in their payroll operations.

Computer access for bus drivers, cooks, and custodians sometimes creates a logistical problem. However, the District has issued e-mail addresses to all District employees, and all maintenance employees and bus drivers have access to a centralized computer in their break room.

Although the savings associated with implementing mandatory direct deposit and electronic pay stubs is difficult to quantify, the District could save money from the cost of paper, envelopes, stamps, and associated time of the payroll department to process paper stubs. Also, the time employees spend printing checks and stuffing envelopes could be allocated to other activities.

Five-Year Forecast

R2.9 Meigs LSD should revise its assumptions and adjust its projections for State funding (unrestricted and restricted grants-in-aid), personal services, and supplies and materials in its five-year forecast. The revised assumptions and projections will provide the District with a more accurate depiction of its likely future financial condition.

Major line items in Meigs LSD's September 2008 five-year forecast, including general property, state funding, personal services, employee retirement and insurance benefits, purchased services, and supplies and materials were evaluated. AOS made adjustments to state funding, personal services, and supplies and materials projections based on historical trends and other information available at the time of the audit. The impact of these forecast adjustments is shown in **Table 2-4**. The paragraphs that follow explain the forecast line items assessed and detail the methodologies used to develop revised projections.

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

State funding is comprised of unrestricted and restricted grants-in-aid received from the State through the State Foundation Program. The funding levels are established by the Ohio General Assembly during the state's biennial budgeting process and are administered by ODE. Since the funding levels are established biennially and are based on average daily membership (ADM), State funding amounts cannot be projected with absolute certainty. However, detailed assumptions will allow Board members and administrators to plan based on expected funding levels and identify causes if revenues do not materialize as expected. The updated projection for FY 2008-09 was based on the September #2 SF-3 report. Since ODE updates the SF-3 twice a month, the District

should closely monitor the projections and adjust the forecast accordingly. The updated State funding projections for the remaining forecasted period were based on a methodology that includes details regarding the following:

- **ADM Projections:** The District's ADM has fluctuated over the past several years, so rather than attempting to predict how it may change, the Treasurer held ADM constant throughout the forecast period. AOS found this assumption reasonable.
- **State Foundation Levels:** The Treasurer flat lined basic aid from Fiscal Year 2008-09 to Fiscal Year 2010-11, then increased it by 2.2 percent in Fiscal Year 2011-12 and Fiscal Year 2012-13. Prior to recent economic changes and the State budget reductions, up to a 3 percent increase per year would have been reasonable and generally in line with funding level increases found in House Bill 119, the State budget bill for FY 2007-08 and FY 2008-09. However, in light of the recent economic downturns, a 1.0 percent increase in the foundation levels was used through the forecasted period.
- **Poverty Based Assistance (PBA):** The Treasurer flat lined PBA throughout the forecast period. AOS found this assumption too conservative and increased PBA by the historical average of 3.2 percent.
- **Parity Aid:** The Treasurer flat lined parity aid throughout the forecast period. AOS found this assumption too conservative. However, the historical annual increase of 21.4 percent would be unrealistically high when applied over the five-year forecast period. Therefore, a more conservative 3.0 percent increase was applied.
- **Other:** In order to project State funding levels for the forecasted period, historical trends were analyzed in the various components of the SF-3 (including special education weighted amount, career technical and adult education, training and experience, gifted aid, transportation, excess cost, preschool, special education transportation, and the charge-off supplement.) When reasonable, the historical average annual percent change was applied. If the percent change was not reasonable or predictable, adjustments were made based upon the auditor's judgment.

Personal Services (Salaries and Wages)

Personal services consist of employee wages, substitute costs, supplemental contracts, severance pay, and overtime costs. The revised projections for personal services were projected on an object code level. Although the Treasurer included a 1.44 percent annual negotiated increase in Fiscal Year 2008-09, he held annual negotiated wage increases at 0

percent for the remainder of the forecast period. AOS found it unrealistic that a 0 percent annual increase could be successfully negotiated. Therefore, AOS projections include a 2 percent annual cost of living increase for certificated and classified staff. Additionally, based on historical trends, a 3.33 percent annual increase was applied for certificated staff eligible for step increases and a 2.22 percent annual increase was applied for classified staff. Finally, the projections include the District's reduction of 11 aides and 4 bus driver positions in FY 2008-09, along with teacher transfers and normal attrition.

Supplies and Materials

The supplies and materials category includes items such as general supplies, textbooks, library books, and supplies and materials related to the operation, maintenance, and repair of equipment and motor vehicles. The Treasurer reduced projections by \$100,000 in FY 2008-09 to account for recent textbook purchases. However, he did not take into account that those textbooks would likely need to be replaced sometime during the forecast period. Furthermore, the Treasurer applied a 3 percent increase in supplies and materials each year, but those projections were not broken down by object level. AOS projections are based on historical changes on a per object basis and known factors. AOS projections include 5 percent annual increases in expenditures for general supplies; library books; newspapers, periodicals and films; operation, maintenance, and repair; and other supplies and materials. The 5 percent figure was selected to account for inflation. In order to project textbook expenditures throughout the forecast period, it was assumed that the District would continue to meet, but would not exceed, its set aside requirement in FY 2008-09. Thereafter, the 2.6 percent historical average annual percent increase was applied to textbook expenditures. Ideally, educational and operational goals would also be considered when projecting such items as textbooks and operational and maintenance repairs. The District should also consider historical expenditures on a per student basis for such items as general supplies and library books and applying those spending levels to expected enrollment.

Table 2-4 shows the net impact of the AOS revised projections on each line item and the five-year forecast ending balance when compared with the District's September 2008 projections.

Table 2-4: Net Impact of Revised Five-Year Forecast Projections

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Revenue					
Unrestricted Grants-In-Aid	(\$41,400)	\$141,340	\$316,026	\$461,868	\$325,822
Restricted Grants-In-Aid	(\$33,630)	\$18,799	\$54,338	\$83,558	\$114,857
Net Impact on Revenue	(\$75,030)	\$160,139	\$370,364	\$545,425	\$440,679
Expenditures					
Personal Services	\$21,900	\$175,561	\$258,184	\$405,214	\$550,672
Supplies and Materials	\$314,774	\$392,780	\$369,069	\$445,636	\$480,540
Net Impact on Expenditures	\$336,674	\$568,341	\$627,253	\$850,850	\$1,031,212
Ending Fund Balance					
Net Impact on Fund Balance	(\$411,704)	(\$408,202)	(\$256,889)	(\$305,325)	(\$590,534)

Source: Meigs Local School District and AOS

Table 2-4 shows that the revised projections decrease the ending fund balance in Fiscal Years 2008-09, 2009-10, and 2012-13, but increase the fund balance in Fiscal Years 2010-11 and 2011-12. This results in a cumulative negative impact of \$365,563.

R2.10 Meigs LSD should implement the recommendations contained in the performance audit to help offset projected deficits. In addition, Meigs LSD should consider updating its five-year forecast with ODE on a more regular basis and whenever material changes in assumptions are made or unanticipated events occur.

By implementing the performance audit recommendations, including those subject to negotiation, Meigs LSD should be able to maintain a positive fund balance from FY 2009-10 through FY 2012-13. Table 2-5 demonstrates the impact of the recommendations on the five-year forecast ending fund balances, assuming the recommendations are fully implemented.

Table 2-5: Five-Year Forecast with Recommendations (in 000's)

	Actual			Forecasted				
	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Revenue:								
General Property Tax	\$1,844	\$1,897	\$1,912	\$1,930	\$1,953	\$2,086	\$2,184	\$2,212
Tangible Personal Property Tax	\$383	\$391	\$343	\$296	\$253	\$250	\$248	\$246
Unrestricted Grants-in-Aid	\$11,911	\$12,244	\$12,531	\$12,791	\$12,980	\$13,160	\$13,366	\$13,512
Restricted Grants-in-Aid	\$1,398	\$1,527	\$1,418	\$1,427	\$1,460	\$1,495	\$1,530	\$1,567
Property Tax Allocation	\$292	\$314	\$394	\$447	\$416	\$390	\$401	\$405
All Other Revenues	\$748	\$836	\$788	\$767	\$790	\$813	\$850	\$887
Total Revenues	\$16,577	\$17,210	\$17,386	\$17,658	\$17,852	\$18,195	\$18,578	\$18,829
Total Other Financing Sources	\$28	\$56	\$71	\$23	\$35	\$35	\$35	\$35
Total Revenues and Other Financing Sources	\$16,604	\$17,265	\$17,457	\$17,681	\$17,887	\$18,230	\$18,613	\$18,864
Expenditures:								
Personnel Services	\$8,540	\$8,565	\$8,841	\$8,737	\$8,944	\$9,175	\$9,403	\$9,666
Employees' Retirement/Insurance Benefits	\$4,858	\$4,744	\$5,107	\$4,862	\$5,072	\$5,470	\$5,895	\$5,000
Purchased Services	\$1,546	\$1,691	\$1,775	\$1,900	\$1,976	\$2,055	\$2,155	\$2,259
Supplies and Materials	\$667	\$822	\$922	\$1,110	\$1,162	\$1,216	\$1,273	\$1,333
Capital Outlay	\$448	\$183	\$260	\$198	\$174	\$179	\$260	\$193
Intergovernmental	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Debt Service	\$45	\$43	\$154	\$152	\$150	\$149	\$157	\$155
Other Objects	\$947	\$967	\$1,058	\$1,111	\$1,166	\$1,224	\$1,286	\$1,350
Total Expenditures	\$17,052	\$17,016	\$18,117	\$18,069	\$18,643	\$19,468	\$20,428	\$19,954
Other Financing Uses								
Operating Transfers-Out	\$64	\$11	\$5	\$35	\$35	\$35	\$35	\$35
All Other Financing Uses	\$11	\$40	\$48	\$50	\$50	\$50	\$50	\$50
Total Other Financing Uses	\$74	\$51	\$53	\$85	\$85	\$85	\$85	\$85
Performance Audit Recommendations- Net Savings	\$0	\$0	\$0	\$0	\$1,489	\$1,521	\$1,555	\$1,570
Total Expenditures and Other Financing Uses	\$17,126	\$17,067	\$18,170	\$18,154	\$17,239	\$18,032	\$18,958	\$18,469
Result of Operations (Net)	(\$522)	\$198	(\$713)	(\$474)	\$648	\$198	(\$345)	\$395
Balance July 1	\$1,109	\$587	\$785	\$72	(\$401)	\$247	\$445	\$100
Cash Balance June 30	\$587	\$785	\$72	(\$401)	\$247	\$445	\$100	\$495
Estimated Encumbrances June 30	\$171	\$191	\$68	\$75	\$50	\$50	\$50	\$50
Total Reservations	\$270	\$363	\$0	\$35	\$52	\$69	\$12	\$29
Fund Balance / June 30 for Certification of Appropriations	\$147	\$231	\$5	(\$511)	\$145	\$326	\$38	\$416
Unreserved Fund Balance June 30	\$147	\$231	\$5	(\$511)	\$145	\$326	\$38	\$416

Source: AOS and Meigs LSD

Note 1: Numbers will vary due to rounding

Note 2: Forecast line items adjusted by AOS are italicized

Table 2-6 summarizes the cost savings associated with the recommendations contained within the performance audit. Some recommendations and the associated savings are dependent on the outcome of collective bargaining negotiations.

Table 2-6: Summary of Cost Savings

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Recommendations Not Subject to Negotiations				
R3.2 Eliminate 2 FTE assistant principals positions.	\$163,000	\$166,300	\$169,600	\$173,000
R3.3 Eliminate 1 FTE nurse position and 2 FTE librarian positions, and replace 1 FTE librarian position with 1 FTE library aide.	\$154,000	\$157,100	\$160,200	\$163,400
R4.7 Eliminate 4 FTE custodial positions.	\$181,400	\$185,500	\$190,300	\$178,000
R4.8 Implement an energy management / conservation program	\$42,400	\$42,400	\$42,400	\$42,400
R6.2 Reallocate Food Service salaries and benefits to the Food Service Fund.	\$50,800	\$53,100	\$55,700	\$56,900
R6.2 Allocate utility expenditures to the Food Service Fund.	\$38,900	\$40,900	\$42,900	\$45,100
Sub Total Cost Savings Not Subject to Negotiation	\$630,500	\$645,300	\$661,100	\$658,800
Recommendations Subject to Negotiation				
R3.4 and R3.5 Renegotiate health insurance plan design to reduce funding rates and increase employee contributions for health insurance to 15 percent.	\$814,500	\$830,800	\$847,400	\$864,300
R3.6 Require employee contributions for dental and vision coverage and renegotiate plan design to reduce dental insurance funding rates.	\$47,000	\$47,900	\$48,900	\$49,900
Sub Total Cost Savings Subject to Negotiation	\$861,500	\$878,700	\$896,300	\$ 914,200
Total Cost Savings from Performance Audit Recommendations	\$1,492,000	\$1,524,000	\$1,557,400	\$1,573,000

Source: Performance audit recommendations

Note 1: Total savings reported in the revised forecast may vary due to rounding.

Note 2: See **Food Service** section for information regarding the financial impact of the performance audit recommendations on the Food Service Fund.

Table 2-7 summarizes the implementation costs associated with the recommendations contained within the performance audit. Each cost estimate is dependent upon the District's decision to implement the associated recommendation and the timing of the implementation.

Table 2-7: Summary of Implementation Costs

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
R4.4 Web-Based Work Order System	\$2,500	\$2,500	\$2,500	\$2,500
Total Implementation Cost	\$2,500	\$2,500	\$2,500	\$2,500

Source: Performance audit recommendations

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HUMAN RESOURCES

Human Resources

Background

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

Organizational Structure and Function

Meigs LSD does not have a department dedicated to performing HR functions. Instead, these activities are completed by the Superintendent and Treasurer. The Superintendent conducts employee recruitment and hiring, determines staffing levels, and leads the District's negotiating team during collective bargaining. The Superintendent's Administrative Assistant maintains personnel files which include general information, certifications and licenses, and employee evaluations. The Treasurer maintains files on the salary and benefits for each employee, administers the District's health insurance benefits, and is a member of the District's negotiating team. Finally, the Treasurer's staff is responsible for reporting staff data in the Education Management Information System (EMIS).

Operations at the District are governed by the Meigs LSD Board of Education (Board) policies. The Board regularly reviews and updates these policies, which clearly delineate the roles and responsibilities of the Board, Superintendent, and Treasurer, as well as the process for communication between the Board and District staff. While policies are in place for the regular

¹ The peers include: Ridgewood LSD (Coshocton County), Logan-Hocking LSD (Hocking County), Garaway LSD (Tuscarawas County), Leipsic LSD (Putnam County), New London LSD (Huron County), Springfield LSD (Mahoning County), East Guernsey LSD (Guernsey County), Celina City LSD (Mercer County), Southeast LSD (Wayne County), and East Holmes LSD (Holmes County).

evaluation of the Board, Superintendent, and Treasurer, the Board has not consistently followed these policies (see **R3.9**).

Staffing

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

Table 3-1: Staffing Level Comparison (Per 1,000 Students)

	Meigs LSD	Peer Average	Variance
Students Educated	1,977	1,685.3	291.7
Administrators	7.6	6.8	0.8
Office/Clerical	7.1	7.3	(0.2)
Classroom Teachers ¹	51.6	50.3	1.3
Special Education Teachers ²	12.6	9.1	3.5
Educational Service Personnel ³	8.6	6.8	1.8
Other Certificated Staff ⁴	6.1	5.5	0.6
Teacher Aides ⁵	1.5	7.9	(6.4)
Other Technical/Professional Staff ⁶	1.0	1.1	(0.1)
Other Student Services ⁷	0.0	1.6	(1.6)
Operations	29.8	27.6	2.2
Total Staffing	125.9	123.9	2.0

Source: EMIS data as submitted to ODE. EMIS data from Meigs LSD has been updated to reflect FY 2008-09 staffing levels.

¹ Classroom Teachers include regular and career-technical teachers and permanent substitutes.

² The District employs 22.0 FTE special education teachers. The additional 2.9 FTE positions are Educational Service Center (ESC) employees assigned to provide educational services to Meigs LSD students.

³ Educational Service Personnel include ESP teachers, counselors, librarians, registered nurses, social workers, and visiting teachers.

⁴ Other Certificated Staff include curriculum specialists, remedial specialists, tutor/small group instructors, and other professionals.

⁵ The District eliminated 10.0 FTE teacher aide positions in May 2008. 2.0 of the District's 3.0 FTE teacher aides are ESC employees who provide services to Meigs LSD students.

⁶ Other Technical/Professional Staff include library staff, computer support staff, and other professional staff, not including librarians.

⁷ Other Student Services include student services staff, not including counselors, registered nurses, social work staff, or visiting teachers.

As illustrated in **Table 3-1**, Meigs LSD's staffing levels are higher than the peer averages for administrators, classroom teachers, special education teachers, and educational service

personnel. These variances are discussed in **R3.2** and **R3.3**. Staffing variances for operations staff are analyzed separately in the **facilities** and **food service** sections.

Compensation

Table 3-2 shows the District's FY 2007-08 average salaries and salary costs per student in comparison to the peer district average. It should be noted that average salaries are impacted by beginning wages, years of service, negotiated wage increases, step increases, other personnel benefits, and in some cases, educational level attained by the personnel within a category.

Table 3-2: Average Salary Comparison

	Average Salaries			Salaries Per Student Educated		
	Meigs LSD	Peer District Average	Variance	Meigs LSD Salaries per Student	Peer Salaries per Student	Variance
Administrators	\$56,615	\$66,524	(14.9%)	\$430	\$449	(4.2%)
Office/Clerical	\$26,074	\$26,609	(2.0%)	\$185	\$192	(3.6%)
Classroom Teachers ¹	\$35,733	\$42,075	(15.1%)	\$1,844	\$2,121	(13.1%)
Special Education Teachers	\$38,724	\$46,165	(16.1%)	N/A	N/A	N/A
Educational Service Personnel ²	\$40,540	\$49,224	(17.6%)	\$349	\$330	5.8%
Other Certificated Staff ³	\$45,138	\$49,428	(8.7%)	\$274	\$261	5.0%
Teacher Aides	\$15,575	\$15,403	1.1%	\$24	\$123	(80.5%)
Other Technical/Professional Staff ⁴	\$43,375	\$15,524	179.4%	\$44	\$25	76.0%
Other Student Services ⁵	\$0	\$24,673	(100.0%)	\$0	\$50	(100.0%)
Operations	\$20,054	\$20,290	(1.2%)	\$598	\$556	7.6%

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

Note: Salary costs per student for special education staff were omitted because staffing and salary levels for special education are better compared to the number of special education students, rather than the number of District students educated.

¹ Classroom Teachers include regular and career-technical teachers and permanent substitutes.

² Educational Service Personnel include ESP teachers, counselors, librarians, registered nurses, social workers, and visiting teachers.

³ Other Certificated Staff include curriculum specialists, remedial specialists, tutor/small group instructors, and other professionals.

⁴ Other Technical/Professional Staff include library staff, computer support staff, and other professional staff, not including librarians.

⁵ Other Student Services include student services staff, not including counselors, registered nurses, social work staff, or visiting teachers.

Table 3-2 shows that Meigs LSD's average salaries are in line with or below the peer averages for all categories, with the exception of other technical/professional staff. The two employees in this category are the District's technology coordinator and computer technician, therefore the variance is not significant. Educational service personnel have average salaries below the peers, but the District is spending more per student in this area, which suggests that the District has

employed more staff in this area than the peers (see **R3.3**). Similarly, the District is spending more per student in the area of *other certificated staff*, but these employees are all paid from federal grants, so a reduction staffing levels would not impact the District's General Fund balance or five-year forecast.

Benefits

The District provides a comprehensive health insurance package, including medical and prescription drug benefits, to eligible employees. Meigs LSD is self-insured and uses a third party administrator (TPA). In addition, the District consults with an insurance broker to provide assistance in soliciting bids from other health care providers. It was through this process that Meigs LSD contracted with its current TPA in FY 2007-08.

As a self-insured entity, the District does not pay a premium rate per employee to a health insurance provider. Rather, the District pays monthly funding rates into a separate fund established for health insurance claims. Certificated and exempt employees contribute 6 percent and classified employees contribute 5 percent of this funding rate for medical and prescription drug benefits. From this fund, the District pays for actual claims made by employees. The District consults with its broker and reviews its claims history in order to set funding rates. However, future claims cannot always be anticipated. In FY 2007-08, the District had to increase funding rates 45 percent to cover the claims made by employees. This mid-year increase did not increase the amounts paid by employees toward the cost of medical and prescription drug coverage. Instead, the increase in funding rates was paid entirely by the District. While the District lowered funding rates for FY 2008-09, these rates are still higher than the SERB average for the Southeast Ohio region, and the contribution rates paid by employees are below the same SERB average (see **R3.4** and **R3.5**).

In addition to medical and prescription drug coverage, the District provides vision and dental insurance at no cost to employees. Dental coverage funding rates are higher than the SERB average (see **R3.6**). Life insurance is also provided at no cost to District employees at a monthly cost less than those reported by the Ohio Education Association's annual survey or the Ohio Department of Administrative Services (DAS). Additionally, the District's workers' compensation premiums have decreased by 57.7 percent over the past three years due to the District's efforts (see **executive summary**).

Negotiated Agreements

Meigs LSD has negotiated agreements with the following collective bargaining units:

- **Meigs Local Teachers' Association and the Meigs Local Board of Education:** Membership in this collective bargaining unit includes all regular, special education, and career-technical teachers, as well as other professional certificated personnel, including

guidance counselors, librarians, and school nurses. The term of this contract is July 1, 2006 through June 30, 2009.

- **Ohio Association of Public School Employees/AFSCME Local 4/AFL-CIO and its Local #017 and the Meigs Local Board of Education:** Membership in this collective bargaining unit includes maintenance and custodial staff, transportation personnel, food service employees, clerical staff, and aides. Those excluded from the agreement include administrative and supervisory personnel, and all central office employees. The term of this contract is July 1, 2006 through June 30, 2009.

During the performance audit, certain contractual and employment issues such as leave provisions; Board pick-up of retirement contributions; and length of school year, work day, and teacher time were assessed and compared to provisions of the Ohio Revised Code (ORC) and Ohio Administrative Code (OAC), as well as standard practices. Areas that were determined to be in excess of these guidelines were compared to contiguous school districts' negotiated agreements.² Within the areas examined, provisions related to sick leave accrual and severance pay were found to be in excess of State minimum requirements, and average sick leave use at the District exceeded the average Statewide sick leave usage compiled by DAS (see **R3.7** and **R3.8**). In addition to the contractual areas selected for comparison, the District has successfully negotiated a management rights clause into the negotiated agreement for classified staff, which allows for greater management control.

Program Operation

In addition to regular education services, the District has programs in place for special, gifted, and career-technical education. The District has taken steps to evaluate the provision of special education services and has maximized resources through the implementation of several best practices. Meigs LSD works closely with other Meigs County school districts and coordinates service delivery through the Athens-Meigs ESC as a way to pool resources and eliminate duplicate programs. The District also invests in remedial programs – intervention techniques to prevent the need for more costly individualized educational services, leading to long-term savings – and works toward mainstreaming, or including special education students in regular education classrooms. While Meigs LSD employs a greater number of teachers than the peer districts, as indicated in **Table 3-1**, spending per special education student is 27.4 percent less than the peer districts. Moreover, the District is compliant with State and federal guidelines regarding the provision of special education services through the development of individualized education plans and the inclusion of parents/guardians in the process (see **executive summary**).

² Contiguous school districts include Alexander LSD (Athens County), Eastern LSD (Meigs County), Federal Hocking LSD, (Athens County), Gallia County LSD (Gallia County), Southern LSD (Meigs County), and Vinton County LSD (Vinton County).

In FY 2008-09, the District modified the provision of gifted services from a pull-out resource room to classroom differentiation with team teaching. In other words, the District previously served its gifted students in a dedicated resource room, but now provides services through collaboration in regular education classrooms, in part to comply with modifications to Ohio law requiring that any gifted services provided meet minimum time requirements. The change to the District's service delivery method, coupled with additional funding from ODE which was used to hire a second gifted teacher, allowed the District to serve four times as many students, at a cost per student 42.8 percent below the previous year.

Meigs LSD provides comprehensive career-technical programming and is one of 92 career planning districts in the State of Ohio. While 49 of these planning districts are organized as Joint Vocational School Districts (JVSDs), Meigs LSD is one of 43 school districts in the State also serving as a planning district. Many of these school districts serve larger student populations, such as urban school districts or cooperative agreements with other school districts, without the governance of a JVSD. Meigs LSD has an agreement with the other two Meigs County school districts (Eastern LSD and Southern LSD), and offers 12 programs in 8 unique career fields (see **R3.10**). The District's operation of a career-technical program is responsible for the staffing variances for classroom teachers in **Table 3-1**, which includes career-technical teachers. All but one of the peer Districts make use of a JVSD, and consequently report a lower level of career-technical teachers.

Audit Objectives for the Human Resources Section

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

- Is the District's current allocation of personnel efficient and effective?
- Is the District's compensation package in line with other high performing districts, State averages, and industry practices?
- How does the cost of benefits offered by the District compare with State averages and industry benchmarks?
- Are the District's negotiated agreements in line with peers and best practices?
- Does the District effectively address human resource management and has it created a working environment that enhances its workforce?
- Does the Board operate in an effective manner?
- Does the District provide special education programs for students with disabilities that maximize resources and are compliant with State and federal regulations?
- Does the District provide an appropriate range of accelerated programs?
- Does the District provide effective and efficient workforce development programs that meet the needs and expectations of the community?

Recommendations

R3.1 Meigs LSD should develop a formal staffing plan to address current and future staffing needs. A staffing plan will help ensure the District is proactively addressing its staffing needs and aligning them with the District's educational goals and financial condition.

The District does not have a formalized, Board-approved staffing plan that outlines a strategy for staffing or the considerations under which personnel decision will be made. However, the District does make staffing decisions with educational goals in mind. For example, during periods of financial constraint, the District has sought to reduce non-certificated positions before reducing teachers. In FY 2008-09, the District eliminated 10 FTE teaching aides in order to limit reductions in certificated staff.

Facility constraints are also a factor in determining staffing levels. Based on the number of rooms built during the 2003 construction project, the District generally staffs each grade level with six teachers. At the time the new buildings opened, the District had more than six teachers per grade level for K-8, so gradual reductions were made through attrition. However, through Title I grant funding, the District employs approximately seven teachers per grade level at the K-2 level and works to provide early intervention and remedial instruction for students who may not be academically prepared when they begin school.

For non-certificated staff, the District relies on programmatic decisions to guide staffing. For example, the District implemented double routing of school buses in FY 2008-09, which allowed for the reduction of four transportation employee positions.

Strategic Staffing Plans (SHRM, June 2002) notes that high performing organizations use plans and a system to monitor and control the cost of engaging human capital. A strategic staffing plan forms an infrastructure to support effective decision-making in an organization. In addition, *Estimating Future Staffing Levels* (SHRM, 2006) notes that the most important question for any organization is what type of workforce it will need in order to successfully implement its strategic mission. Once this question is answered, the organization can focus on recruiting, developing, motivating, and retaining the number and mix of employees that will be required at each point in time.

Tulsa (OK) Public Schools has established an industry-recognized approach for developing a staffing plan. The Tulsa Public Schools staffing plan incorporates staff allocation factors such as state and federal regulations, workload measures, industry benchmarks, and staffing levels, as determined by its administration, for building configurations and enrollment. In this plan, Tulsa Public Schools benchmarks staffing based on general fund revenues to help maintain a focus on a balanced budget when

considering school staffing levels. The plan is used as a guide to determine staffing levels on an annual basis, as well as mid-year, to determine if the staffing levels need to be modified based on actual enrollment.

The District should develop a staffing plan that incorporates the elements included in the Tulsa Public Schools' staffing plan and will take into effect long-term changes in enrollment. The District has not developed a staffing plan because of the limited available resources and size of the District. In addition, the Superintendent relies on his experience to handle staffing in a less formal manner.

While the District lacks a formalized staffing plan, elements of the plan are in place and the District has informally outlined many of the elements which encompass a staffing plan. However, implementing a more formal plan would provide the District with a resource to communicate its priorities and plans with regard to staffing to the community. Moreover, a plan would help the District ensure that its staffing decisions are aligned with its values, even in the face of declining revenues. Finally, a formal staffing plan provides a level of continuity in the event of turnover among top administrators.

R3.2 Meigs LSD should eliminate 2.0 FTE building administrator positions at its elementary schools to reduce personnel expenditures and bring staffing levels more in line with the peers.

Table 3-3 compares central and building administrator staffing levels to the peer districts.

Table 3-3: Administration Staffing Comparison

	Meigs LSD	Peer District Average	Difference
Central Administrators (FTE)	7.0	6.0	1.0
Building Administrators (FTE)	8.0	2.7	5.3
Total FTE Administrators	15.0	8.7	6.3
Students Educated (FTE)	1,977.0	1,685.3	291.7
Central Administrators per 1,000 Students	3.6	3.6	0.0
Building Administrators per 1,000 Students	4.0	3.2	0.8
Total Administrators per 1,000 Students	7.6	6.8	0.8
Total FTE Administrators Above/(Below) Peer Districts			1.6

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

As **Table 3-3** indicates, on a per 1,000 student basis, central administrators at Meigs LSD are in line with peer districts. However, the level of building administrators at Meigs LSD exceeds the peer district average by 0.8 FTEs per 1,000 students. For Meigs LSD, this equates to about 1.6 FTE building administrators.

The District has eight building administrators, consisting of a principal and an assistant principal at each school³. However, a comparison with the ten peer districts indicates that none of those school districts employ assistant principals at elementary schools, and only three of the six districts contiguous to Meigs LSD employ assistant principals at their elementary schools. Eliminating the two assistant principal positions at the elementary schools would bring Meigs LSD more in line with the peer district average and reduce salary and benefit costs.

Financial Implication: By eliminating 2.0 FTE building administrator positions at its elementary schools, Meigs LSD could save approximately \$163,000 in salaries and benefits in starting in FY 2009-10.

R3.3 Meigs LSD should eliminate 3.0 FTE educational service personnel (ESP) positions within the nursing and librarian categories, and replace one of the librarians with an FTE library aide to reduce personnel expenditures and bring staffing levels more in line with the peers.

Table 3-4 displays staffing levels for educational service personnel compared to the peer districts on both an FTE and a per 1,000 student basis.

Table 3-4: Educational Service Personnel (ESP) Staffing Analysis

	Meigs LSD	Peer Districts	Difference
ESP Teachers (FTE)	7.0	7.0	0.0
Counselors (FTE)	3.0	2.6	0.4
Librarians / Media Specialists (FTE)	4.0	1.1	2.9
School Nurses (FTE)	2.0	0.5	1.5
Social Workers (FTE)	1.0	0.0	1.0
Total Educational Services Personnel (FTE)	17.0	11.2	5.8
Students Educated (FTE)	1,977.0	1,685.3	291.7
ESP Teachers per 1,000 Students	3.5	4.3	(0.8)
Counselors per 1,000 Students	1.5	1.5	0.0
Librarians / Media Specialists per 1,000 Students	2.0	0.7	1.3
School Nurses per 1,000 Students	1.0	0.3	0.7
Social Workers per 1,000 Students	0.5	0.0	0.5
Total ESP per 1,000 Students	8.5	6.8	1.7
Total FTE ESP Above/(Below) Peer Districts			3.4

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

³ The elementary facility is divided into two schools: Meigs Primary Elementary School, which serves students K-2, and Meigs Intermediate Elementary School, which serves students 3-5. Each school has a principal and assistant principal for a total of four building administrators at the facility. The schools share a common cafeteria.

Table 3-4 shows that Meigs LSD employs 1.7 more ESP per 1,000 students than the peer districts (the equivalent of 3.4 FTEs). Specifically, the District employs a greater number of nurses, librarians, and social workers. According to ORC § 3317.023,

“A minimum of five full-time equivalent educational service personnel shall be employed district-wide for each 1,000 students in the regular student population. Educational service personnel shall be assigned to at least five of the eight following areas: counselor, librarian/media specialist, school nurse, visiting teacher, social worker, K-8 art, K-8 music, and K-8 physical education. Educational service personnel assigned to K-8 art, music, or physical education shall hold the special teaching certificate or multi-age license in the subject to which they are assigned.”

Based on the regular student population at the District, Meigs LSD could reduce up to 9.6 FTEs and still be in compliance with ORC requirements for educational service personnel. However, in order to more closely align District staffing levels with peer districts, the District should consider reducing 1.0 FTE nurse position and 2.0 FTE librarian positions, for a total of 3 FTE educational service personnel.⁴

Of the three categories in which the District exceeded peer staffing levels in **Table 3-4**, the largest variance is librarians, in which the District employs 1.3 FTEs more per 1,000 students than the peer average. **Table 3-5** displays staffing levels for library staff (which include library aides) compared to the peer districts on a total FTE and a per 1,000 student basis.

Table 3-5: Library Staffing Analysis

	Meigs LSD	Peer Districts	Difference
Librarians (FTE)	4.0	1.1	2.9
Library Aides, Technicians, & Audio Staff (FTE)	0.0	1.1	(1.1)
Total FTE Library Staff	4.0	2.2	1.8
Students Educated	1,977.0	1,685.3	291.7
Librarians per 1,000 Students	2.0	0.7	1.3
Library Aides, Techs. & Audio Staff per 1,000 Students	0.0	0.5	(0.5)
Library Staff per 1,000 Students	2.0	1.2	0.8
Total FTE Library Staff Above/(Below) Peer Districts			1.6

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

As indicated by **Table 3-5**, the District has more library staff FTEs per 1,000 students than the peer district average, due to the number of librarians at the District. A reduction of 2.0 librarian FTEs would leave the District with two librarians to cover the District’s

⁴ Meigs LSD’s social worker is paid from a federal grant. Consequently, a reduction in staffing levels would not positively impact the District’s five-year forecast.

four libraries (the elementary facility has separate libraries for its primary and intermediate schools), and place the District 0.4 FTEs below the peer districts. Meigs LSD should consider hiring a library aide to replace one of the librarian FTEs, as a more cost-effective way to provide library support at the District's three facilities.

Financial Implication: By eliminating 3.0 FTE educational service personnel and replacing a librarian with 1.0 FTE library aide, Meigs LSD could save approximately \$154,000 in salaries and benefits starting in FY 2009-10.

R3.4 Meigs LSD should seek to reduce its health insurance funding rates by renegotiating the design of its health insurance plan to include more cost sharing features. Specifically, the District should work to bring its health insurance plan in line with industry benchmarks through:

- **Increasing co-payments for physician visits;**
- **Increasing prescription drug co-payments;**
- **Implementing an annual deductible for in-network services; and**
- **Instituting co-insurance payments for inpatient and outpatient services.**

Adopting a plan design comparable to industry benchmarks and implementing other cost-containment techniques will assist the District in reducing the total cost of providing health insurance.

Table 3-6 displays FY 2008-09 monthly funding rates Meigs LSD pays into its self-insurance fund established for paying health insurance claims. The table also compares the District's funding rates to the average monthly health insurance premiums for the Southeast Ohio region as compiled by SERB.

Table 3-6: Meigs LSD Health Insurance Premium Comparison

Type of Coverage	Meigs LSD	SERB Average (Southeast Ohio Region)	Variance	Percent Variance
Single	\$650.00	\$512.85	\$137.15	21.1%
Family	\$1,725.00	\$1,302.68	\$422.32	24.5%

Source: Meigs LSD and SERB 2007 Report

Note: The FY 2008-09 SERB averages were calculated assuming 6.5 percent increases, based on past increases in health insurance premiums.

As **Table 3-6** illustrates, the District's funding rates are more than 20 percent higher than the SERB average premiums for Southeast Ohio, which SERB reports as having the highest average premiums in the State. The Treasurer at Meigs LSD attributed the high funding rates primarily to the generous nature of the District's health insurance plan design, which requires minimal co-payments and does not require a deductible or co-insurance for services provided within the network.

The District's plan design was examined and compared to SERB's *2007 Report on the Cost of Health Insurance in Ohio's Public Sector*, the Kaiser Family Foundation's (Kaiser) *2007 Annual Survey on Health Insurance Benefits*, and the Ohio Education Association's (OEA) *2008 Survey of School District and ESC Health and Life Insurance Plans*. In all of the areas examined – including co-payments for physician visits, prescription drugs, and emergency room visits; cost sharing for inpatient and outpatient services; annual deductibles; and annual out-of-pocket maximums – the District's plan was more generous to employees and required less cost sharing than national averages. For example, the District has a two-tiered prescription drug plan with co-payments of \$5/\$10. In contrast, Kaiser reported that 68 percent of plans had structured three-tiered prescription drug plans, and the average co-payments were \$11/\$25/\$43. Moreover, only 16 percent of plans contained two tiers, and the average co-payments reported were \$10/\$23. Additionally, the District's plan design for inpatient and outpatient services does not require co-payments or co-insurance for network services. Kaiser reported over 95 percent of employees face cost sharing in various forms for a hospital admission, such as a separate hospital deductible, co-payment, co-insurance, or a per diem charge. Kaiser reported that 79 percent of employees have some sort of cost sharing for outpatient surgery, with an average \$114 co-payment or co-insurance of 18 percent.

The GFOA has recommended ways that governments can attempt to contain health care costs. As a preliminary step in establishing a cost containment program, governments should perform cost analyses that use historical trend data on costs and utilization experienced by the employer to highlight areas for remedial action. GFOA recommends the following cost containment practices:

- **Plan Design:** Incremental changes include adjusting co-payment and co-insurance levels to influence individual behavior, establishing criteria for eligibility, and evaluating managed care organizations such as Preferred Provider Organization plans (PPOs) or consumer driven health plans.
- **Vendor Management:** Management of vendors encompasses activities designed to operate a plan more effectively, by making optimal use of health care vendors. This includes audits of claims, positive re-enrollment, and periodic re-bidding of vendors.
- **Individual Health Management:** Targeted efforts to encourage lifestyle changes – such as wellness programs, financial incentives for lifestyle modification, education on health care matters, and making provider costs more visible to participants – may be effective financially.
- **Aggregation:** Evaluate whether or not to aggregate the government's purchasing power through the formulation of health care insurance pools, or participation in state master agreements.
- **Cost sharing:** Implement cost sharing through joint payment of premiums, co-payments, and co-insurance.

The Ohio School Employees Health Care Board recently adopted administrative rules which were designed to improve the level of health care provided to school district employees and lower health care expenditures without reducing benefit levels or shifting costs. OAC § 3306-2-03, which takes effect in January 2009, requires any employee health care plan to include a wellness or healthy lifestyle program, a disease management program, and access to providers offering superior health care for complex medical conditions. Plans must also conduct periodic dependent eligibility audits. OAC § 3306-2-04 and 3306-2-05 require health plan sponsors to certify compliance with these requirements and must submit annual reports to the Ohio School Employees Health Care Board describing the progress made in reducing health expenditures and improving the health status of employees.

The District's generous health care coverage, with no deductible or co-insurance and minimal co-payments for network provided services, results in premium rates that are significantly higher than industry benchmarks. This places a significant financial burden on the District as the annual cost of providing family health insurance coverage is more than \$19,000 per employee. If the District was to negotiate an insurance plan with a greater degree of cost sharing, it could lower its premium rates. Moreover, the implementation of vendor management and individual health management techniques, such as wellness programs and disease management programs, would further work to contain health care costs.

Milford EVSD's negotiated agreement requires the District's insurance committee to annually develop and present a health insurance plan to cover all district employees. After the plan is presented, Milford EVSD's bargaining unit employees vote to accept or reject the plan. At Meigs LSD, adjusting benefit levels may prove difficult for the District, as cost sharing provisions and plan design details have been negotiated directly into the collective bargaining agreements. Although the District does have an insurance committee, it is largely unable to impact the District's health insurance expenditures due to the specific provisions contained in the contracts.

Still, in order to reduce health insurance costs, the District should attempt to negotiate provisions which require employees to incur more of the expenses associated with the cost of health care through co-payments, co-insurance, and annual deductibles. Restructuring employee benefits to reduce funding rates will allow Meigs LSD to better manage increasing insurance costs, and the savings can help the District address its projected budget deficit or reallocate additional money to educational priorities.

Financial Implication: If the District can reduce its health insurance funding rates to be in line with the SERB reported average health insurance premiums for Southeast Ohio, it could reduce expenses by \$910,500 per year. However, the General Fund would only

experience a total savings of about \$622,500, because about 31.6 percent of the District's employees are paid from other funding sources.

R3.5 Meigs LSD should seek to renegotiate employee health care contributions with the goal of increasing contributions to 15 percent, which would be more in line with industry benchmarks. Increasing employee contributions would result in savings for the District by reducing its share of insurance expenditures and future cost increases.

The District has negotiated with employees to contribute a percentage of the funding rate set by the District toward the cost of their health insurance through payroll deductions. **Table 3-7** compares the percentages contributed by certificated and classified employees when enrolled in single and family plans to the average contribution percentages reported by SERB, as well as the Kaiser average for PPOs in the Midwest. The SERB averages include only those employers who required employee contributions.

Table 3-7: Employee Contributions

	Meigs LSD	SERB Average (Southeast Region)	Variance	Kaiser Average (PPO - Midwest)	Variance
Certificated and Exempt					
Single	6.0%	11.3%	(5.3%)	17.0%	(11.0%)
Family	6.0%	14.3%	(8.3%)	24.0%	(18.0%)
Classified					
Single	5.0%	11.3%	(6.3%)	17.0%	(12.0%)
Family	5.0%	14.3%	(9.3%)	24.0%	(19.0%)

Source: Meigs LSD, SERB 2007 Report, and Kaiser 2007 Survey.

As **Table 3-7** shows, the District's contribution rates are significantly less than what other public employers in the Southeast Ohio region require employees to contribute towards the cost of health insurance. Compared to the Kaiser average, the variance is even greater.

Renegotiating employee contributions will allow Meigs LSD to better manage increasing insurance costs. Negotiating employee contributions of 15.0 percent would assist the District in aligning its health insurance plan with other public employers in the region and move the District toward the employee contributions reported by Kaiser. **Table 3-8** shows the savings that can be realized by the District if employee contributions are increased to 10, 15, and 20 percent, based on FY 2008-09 funding rates.

Table 3-8: Employee Percentage Contribution Increases

	Meigs LSD FY 2008-09	10.0%	Variance	15.0%	Variance	20.0%	Variance
Employee Contribution	\$229,200	\$399,690	\$170,490	\$599,535	\$370,335	\$799,380	\$570,180
Board Contribution	\$3,767,700	\$3,597,210	(\$170,490)	\$3,397,365	(\$370,335)	\$3,197,520	(\$570,180)

Source: AOS and Meigs LSD

Note: Meigs LSD employees contribute a set percentage of their health insurance premiums, based on their bargaining units, as indicated in **Table 3-7**.

Table 3-8 shows how, compared to employee contributions in place for FY 2008-09, the District could limit the financial burden of the high cost of health insurance by sharing a larger portion of the expense with employees.

Financial Implication: If the District is able to increase employee contributions to 15 percent for all employees, which is more consistent with SERB and Kaiser averages, it could reduce expenditures by \$370,000 annually, with savings of approximately \$253,000 to the General Fund. Moreover, if increased employee contributions are implemented in conjunction with strategies to reduce monthly health insurance funding rates (see **R3.4**), the District would reduce expenditures by a total of approximately \$1,191,000, or \$814,500 in General Fund expenditures.

R3.6 Meigs LSD should negotiate employee contributions toward dental and vision coverage that are in line with SERB averages for Southeast Ohio. Additionally, the District should work to achieve dental insurance premium rates that are more in line with the SERB averages through modifications in its plan design.

In addition to medical and prescription drug insurance, the District also provides dental, vision, and life insurance at no cost to employees.

The District's dental plan has one funding rate for employees who enroll in dental insurance. This monthly composite premium of \$75 is 20.2 percent higher than the average composite premium for the SERB Southeast Ohio region. The plan has an annual maximum benefit of \$2,500, and includes a lifetime maximum benefit for orthodontic services of \$1,000. The OEA annual survey reports that the median maximum dental benefit was \$1,500 per person, with a lifetime maximum orthodontic benefit of \$1,000.

The cost of providing dental coverage to all eligible employees is approximately \$17,500 each month, and \$212,000 annually. Moreover, while the SERB average employee contribution is 12.7 percent, Meigs LSD does not require a contribution.

Vision coverage at Meigs LSD is also provided at no cost to employees. The cost to the District for vision coverage is \$10 per month for single plans and \$20 per month for family plans. This equates to an annual cost of \$32,500 to provide vision coverage to its eligible employees. While the District's vision premiums are in line with premiums reported by SERB for the Southeast Ohio region, SERB reports the average employee contributions for single and family plans are 13.8 and 20.8 percent respectively.

The District's relatively high dental insurance premiums and the absence of an employee contribution for dental and vision coverage lead to additional costs for the District. By negotiating employee contributions for vision coverage that are in line with the SERB averages, the District could save about \$3,000 in General Fund expenditures, annually. Negotiating with bargaining unit members to restructure benefit levels to reduce premiums and negotiate employee contributions for dental coverage would save approximately \$43,500 in General Fund expenditures annually. If the District was only able to negotiate a revised plan design, it could save an estimated \$29,000 in General Fund expenses annually. Alternatively, negotiating employee contributions without a decrease in premiums would save the District an estimated \$18,500 in General Fund expenses annually.

Financial Implication: Negotiating restructured benefits and employee contributions for vision and dental coverage that are in line with the SERB averages would save the District about \$47,000 annually.

R3.7 Meigs LSD should consider renegotiating provisions within its employee bargaining agreements that exceed industry standards and State minimums. These provisions represent potential costs to the District above those it is required by law to incur.

As a component of the performance audit, certain provisions within the District's certificated and classified agreements were compared to State minimum standards and best practices. While most of the provisions were in line with the benchmarks, the District's agreements allow employees to accrue an unlimited number of sick days. In contrast, the State minimum requirement for sick leave accumulation found in ORC § 3319.141 is 120 days. Provisions allowing employees to accrue sick days in excess of State minimums represent the potential for increased financial liability if that sick leave is used or paid out to retiring employees.

In addition, the District's bargaining agreements allow for a maximum sick leave payout in excess of the State minimum required by ORC § 124.39 of 25 percent of accrued but unused sick leave, up to a maximum of 30 days total payout (based on 120 days of accrued sick leave). Meigs LSD provides an additional payout of 15 days (based on 180 days of accrued sick leave), as well as 10 percent of any accrued sick leave above 180 days. This excessive payout obligation also represents a potential increased financial

responsibility which the District could incur if employees with high levels of accumulated sick leave retire.

Finally, the District's classified agreement provides employees with vacation leave in excess of State minimums. According to ORC § 3319.084, non-teaching school employees are entitled to 2 weeks of vacation after 1 year of service, 3 weeks after 10 years, and 4 weeks after 20 years. Meigs LSD's classified employees receive 2 weeks of vacation after 1 year of service, 3 weeks after 8 years, and 4 weeks after 17 years. Paid vacation in excess of State minimums represents a potential for decreased operational efficiency.

Adjusting contract provisions can be difficult because they are subject to negotiations with the respective bargaining members. Moreover the provisions discussed above are in line those provided by contiguous school districts. However, the financial condition of Meigs LSD makes it prudent to examine contractual provisions that exceed minimum requirements. Adjustments may help the District save money and reduce the financial obligations it accrues.

R3.8 Meigs LSD should begin to measure the cost of sick leave and work to reduce the amount of sick leave that is used at the District. Setting targets for staff attendance and opening a dialogue with employees about the causes of sick leave and the direct and indirect costs of sick leave may help the District reduce leave usage.

Members of both bargaining units at Meigs LSD receive 15 sick days per year with unlimited accumulation. After an employee uses any sick leave, a written, signed statement is required indicating which of the five allowable reasons necessitated the use of sick leave. If medical attention was required, the employee is required to list the physician that was consulted. If there is a pattern of sick leave use, a reasonable suspicion of sick leave abuse, or sick leave for five consecutive days, the Superintendent may require written certification from the employee's physician to justify use of sick leave. Employees who use no sick leave during the school year receive a \$300 incentive bonus.

DAS tracks and reports average sick leave usage among State employees. **Table 3-9** compares Meigs LSD's certificated and classified employees' sick leave usage in FY 2007-08 with the DAS historical average for sick leave usage (FY 1996-97 to FY 2005-06).

Table 3-9: Sick Leave Comparison

	Meigs LSD			DAS	Variance
	Number of Employees	Total Sick Leave (Days)	Average Leave Per Employee (Days)	State Average (Days)	Meigs LSD Days Above State Average
Certificated	165	1,573.8	9.5	6.8	2.7
Classified	95	1,136.0	12.0	6.9	5.1

Source: Meigs LSD FY 2007-08 Leave Usage Report and DAS State averages

Note: Certificated staff leave is compared to the SCOPE/OEA bargaining unit leave and classified staff leave is compared to the total State average leave.

As shown in **Table 3-9**, certificated employees at Meigs LSD, on average, used more sick leave than the DAS average. In addition to being above the DAS average, Meigs LSD's average sick leave usage for classified employees increased 18.5 percent from FY 2006-07 to FY 2007-08. While the District has negotiated procedures for requesting and using sick leave that exceed leading practices, the District administration has not implemented a formal process to monitor this usage or use available information to help formally identify potential sick leave abuse.

According to *Absenteeism: Measure Costs, Adjust Incentives, Change Behaviors* (SHRM, 2007), without the means to measure and analyze the cost and impact of employee absence, particularly as related to lost productivity and reduced profitability, entities run the risk of under-investing in health interventions, including wellness, prevention, disease management, and other programs. Employers need to see that all lost time is connected. For example, employees who have frequent intermittent absences appear to be three to four times more likely to go out on short-term disability. In addition, employees out on short-term disability are likely to be larger-than-average consumers of group health benefits. As a result, employers should measure the impact of absenteeism. One measure of absenteeism is to express cumulative lost time in terms of FTE positions. At Meigs LSD, the sick leave used in excess of the DAS State averages equates to 2.5 FTEs for certificated staff and 2.7 FTEs for classified staff.⁵

Rather than look at isolated events, when organizations view absenteeism in aggregate, the result can be startling. For Meigs LSD, this could be an analysis of the cost for substitutes hired when leave is used by certificated staff, or the square footage custodial employees could have cleaned during leave time. For example, in FY 2007-08, the District paid out nearly \$200,000 in annual substitute costs related to sick leave use, in addition to more than \$500,000 it paid to the employees who were using sick leave. What is important is that the District develop some measurement of sick leave usage and the impact of absenteeism. The cost of hiring substitute employees, while a significant measure, is only one of several indicators Meigs LSD could use to gauge and communicate the true cost of its excessive sick leave usage.

⁵ Based on a nine month classified employee.

Additionally, determining if and why employees exploit leave policies is discussed in the article *Sick Leave Abuse: A Chronic Workplace Ill?* (American Society for Public Administration Times, April 2002). 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.

According to a survey on absenteeism by SHRM and Mercer, LLC, unplanned absenteeism leads to a 21 percent productivity loss. The study recommended that employers start a dialogue about the direct and indirect costs of sick leave. It is important that employers share with employees the real cost of sick leave and how absenteeism is impacting organizational performance. For example, at Lakota (Butler County) LSD's Union Elementary, student and staff attendance is monitored monthly and a target of 97.5 percent attendance has been set for both groups. During staff meetings, the building principal shares attendance measures by employee group, as well as student attendance, as a way to communicate the importance of attendance to employees.

While provisions in the Meigs LSD negotiated agreements for sick leave justification are used by the Superintendent, this has not led to a reduction in the use of sick leave. High amounts of sick leave usage can result in decreased productivity and can cause the District to incur additional substitute costs. In addition to substitutes, costs may include missed deadlines, sinking morale, lower productivity, and even declining student performance on state examinations.

The District should continue to enforce the sick leave provisions in the negotiated agreement. Moreover, it should better track and measure the cost of sick leave in order to begin a dialogue with employees about causes for the higher level of sick leave use and ways that sick leave use can be reduced.

R3.9 The Board should adhere to its policy and conduct annual performance evaluations for the Superintendent and Treasurer, as well as a self-evaluation of the Board performance and effectiveness. Doing so will provide constructive feedback regarding the strengths of the District and highlight areas for improvement or possible training opportunities.

The District has policies that provide for annual performance evaluations of the Board, Superintendent, and Treasurer. Each of these evaluations is to be completed using the goals the District sets, as well as the responsibilities of each position, as a basis for review. The District's corresponding administrative guidelines and forms include instruments for each evaluation. The evaluation forms provide content areas which are critical to the successful performance of each position. The evaluation serves as a key

form of feedback to gauge how goals are being achieved, as well as strengths and areas for improvement within the organization. However, self-evaluations of the Board have not taken place in several years, nor do annual evaluations of the Superintendent and Treasurer take place.

Becoming a Better Board Member (NSBA, 2006) recommends that, in addition to evaluating operations by assessing public opinion, board members engage in regular self-evaluations to ensure that they continue to exercise the most effective leadership possible. While there is no single correct method of board evaluation, NSBA provides standards that school board veterans see as essential evaluation elements and outcomes. These standards recommend that the evaluation cover the entire board (not individuals) and occur on an annual basis. Each board member should complete an evaluation form independently, then the board as a whole should compare and discuss the results. The evaluation should assess both strengths and weaknesses, be based on board goals (not district goals, though they may be related), and include establishing goals and strategies for improving board performance. NSBA also outlines a process for the evaluation of the Superintendent that includes defining district goals in conjunction with the duties of the position and evaluating the achievement of those goals using performance indicators such as timelines and costs.

Self-evaluations work to identify strengths and weaknesses and may help the Board identify areas for improvement and encourage Board members to pursue external training through organizations like the Ohio School Boards Association, which offers training courses through regional conferences, training sessions, and free on-line tutorials. Tutorial areas for school board members comprise a range of topics including board leadership, collective bargaining and labor relations, school finance, property taxation and school funding, and school law. These areas of training, based on needs identified in self-evaluations, may help Board members better fulfill their duties.

R3.10 Meigs LSD should examine its career-technical program and work to attract additional students, eliminate and/or replace unpopular programs, explore contracting with a JVSD for the provision of some programs, or implement a combination of these strategies in order to reduce the cost of providing career-technical programming to its students.

Meigs LSD provides career-technical programs at its high school to students attending the District, and has an agreement with the other Meigs County school districts (Eastern LSD and Southern LSD) to provide career-technical programs to their students. The District, which offers twelve programs in eight unique career fields, has maintained its own program because of the distance to surrounding programs. The closest JVSD career-technical center is an hour by bus from the District. Moreover, if the District joined a

JVSD, local taxpayers would be charged an additional two mills in unvoted property taxes based on requirements of Ohio law.

Participation in Meigs LSD's career-technical program has declined over the past three years. In FY 2007-08 the District reported 123.5 FTE students enrolled in career-technical programming, a decrease of 18.2 percent from the 151.0 FTE students reported in FY 2005-06. The reduced program participation, coupled with the hiring of an additional teacher in FY 2006-07, led to a 23.1 percent decline in the program's student-teacher ratios, from 9.4 FTE to 7.3 FTE students per teacher, between FY 2005-06 and FY 2007-08.

While program participation has declined, Meigs LSD has not made any significant changes to its programs, and has only informally discussed changes in programming during the same time period. District officials indicated that some of the career-technical programs may be less popular because they are more antiquated than others. In fact, the District's program decisions are largely based on the District staff in place, rather than program popularity, participation, or community or employer needs.

The career-technical program has two designated sources of funding: the federal Carl D. Perkins Grant and Ohio Department of Education weighted career-technical funding. These two sources can be applied toward the cost of career-technical education to supplement State formula aid and local revenue sources. **Table 3-10** displays the operational history of the career-technical program at Meigs LSD and shows the trend the District faces on a cost per FTE student served basis.

Table 3-10: Three-Year Career-Technical Operational History

	FY 2005-06	FY 2006-07	Change	FY 2007-08	Change	3-Year Change
Total Revenue	\$1,008,624	\$868,684	(13.9%)	\$922,780	6.2%	(8.5%)
Total Expenditures	\$1,267,131	\$1,300,361	2.6%	\$1,312,766	1.0%	3.6%
Net Profit/(Loss)	(\$258,507)	(\$431,676)	(67.0%)	(\$389,986)	9.7%	(50.9%)
<hr/>						
Total FTE Career-Technical Students	151.04	121.16	(19.8%)	123.48	1.9%	(18.2%)
Revenues per FTE Student	\$6,678	\$7,170	7.4%	\$7,473	4.2%	11.9%
Expenditures per FTE Student	\$8,389	\$10,733	27.9%	\$10,631	(0.9%)	26.7%
Net Profit/(Loss) per FTE Student	(\$1,712)	(\$3,563)	(108.2%)	(\$3,158)	11.4%	(84.5%)
% of Cost Reimbursed	79.6%	66.8%	(16.1%)	70.3%	5.2%	(11.7%)

Source: Meigs LSD SF-3 and 4502 for FY 2005-06 – FY 2007-08.

Table 3-10 highlights the effect of the District's declining program participation. The net loss per FTE student of the career-technical program has increased 84.5 percent over the past three years, which can be attributed to increasing expenditures that outpaced revenues and a declining student-teacher ratio. This decline in program participation mirrors the enrollment District-wide, which has decreased 16.3 percent over the past 10 years and is projected to decrease an additional 3.7 percent by FY 2012-13, creating a smaller pool of students from which to recruit for career-technical programs.

By improving student-teacher ratios, the District can stem the rising cost per student and improve the efficiency of the career-technical program. Other school districts similar to Meigs LSD which operate comprehensive high schools, such as Morgan LSD (Morgan County) and Switzerland of Ohio LSD (Monroe County), have provided career-technical services using fewer local dollars per FTE student than the District.

One way to reduce expenditures would be to eliminate programs. According to OAC § 3301-61-03, career-technical planning districts with fewer than 1,500 students enrolled in grades 9 through 12 must provide course offerings in 10 programs in at least 8 career fields. The Meigs LSD planning district – which includes Meigs LSD, Eastern LSD, and Southern LSD – serves 1,210 students in grades 9-12 and offers students 12 programs. Consequently, the District has the ability to eliminate two programs with low participation rates, which will improve student-teacher ratios. The District may also be able to modify its programs to replace less popular programs with those that have greater interest among prospective students, or to contract with a surrounding JVSD to provide certain courses or programs to students. These alternatives may assist the District in improving student-teacher ratios by attracting additional students or reducing the number of career-technical teachers it must employ.

Regardless of the alternatives it chooses to pursue, Meigs LSD's financial condition requires it to take a more proactive approach to managing its career-technical program and relying less on local funds to provide these services.

Financial Implications Summary

The following table is a summary of estimated annual cost savings. Implementing some of the recommendations would require agreement from the affected collective bargaining units.

Financial Implications for Human Resources

Recommendations	Estimated Annual Cost Savings ¹
R3.2 Eliminate 2.0 FTE assistant principal positions.	\$163,000
R3.3 Eliminate 1.0 FTE nurse position, 1.0 FTE librarian position, and replace an additional 1.0 FTE librarian position with 1.0 FTE library aide.	\$154,000
R3.4 and R3.5 Renegotiate health insurance plan design to reduce funding rates and increase employee contributions for health insurance to 15 percent. ²	\$814,500
R3.6 Require employee contributions for dental and vision coverage and renegotiate plan design to reduce dental insurance funding rates. ²	\$47,000
Total Estimated Savings	\$1,178,500

Source: AOS recommendations

¹ Savings based on implementation in FY 2009-10.

² Implementation is subject to negotiations.

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Facilities

Background

This section focuses on the maintenance and operations of facilities in the Meigs Local School District (Meigs LSD or the District), including assessments of staffing levels, planning efforts, expenditures, policies, and operating procedures. The District's operations were evaluated against leading practices, and operational standards derived from the American School and University Magazine (AS&U), the National Center for Education Statistics (NCES), the International Sanitary Supply Association (ISSA), the United States Department of Energy (DOE), the Government Finance Officers Association (GFOA), and other school districts.

Summary of Operations

Meigs LSD has three school buildings, which were completed in 2003 and 2004 as part of an Ohio School Facilities Commission (OSFC) project. As a result, the District has a renovated high school, a new middle school, and a new elementary school complex. The high school building houses the vocational programs for all three of the Meigs County school districts. However, the vocational part of the building was not eligible for renovation in 2004 through the OSFC project. The new elementary school complex consolidated seven regional schools and now comprises two adjoining schools: a primary school (grades K-2) and an intermediate school (grades 3-5). Each school has its own principal and administrative office. The District also has a central administrative office building, a bus garage, an athletic field house, and a stadium with locker rooms. In addition, the high school has two modular buildings which provide space for up to four additional classrooms.

Enrollment projections were developed during the OSFC building project but have not been updated by the District. OSFC projections were compared to actual District enrollment from FY 2003-04 to FY 2007-08, and were found to be a reasonably accurate, although not precise, estimate of enrollment. A five-year enrollment projection, created for the District as a component of this audit, indicates that the District can expect to see continued gradual declines in enrollment, losing an average of about 18 students per school year. Since Meigs LSD has only three school buildings, the District's enrollment would have to decline substantially before the District could consider closing part of a building (see **R4.1**).

Staffing

The Meigs LSD Maintenance and Operations (M&O) Department is responsible for the upkeep of the District's facilities and grounds. **Table 4-1** illustrates the M&O staffing levels and the

number of full-time equivalent (FTE) employees performing maintenance, custodial, and groundskeeping functions. FTEs were determined based on the actual number of hours devoted to each function during the fiscal year.

Table 4-1: FY 2007-08 Maintenance and Operations Staffing

Classification	Number of Positions	Number of FTEs
Supervisor	1.0	0.4
Maintenance Worker	2.0	2.0
Custodial	17.0	15.5
Groundskeeper ¹	1.0	1.5
Total	21.0	19.4

Source: Meigs LSD

Note: The Maintenance Supervisor also administers the Transportation Department. One custodian and one groundskeeper also work in the Transportation Department.

¹ The number of FTEs exceeds the number of positions because one custodial employee also serves as a groundskeeper.

As noted in **Table 4-1**, the District has one supervisor, whose duties are split between the M&O and Transportation departments. According to the supervisor, approximately 40 percent of his time is devoted to M&O responsibilities. The primary responsibility of the supervisor is to provide administrative support to the M&O Department. The District has two full-time maintenance workers who provide support related to electrical and technical equipment such as the boilers and air conditioners. One works in the elementary school while the other is responsible for both the high school and middle school. The District employs 17 custodial staff, some of whom serve other functions in the District in addition to their custodial duties. The District's custodial employees are responsible for cleaning buildings, including classrooms, cafeterias, and restrooms. While the District has only one designated groundskeeper, a custodian has performs the groundkeeping functions for the high school. All M&O employed are full-time, 12-month employees.

Financial Data

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

Table 4-2: Historical Expenditures on Facilities

Cost Category	FY 2005-06	FY 2006-07	Percent Change	FY 2007-08	Percent Change
Salaries and Wages	\$593,500	\$621,940	4.8%	\$684,064	10.0%
Benefits	\$418,431	\$409,740	(2.1%)	\$447,509	9.2%
Purchased Services	\$609,609	\$624,188	2.4%	\$557,434	(10.7%)
Supplies and Materials	\$46,228	\$64,648	39.8%	\$84,904	31.3%
Capital Outlay	\$17,822	\$23,900	34.1%	\$35,333	47.8%
Total General Fund	\$1,685,590	\$1,744,416	3.5%	\$1,809,244	3.7%
Other Funds	\$112,624	\$118,826	5.5%	\$156,669	31.8%
Total All Funds	\$1,798,214	\$1,863,241	3.6%	\$1,965,913	5.5%

Source: Meigs LSD year-end financial records.

Note: Totals may vary due to rounding.

As shown in **Table 4-2**, facility expenditures from the General Fund increased 3.5 percent in FY 2006-07 and 3.7 in FY 2007-08. The largest increases were in the salaries and benefits categories which, when combined, increased by \$119,600, or 11.8 percent, over the three-year period. The 10 percent increase in salaries and wages in FY 2007-08 is primarily the result of additional costs for a custodial employee while on medical leave and the abnormally high number of M&O employees who took vacation leave during FY 2007-08. A more detailed analysis of salaries and benefits is provided in the **human resources** section of the audit. Capital outlay and supplies and materials had significant percentage increases as well; however, the two categories combined represented only 6.6 percent of FY 2007-08 General Fund expenditures. In contrast, the purchased services category decreased by 10.7 percent in FY 2007-08, representing a savings of \$66,800. This decrease was mainly due to lower electricity usage that resulted in 22.9 percent lower utility expenditures.

Table 4-3 compares Meigs LSD's General Fund expenditures per square foot on facilities to the AS&U national median. Expenditure categories that exceed the AS&U national median may indicate operational inefficiencies and opportunities for cost reductions.

Table 4-3: FY 2007-08 Facility Expenditures per Square Foot

Cost Category	Meigs LSD	Per Square Foot			
		Meigs LSD Expenditures Per Square Foot	AS&U	Above/Below AS&U	Percent Difference
Salaries & Benefits	\$1,031,680	\$2.84	\$2.05	\$0.79	38.4%
Purchased Services ¹	\$86,007	\$0.24	\$0.21	\$0.03	12.6%
Energy ²	\$499,481	\$1.37	\$1.25	\$0.12	9.9%
Other Utilities ³	\$26,493	\$0.07	\$0.22	(\$0.15)	(66.9%)
Trash Disposal	\$12,207	\$0.03	\$0.05	(\$0.02)	(32.9%)
Materials & Supplies	\$64,648	\$0.18	\$0.38	(\$0.20)	(53.2%)
Other	\$23,900	\$0.07	\$0.40	(\$0.33)	(83.6%)
Total General Fund	\$1,744,416	\$4.80	\$4.56	\$0.24	5.2%

Source: District financial reports for Fiscal Year 2007-08, AS&U 37th Annual Cost Study 2008

Note 1: The AS&U study is based on a national survey which is released in April each year.

Note 2: Totals may not sum due to rounding.

¹ Excludes utilities, energy, and trash collection

² Includes electricity, gas, and other fuels

³ Includes water, telephone, and cable

As shown in **Table 4-3**, Meigs LSD's General Fund expenditures per square foot were about 5 percent higher (\$0.24 per square foot) than the AS&U national median. In particular, Meigs LSD spent 38.4 percent more per square foot than the national average in salaries and benefits. In FY 2007-08, M&O salary expenditures were high due to extensive leave usage. Energy costs also exceeded the national median by 9.9 percent. However, the District is working with an energy management company in an attempt to control and reduce its energy costs. The District's cost for purchased services also exceeded the national median by 12.6 percent. Meigs LSD attributes higher costs in this category to expenditures associated with non-recurring mechanical equipment issues related to its new buildings.

Audit Objectives for the Facilities Section

The following is a list of the audit objectives used to evaluate the District's custodial, maintenance, and groundskeeping operations:

- How does the District's facility maintenance compare with the peers and leading practice organizational structure and staffing levels?
- Does the Maintenance and Operations Department have written operational procedures and performance standards that meet leading practices?
- Are District energy management practices comparable to leading practices?
- How effectively does the District use its buildings?
- Does the District have an effective and equitable system for managing maintenance needs?

Recommendations

Facilities Planning

R4.1 Meigs LSD should implement elements of leading practices to formally and systematically plan for its facility needs. The District should develop a formal five-year capital improvement plan that is consistent with the District's overall strategic plan (R2.1) and use the plan to ensure that critical repairs or equipment replacements are completed based on its building audits (see R4.2). Meigs LSD should also develop and periodically update enrollment projections and use them to assess building utilization rates. These planning tools will help the District identify and address its future facilities needs in relation to its educational programs.

Meigs LSD does not have facility plans that incorporate elements of leading practices. The District completed a project with the Ohio School Facilities Commission (OSFC) in 2004 and received support materials from OSFC, but has not updated the materials or incorporated them into a planning process. The District also received enrollment projections during the course of the OSFC building project, but has not developed a system for creating its own updated projections. Finally, the District has not conducted capacity analyses for its buildings. Because District buildings are relatively new, the District has not focused on incorporating capital improvement or capacity analyses into the planning process.

Creating a Successful Facilities Master Plan (DeJong, 2001) states that school districts should develop long-term facilities master plans that contain information on capital improvements and financing, preventative maintenance and work orders, overall safety and condition of buildings, enrollment projections, and capacity analysis. The plans should be developed based on foundations of sound data and community input. A facilities master plan, if developed properly, has the potential to significantly impact the quality of education in a school district. As a road map, the facilities master plan should specify the projects that have been identified, the timing and sequence of the projects, and their estimated costs. A district-wide facilities master plan is typically a 10-year plan that should be updated periodically to incorporate improvements that have been made, changes in demographics, or other educational directions. *Preventative Maintenance for Local Government Buildings* (Minnesota Office of the Legislative Auditor, 2000) describes a capital improvement plan as a schedule of capital improvement projects listed in priority order over a number of years (usually five or more). Capital improvement plans typically include remodeling and new construction as well as major maintenance projects. According to *Educational Facility Master Planning* (SchoolFacilities.com, 2005), properly portraying building utilization and capacity is an important tool by which a district can promote building efficiency to the community.

By developing a more comprehensive facility planning process, supported by up-to-date enrollment projections and a five-year capital plan, the District will be better positioned to advance its educational mission through the quality and configuration of its facilities. Incorporating these planning documents will not only assist the District in planning for the use of its facilities, but it will ensure that facility needs are assessed on a regular basis.

R4.2 Meigs LSD should conduct comprehensive building audits and establish a formal preventative maintenance (PM) plan. The building audits will enable the District to identify important maintenance and safety issues, assess the overall condition of District facilities and equipment, and provide a reference for capital improvement planning. The District should ensure that the appropriate staff implement these audits and that all aspects of facility needs, such as maintenance repairs, are incorporated into the inspections. In addition, the District should use the Facilities Maintenance Plans commissioned during the course of the OSFC construction project as a basis for developing and implementing a practical and affordable PM plan. Including regular building audits and specific scheduled PM activities in a documented work order system (R4.4) will help ensure that all assets, including equipment and facilities, are maintained properly and in a way that maximizes their useful life.

Meigs LSD does not conduct formal building audits or regular inspections of its buildings. Maintenance staff conduct informal visual inspections during the course of their regular functions, but their focus is on addressing work order requests and current projects. In addition, Meigs LSD does not have a formal PM program. The District's two maintenance workers have each been at the District over ten years and conduct PM activities, such as greasing motors and changing filters, as part of their regular duties. However, they do not track or document the maintenance performed. Additionally, Meigs LSD has not evaluated the Facilities Maintenance Plans (FMP) developed for each of its school buildings as part of the OSFC project to determine which activities it can complete within its financial constraints.

Planning Guide for Maintaining School Facilities (NCES, 2003) recommends that facility audits become a routine part of the facilities maintenance program. Facility audits assist a school district in establishing baselines for measuring the conditions and needs of equipment and facilities. Audits are comprehensive reviews that document conditions and needs of buildings, grounds, and equipment; helping planners, managers, and staff know the condition of the facilities, their service histories, and their maintenance needs. Once initiated, audits must be performed on a regular basis (e.g., annually) because conditions change constantly. Furthermore, by integrating the findings of annual audits over time, planners can uncover information on the impact of various maintenance strategies and the

demands placed on the infrastructure. This information can be used to increase the efficiency and cost-effectiveness of future maintenance efforts.

Furthermore, NCES recommends that all districts have formal PM programs focused on regularly scheduled equipment maintenance to prevent sudden unexpected equipment failure. NCES notes that many school districts practice “breakdown maintenance,” whereby maintenance problems are fixed as they occur. This method often defers major repairs and allows damage to compound over time. A well-designed facility management system generally encompasses four categories of maintenance: including emergency (or response), routine, preventative, and predictive. Maintenance tasks can be scheduled through the work order system and are typically based on manufacturer recommended service intervals.

Although its maintenance workers are experienced and do perform PM activities, the District needs to document and track PM in order to facilitate planning and budgeting. By documenting time and materials used for PM activities, the District can incorporate this information into its long-range plans and budget, and ensure that all required work is completed in a timely and efficient manner. Addressing maintenance issues at an early stage can reduce maintenance costs and ultimately save staff time.

In addition to scheduled and documented PM activities, regular building audits would assist the District in developing routines and baselines for recognizing repair issues. By integrating the findings of annual audits, planners can identify actual product life cycles, determine the impact of various maintenance strategies and efforts, and identify potential vulnerabilities for each of the District’s buildings. This information can be used to increase the efficiency and cost-effectiveness of facility use and maintenance efforts.

R4.3 Meigs LSD should develop and implement formal performance standards and measures to clarify staff expectations, evaluate individual performance, and assess the overall effectiveness of M&O activities. The District should seek to maximize productivity by using specific performance measures such as the number of square feet cleaned per hour or per shift, costs per square foot, and user satisfaction. Increased efforts to measure and track performance can improve decision-making and resource allocation and may help reduce operating costs. Additionally, the District should evaluate the performance of all M&O Department staff annually based on the established performance measures. Finally, performance measures should be incorporated into a policies and procedures handbook (R4.5) to ensure that all staff are properly informed of time and job duty expectations related to their positions.

The Meigs LSD Maintenance Supervisor reported that staffing levels were compared to national standards after the new buildings were constructed; however, this staffing

standard was not formalized or otherwise included as a regular part of decision-making. While the District conducts annual evaluations of the custodial staff, the M&O Department has not developed a formal staffing plan or established productivity benchmarks to ensure the efficiency and effectiveness of maintenance and custodial operations.

Best Practices in Public Budgeting (GFOA, 2000) recommends that organizations develop and use performance measures for functions, programs, and/or activities. Performance measures should be linked to specific program goals and objectives. The measures should be valid, reliable, and verifiable. Whenever feasible, they should be expressed in quantifiable terms. Measures should be reported in periodic reviews of functions and programs and should be integral to resource allocation decisions.

According to *A Game Plan for Productivity: Tactics for Holding Down Labor Costs and Helping the Bottom Line* (FacilitiesNet, 1999), a school district can experience savings as maintenance and operations managers measure the productivity of the custodial function and increase the productivity of the people that perform these activities. Facilities managers who apply recommended practices can increase the productivity of their custodial operations by 10 to 25 percent and decrease their overall labor budgets. Productivity measures should include the following:

- Square feet cleaned per hour or per shift;
- Costs per square foot to clean a facility;
- Quality of service;
- Definitions for productivity and performance; and
- Customer input.

As a small school district, Meigs LSD has assigned staff to certain buildings and has tended to use direct supervision rather than written performance standards to guide custodial activities during the workday. However, without performance standards and measures, the District limits its ability to objectively evaluate staff and organizational performance. Evaluating the organizational operation through objective criteria can establish a baseline performance measure that can then be used for comparing whether changes affect operational performance. Implementation of performance standards and measures, coupled with formal job expectations (**R4.5**), could raise the level of service provided by the M&O Department with little additional cost.

Staffing and Operations

R4.4 Meigs LSD should develop and implement a work order system for maintenance activities that includes a method for tracking when orders are completed. The work order system would enable the District to track requests, assign materials, assign

tasks, set priorities, and review productivity statistics. A work order system can be implemented with little cost to the District by requiring written documentation for work order requests and creating a computer spreadsheet or investing in a computerized maintenance management system (CMMS) for staff to enter completed jobs. By tracking maintenance activities, the District can document its efficiency and effectiveness for planning and budgeting purposes. Using a CMMS, the District could automatically download OSFC scheduled preventative maintenance jobs into the system.

Meigs LSD does not have a formal work order system and does not track completed work order requests. All requests are relayed informally by phone or notes from District staff to the maintenance personnel. These work order requests are satisfied by M&O Department staff as received.

The *Planning Guide for Maintaining School Facilities* (NCES, 2003) recommends the development and implementation of a work order system. According to NCES, work order systems help school districts register and acknowledge work requests, assign tasks to staff, confirm that work was done, and track the cost of parts and labor. At a minimum, work order systems should account for the date the request was received, the date the request was approved, a job tracking number, and the job status. NCES states that a good policy is for each building to appoint a single person to coordinate internal oversight over that site's work requests.

Although Meigs LSD is small, using a computer-based system would increase accountability and efficiency by standardizing its processes and providing tools to track work progress and completion. Documenting maintenance work would assist the District in reviewing the efficiency and effectiveness of maintenance responsiveness. While computerized work order systems are available from several companies and can be loaded on a personal computer or operated via the Internet, the District could create a manual system with standard work order forms and a simple spreadsheet for entering tasks and completion dates.

Financial Implication: The average cost of a web-based work order system would be approximately \$2,500 per year. A manual work order system could be implemented at no additional cost to the District.

R4.5 Meigs LSD should develop a formal handbook for custodial and maintenance operations. The handbook should address topics such as the mission statement, personnel policies, purchasing regulations, accountability measures, safety procedures, repair standards, vehicle use guidelines, security standards, and work order procedures. The manual should detail time standards and processes for accomplishing tasks. It should contain specific instructions on the performance of

routine and non-routine tasks and directions for operating any equipment to be used in completing the tasks. The District should review the manual annually and update the procedures as necessary.

Meigs LSD has no M&O procedures manuals or handbooks that describe its cleaning, maintenance, and groundskeeping functions. Many of the maintenance and custodial staff have been at the District for several years and formal documentation has not been considered necessary.

According to the *Planning Guide for Maintaining School Facilities* (NCES, 2003), every maintenance and operations department should have a policies and procedures manual that governs day-to-day operations. The manual should be readily accessible (perhaps through the District's intranet or Internet sites). NCES recommends that management:

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

The ISSA has developed a handbook designed to help train and guide custodians. The handbook details the correct cleaning methods as well as the proper use of custodial equipment and offers guidelines and tips on the following:

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

The custodial and maintenance procedures manuals used by Lancaster City School District and Oregon City School District are considered industry standards. Both have handbooks that provide details on areas of responsibility, including equipment use and general expectations. In addition, Oregon City School District has developed extensive scheduling, workload, and staffing expectations based on ISSA guidelines.

Without a formal policies and procedures handbook to guide custodial and maintenance operations, procedures and standards may not be consistently followed. Developing and incorporating policy and procedures manuals and standards for all custodial staff will help ensure more efficient and effective cleaning. Written policies and procedures would help ensure that issues are managed in a consistent manner. Once the District has developed and implemented a manual, it should make this information available to interested parties through its website and disseminate the information internally through links to the website. Development of a policy and procedures manual could be implemented at no additional cost to the District.

R4.6 Meigs LSD should establish an orientation program for custodial and maintenance staff and conduct annual training based on specific staff needs. The District should build on current health and safety training by offering an annual training program focused on methods for improving productivity in order to meet national performance standards (R4.3). Furthermore, the training program should include reviews of policy and procedures documented in the maintenance and custodial handbook (R4.5). By more effectively training personnel and creating clear expectations, the District should be able to improve productivity and potentially reduce costs.

Meigs LSD provides State and federal-mandated health and safety trainings, but does not offer annual comprehensive training for M&O employees.

According to the *Planning Guide for Maintaining School Facilities* (NCES, 2003), preparing staff to get their work done properly, efficiently, and safely is cost-effective in the long run. Training should encompass the following areas:

- Orientation of the organization's facilities;
- Orientation of the person's work area;
- Equipment instructions;
- Task-oriented lessons;
- Expectations; and
- Evaluation information.

Training helps staff members achieve and retain the skills necessary to perform at an efficient level on a day-to-day basis. *21st Century Staffing* (FacilitiesNet, 2002) notes that

training is one of the most important ingredients for developing and maintaining an effective work force because it improves customer satisfaction and employee morale, which in turn leads to less risk for costly waste and abuse. Creating training programs ensures that all maintenance and custodial staff are using the most current procedures for equipment and facilities. Developing a training program provides an opportunity for all staff to discuss leading practices, standardize routines, and develop efficient duties. The District could improve productivity of M&O by providing formal training linked to documented work procedures (R4.5) and performance standards (R4.3) for both maintenance and custodial employees.

R4.7 Meigs LSD should consider eliminating 4.0 FTE custodian positions to bring M&O Department staffing closer to industry standards and to reduce salary and benefit costs.

Based on the annual *Maintenance & Operations Cost Study* (AS&U, 2003-2007),¹ the national median productivity standard is one maintenance worker per 92,000 square feet. The *Planning Guide for Maintaining School Facilities* (NCES, 2003) recommends a range of 28,000 to 31,000 square feet per custodial FTE for school districts to maintain a level 3 of cleanliness, which NCES suggests is the norm for most school facilities, is acceptable to most stakeholders, and does not pose any health issues. In addition to custodial and maintenance duties, M&O Department employees at Meigs LSD also perform groundskeeping duties. According to a review of the AS&U cost survey, a benchmark for the groundskeeping function is one staff person per 42 acres.

Table 4-4 provides key statistics used to assess staffing levels based on FY 2007-08 data.

¹ These studies were the result of detailed surveys of business officials at school districts across the nation that collected information on staffing levels, workloads, facility expenditures, and salaries.

Table 4-4: Facility Staffing Level Benchmarks

Meigs LSD Statistics	
Number of Buildings ¹	4
Square Feet Maintained ²	363,705
Square Feet Cleaned ³	337,938
Building Grounds/ Acres Maintained ⁴	33
Meigs LSD Workload Comparison to National Benchmarks	
Maintenance Standard - AS&U Cost Survey National Median ⁵ (Sq. Ft. per FTE)	92,000
Meigs LSD Maintenance Staff	181,853
Custodial Standard - NCES Planning Guide ⁶ (Sq. Ft. per FTE)	29,500
Meigs LSD Custodial Square Footage Cleaned	21,802
• High School ⁷	31,671
• Middle School	19,376
• Elementary School	14,586
• Administrative Office	80,000
Groundskeeping Standard - AS&U Cost Survey National Median ⁵ (Acreage per FTE)	42
Meigs LSD Groundskeeping Staff (Acres/ FTE)	22

Source: Meigs LSD, NCES, and AS&U Magazine.

Note: Totals may vary due to rounding.

¹ Includes the 3 school buildings and the administrative offices. Meigs LSD also owns a bus garage; however, the custodial staff does not clean this building.

² Square feet maintained includes all major buildings and auxiliary facilities maintained by the District including the schools, administrative office, bus garage, field house, modulars, and stadium storage.

³ Square feet cleaned are lower since custodial staff are not responsible for cleaning all District facilities. In addition, mechanical rooms in school buildings were identified and removed from analysis.

⁴ District buildings are located on significant acreage, but this amount was adjusted to reflect only the acreage actively maintained by District personnel.

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

⁶ According to the NCES, 28,000 to 31,000 square feet per FTE custodian is the norm for most school facilities. The level of cleanliness that is achievable with this workload ratio is acceptable to most stakeholders and does not pose any health issues.

⁷ One custodian provides groundskeeping support and the FTE was adjusted to reflect this in the calculation of FTEs.

Table 4-4 illustrates that Meigs LSD has variances in the efficiency of staffing in comparison to national benchmarks. Meigs LSD has maintenance staff working at a high productivity level, maintaining an area twice the size of the national median. This high level of productivity may be possible because of the District's newer buildings and control systems. Conversely, the District operates with an overall custodial productivity level of 21,800 square feet per FTE, 26 percent less than the benchmark of 29,500 square feet. In order to increase the level of productivity in line with national standards, Meigs LSD should reduce custodial staffing by 4.0 FTEs.

Without a strategic plan or performance standards, Meigs LSD has developed its staffing levels based on informal assessments of facility needs. Aligning staffing with national benchmarks and using established procedures (R4.5), productivity standards, regular training (R4.6), and measurement of operational performance (R4.3) will help the District improve its efficiency in each building. Reducing custodial staff will bring the M&O workload more in line with the national standards and eliminate unnecessary salary and benefit costs. Further, the cost savings will help the District to reallocate funding to educational programming and assist the District in alleviating its General Fund deficit.

Financial Implication: Eliminating 4.0 FTE custodial positions would save approximately \$181,400 in salaries and benefits in FY 2009-10.

R4.8 The District should adopt a Board policy on energy conservation and develop a formal District-wide energy conservation program, which includes training and awareness programs and requires regular reviews of utility usage. Ideally, the energy conservation program should be consistent with and part of the District's long-range planning efforts.

Meigs LSD is using House Bill (HB) 264 funds, which assist districts in developing energy conservation programs designed to address high energy use and expenditures. As part of this program, the District entered into a 10-year contract with an energy management company to monitor utilities and assist the District in reviewing electricity expenditures. The company reports on utility usage, provides training, and performs all analyses of the data. The decrease in FY 2007-08 electricity expenditures suggests that Meigs LSD is controlling these costs through its contractor. However, the District relies on the service company for all energy conservation activities and has not established an internal conservation policy.

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.

In FY 2005-06, Mansfield City School District implemented an aggressive energy conservation program. It developed energy conservation policies which were distributed to all employees. All employees were required to participate in the program.

Administrators and support personnel (particularly custodians) were invested in the process and enlisted to help ensure its success. The policy not only contained recommended practices outlined in NCEC and U.S. Department of Energy publications, but included several other leading practices as well. Some of the stipulations of the policy that exceed recommended practices included the following:

- Personnel refrain from turning lights on unless definitely needed. Unoccupied areas have lighting turned off and custodians use half lighting in hallways after the school day. Custodians turn on lighting only in areas where they are working or for scheduled facility use. (Schools can save from 8 percent to 20 percent in energy costs simply by turning off lights in unused rooms.)
- Entry doors and secondary entry doors are kept closed and not propped open (except during start of school and dismissal).
- Where applicable, curtains and/or blinds are closed at the end of each day.
- Teachers ensure that all classroom computer hard drives (CPU units), PC monitors, local printers, and speakers are turned off during any period of time the buildings are not occupied by students.
- Personal plug-load electrical appliances that are not directly related to official business may not be introduced into the workspace. This includes personal beverage makers, warmers, space heaters, personal refrigerators, microwaves, toaster ovens, hot plates, and three or more circulating fans in one room. These are restricted from school district facilities and, if found in the building, are removed by the Custodial Manager.
- Where cross-ventilation is available during periods of mild weather, air conditioning equipment is shut off and the temperature adjusted by opening windows and doors. Window air conditioning units are strictly prohibited unless approved and installed by the maintenance department.
- Refrigerators in staff lounges and science areas will be emptied and unplugged during extended breaks and over the summer, unless used for summer school.
- The head custodian at each school will be responsible for operating the building in an unoccupied mode at the close of each school day or scheduled facility use.

Meigs LSD has relied on the energy service company for training staff and identifying utility issues. However, NCEC recommends developing a more comprehensive program as part of long-range planning efforts. Therefore, the District should develop an expanded

energy management program that follows NCES guidelines and involves staff in the monitoring of utility use and expenditures and in the training of building personnel.

Financial Implication: By implementing aggressive energy management policies, procedures, and practices, Meigs LSD should be able to realize additional savings. In order to maintain a conservative financial implication, savings will be calculated at a conservative level of 10 percent of current gas and electric expenditures. An aggressive energy conservation policy, backed up by a conservation education program, should allow Meigs LSD to achieve a 10 percent savings, which would be approximately \$42,400 based on FY 2007-08 expenditures.

Financial Implications Summary

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

Summary of Financial Implications for Facilities

Recommendation	Estimated Annual Costs	Estimated Annual Cost Savings
R4.4 Develop a documented work order system using a CMMS.	\$2,500	
R4.7 Eliminate 4.0 FTE custodial positions.		\$181,400
R4.8 Develop energy management and conservation procedures.		\$42,400
Total	\$2,500	\$223,800

Source: AOS recommendations

Transportation

Background

This section of the performance audit focuses on the Meigs Local School District (Meigs LSD or the District) transportation operations. Transportation operations were evaluated against best practices, operational standards, and selected peer school districts.¹ Comparisons were made for the purpose of developing recommendations to improve the efficiency and effectiveness of business practices and, where appropriate, to reduce expenditures. Throughout this section, leading practices and operational standards were drawn from various sources, including the Ohio Department of Education (ODE), Association of School Business Officials International (ASBO), Legislative Office of Education Oversight (LOEO), Ohio Department of Administrative Services (DAS), Government Finance Officers Association (GFOA), American Public Works Association (APWA), and National Association of State Directors of Pupil Transportation Services (NASDPTS).

Summary of Operations

In FY 2007-08, the District provided transportation to 1,766 students, of which 1,718 (or 97 percent) were transported via Board-owned yellow buses. **Table 5-1** provides historical operational data as reported to ODE. As part of the performance audit, Meigs LSD's transportation operations were compared to peers for FY 2007-08, the most recent year for which data is available. However, because of the changes the District has made for FY 2008-09, which are described below, the peer comparison for FY 2007-08 is no longer relevant in many of the areas assessed in this report.

¹ The peers include: Ridgewood LSD (Coshocton County), Logan-Hocking LSD (Hocking County), Garaway LSD (Tuscarawas County), Leipsic LSD (Putnam County), New London LSD (Huron County), Springfield LSD (Mahoning County), East Guernsey LSD (Guernsey County), Celina City LSD (Mercer County), Southeast LSD (Wayne County), and East Holmes LSD (Holmes County).

Table 5-1: Meigs LSD Operating Statistics

	FY 2006-07	FY 2007-08	Percentage Change
Yellow Bus Riders (Type I)			
Public	1,667	1,696	1.7%
Non-Public	0	0	n/a
Community School	0	0	n/a
Special Needs	9	22	144.4%
Total Yellow Bus Riders	1,676	1,718	2.5%
Buses			
Regular Buses	27	26	(3.7%)
Special Needs Buses	1	1	0.0%
Total Active Buses	28	27	(3.7%)
Daily Miles Driven	2,528	2,507	(0.8%)
Spare Buses	6	7	16.7%
Riders per Regular Bus	61.7	65.2	5.4%

Source: Meigs LSD T-1 Reports.

As shown in **Table 5-1**, Meigs LSD reduced one active bus in FY 2007-08 which, along with a modest increase in yellow bus riders, increased its ridership per regular bus by more than 5 percent. In FY 2008-09, the District has made significant changes to its transportation operations. By staggering its bell schedules, the District has been able to implement two-tiered routing (middle school and high school students on the first route, and elementary students on the second route). As a result, Meigs LSD has eliminated four additional active buses and increased its ridership per bus to approximately 77, which indicates a significant increase in efficiency and places the District's ridership above the FY 2007-08 peer average of 68.5. The District also uses routing software to maximize the efficiency of its bus routes. Still, due to the rural and expansive nature of the District – it spans 199 square miles – the average bus route takes approximately 53 minutes to complete, and some students are on the bus for up to an hour and a half or longer. Consequently, no further bus reductions were recommended for the District.

Transportation Policy

Ohio Revised Code (ORC) § 3327.01 requires that, at a minimum, school districts provide transportation to and from school to all students in kindergarten through grade eight who live more than two miles from their assigned schools. The Meigs LSD Board of Education policy states that the District will provide transportation for students in all grades who live more than one mile from their schools. However, because none of the District's school buildings are located in towns with accessible sidewalks, the District's actual practice is to transport all students who request it. In general, the District uses cluster stops to pick up students in town, with most stops scheduled at alternating blocks so that students are not required to cross intersections. Outside of town, where there are no sidewalks present, students are picked up at their homes.

The District has compiled a set of “Drivers’ Rules and Regulations” which outlines the various responsibilities of each driver, including regular cleaning and bus inspections, how to handle student discipline issues, the submission of required reports and forms to the Transportation Department, and the steps to be taken in the event of a bus accident. The handbook also specifically states that under no circumstances are school buses to be used for personal purposes. The development and use of a drivers’ handbook represents a leading practice for school district transportation operations.

Fuel Purchasing

The District has purchased its fuel exclusively from one vendor for several years, although it does solicit price quotes from competing vendors on an annual basis. The vendor also owns the two 6,000 gallon centralized fuel tanks used by the District. To provide an analysis of the fuel prices obtained by Meigs LSD, its fuel prices for a sample of weeks over the past two fiscal years were benchmarked against the prices available through the Department of Administrative Services (DAS) Office of State Purchasing. Meigs LSD’s prices were generally below the DAS prices, averaging about 5 cents per gallon less for the weeks tested in FY 2006-07, and about 9 cents per gallon less for the weeks tested in FY 2007-08.

Special Needs Riders

Meigs LSD has only one active special needs bus, which is fully devoted to transporting special needs students on special needs routes. All other special needs riders are mainstreamed on regular routes. Meigs LSD coordinates the delivery of special education services with the other school districts in Meigs County. In FY 2008-09, five special needs riders who attend Eastern LSD are mainstreamed during the morning on five different regular buses from their homes to a transfer point, from which they are transferred to a single bus and transported to Eastern LSD. When school ends in the afternoon, a bus transports these five students from Eastern LSD back to the transfer point, where they are again mainstreamed onto the five buses to take them back to their homes. Special needs students who attend Southern LSD are transported in a similar manner.

Audit Objectives for the Transportation Section

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

- How do the District’s transportation policies and procedures compare with best practices and how do they impact operations?
- How can the District improve the accuracy and reliability of its transportation data?
- How does the District’s “yellow bus” transportation service compare with peer districts and/or industry standards?
- How can the District improve its operating efficiency?
- How can the District improve the cost-effectiveness of transportation operations through improved human resource management?
- Does the District have sufficient controls in place to ensure the security of its buses, equipment, parts, supplies, and fuel?
- How does the District ensure it gets the best value when purchasing transportation related items?
- Is the District effectively and efficiently maintaining and managing its fleet?
- Is the District providing specialized transportation service in an effective and efficient manner?

Recommendations

Policies, Plans, Procedures, and Guidelines

R5.1 Meigs LSD should update its transportation policy so that it articulates the Board’s position that transportation should be provided to all students who request it, due to a lack of sidewalks in the District. In addition, if the District determines that it is cost-effective to allow drivers to take buses home at night (see issue for further study in the executive summary), the transportation policy should authorize this practice. Administrative guidelines should also be established for determining when it is appropriate for drivers to take buses home and for documenting the cost benefits of this policy.

Meigs LSD’s policy regarding the level of transportation services provided to its students does not match its actual practice. The policy states that the District will transport students in all grades who live more than one mile from their school buildings. In practice, however, the District transports any student who requests it, due to the lack of sidewalks leading to its schools.

In addition, Meigs LSD allows some of its bus drivers to take their buses home at night, rather than storing them at the District’s bus garage. The District’s policies do not address this practice nor has the District attempted to document any benefits attributed to it. District officials offered several explanations to support the practice, including the fact that the bus garage is not large enough to store all of the District’s buses and that having the buses spread out throughout the District improves the security of the fleet as a whole. They also believe that allowing drivers to take buses home saves the District money. This issue is discussed in more detail in the **executive summary**.

According to ASBO (*Key Legal Issues for Schools*, 2006), school board policies provide visible statements about the board’s beliefs and actions regarding educational and managerial practices, and are the means through which boards plan their strategic directions. Policies should be adopted with a clear vision and strategies for achieving that vision and as a result, should be the basis for the actual practices as well as resource decisions of a district.

Because Meigs LSD’s transportation policies do not reflect the actual practices of transporting all students and allowing drivers to take buses home at night, they do not provide sufficient direction to administrators and may be misinterpreted or misunderstood by staff as well as members of the community. Updating the policies to address these omissions would ensure District administrators fulfill the Board’s expectations.

R5.2 The Meigs LSD Board should revise its policy on the non-routine use of school buses to require a flat rate be charged, which would eliminate the impracticality of charging 100 percent of actual driver and fuel costs, as required in the existing policy. The District should set an annual rate for non-routine transportation and document the methodology used to establish the rate. Through its policy, the Board should reserve the right to adjust this rate during the school year if its actual costs change significantly.

The Ohio Administrative Code (OAC) defines “non-routine transportation” as the transportation of passengers for any purpose other than regularly scheduled routes to and from school. Meigs LSD’s Board policy on non-routine transportation states that the Board shall be reimbursed 100 percent of the actual cost of fuel and the driver’s salary for non-routine transportation. The related administrative guideline states that non-routine transportation shall be reimbursed at 100 percent of the actual cost of fuel, driver’s salary and benefits, insurance, maintenance and service, and administrative overhead. In practice, the District charges the relevant program fund for non-routine transportation. Outside groups do not use District buses.

Neither the policy nor the administrative guidelines establish a specific amount to be charged for non-routine trips. The District has recently imposed a \$1.00 per mile charge, along with the actual salary of the driver. The charge is intended to cover the cost of fuel and “wear and tear” on the buses. Despite the direction of the policy, District officials indicate that the cost of fuel had not been recovered prior to the implementation of the \$1.00 per-mile charge. Moreover, the cost of non-routine transportation could vary greatly from trip to trip if the rate of pay for the bus drivers is significantly different between trips.

Meigs LSD is following the leading practice by charging program funds for non-routine transportation. OAC § 3301-83-16 requires districts to recover an amount, not to exceed the actual operational costs associated with the non-routine use of school buses, with the exception of field trips that are extensions of the instruction program. The levels and types of non-routine transportation can change, and include organizations both internal and external to the District.

However, policies and procedures that do not reflect the actual intent and practices of the District could lead to misunderstanding or inconsistent application. GFOA recommends that government policies on charges and fees identify the factors used to price a good or service, and that both direct and indirect costs be incorporated when determining the cost of a service (GFOA, 2001). In the case of non-routine transportation, by requiring the recovery of 100 percent of actual costs, Meigs LSD may be establishing a standard that is both ambiguous and impractical to attain. Instead, authorizing the implementation of a standard fee for non-routine transportation, and defining the elements to be used to

determine that fee, would allow for a more consistent and understandable process for recovering expenses.

Standard Operating Procedures

R5.3 Meigs LSD should document its procedures for completing, reconciling, and submitting T-forms in accordance with ODE instructions. Most importantly, the methodology for separating and allocating costs should be documented to ensure compliance and consistency in reporting transportation costs to ODE. Formal procedures which document the activities of all positions responsible for collecting and ensuring accurate reporting of this information will improve the reliability of the transportation data reported. These procedures will help ensure continuity in the reporting process and compliance with State requirements in the absence of employees with institutional knowledge.

On an annual basis, each school district in Ohio is required to report detailed information to ODE about the district's transportation operations in order to calculate its per pupil transportation payment from the State. The T-1 form is used to report the actual number of students transported, the number of buses used by the district, and the total daily miles traveled. The T-2 form is used to report the actual expenses incurred in the transportation of students. ODE has developed an online School Foundation Payment System to ensure that these reports are submitted in a timely manner.

At Meigs LSD, the Transportation Director is responsible for maintaining records related to the transportation operations, and is primarily responsible for preparing the District's T-Forms. The Treasurer's Office tracks all expenditure information and provides it to the Transportation Director for use in preparing the T-2 report. According to the Transportation Director, the T-forms are completed by following the instructions on the ODE website.

However, the District has not developed formal standard operating procedures for collecting, submitting, and verifying T-form data to ODE. For example, there is no formal collaboration between the Transportation Director and the Treasurer to ensure the accuracy and validity of data. Moreover, the District has no documentation identifying which officials are responsible for which aspects of T-form reporting or how various data is obtained and costs are allocated.

In reviewing the District's T-2 forms, AOS determined that historically, Meigs LSD has misreported data in its T-2 reports, attributable to errors caused by an overall lack of internal controls or standard operating procedures. For example, ODE instructions require districts to separate its regular and special education transportation costs. The instructions provide detailed guidance on how to accurately prorate the special education costs based

on the number of special needs trips a bus makes relative to the number of regular trips. However, Meigs LSD acknowledged that it simply uses estimates to separate cost data between regular and special education on the T-2 report. In addition, the cost of bus insurance reported on the T-2 reports includes premium costs for other vehicles owned by the District, although the ODE instructions require only insurance for the bus fleet to be reported (see **R5.5**). The District's T-2 reports also showed a significant decrease in transportation expenditures from FY 2005-06 to FY 2006-07 (6.4 percent), with corresponding decreases across most line items, including salaries and fuel. Then, in FY 2007-08, the T-2 reported expenditures that increased by 13.5 percent. Neither the Treasurer nor the Transportation Director were able to adequately explain the reported variances.

The 2003 LOEO report *Student Transportation in Ohio* identified that accuracy problems for transportation related data exist in a number of school districts, especially in terms of the number of students transported, daily bus miles traveled per student, and district transportation costs. One recommendation put forth by the LOEO was for ODE to continue working with school districts to improve the accuracy of the data submitted regarding the number of students transported, the average daily bus miles per student, and the cost of transportation services. The first step in ensuring accurate data is for a district to create and adhere to formal policies and procedures that govern the submission of district T-forms.

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

School districts account for their transportation costs and riders through ODE T-forms. As such, it is important that these forms be accurate and that the processes for completing them be documented. In the case of Meigs LSD, significant errors were found in its T-2 reporting. When combined with the lack of documented methodologies for allocating transportation costs among routine/non-routine and regular/special needs transportation, the expenditure data reported on the T-2 reports was determined to be of questionable reliability (although it should be noted that because alternative expenditure data was not available, AOS did use T-2 information to assist in certain assessments in this section). The District's T-1 reports contained fewer and less significant errors. For those errors that

were identified, the data was adjusted to make it more accurate. Overall, the T-1 data was determined to be reliable.

The lack of formalized standard operating procedures weakens internal controls, especially in the event of employee turnover or absence, and also leads to questions about the reliability of the District's data. The failure to document how data is collected or costs are allocated increases risks associated with misreporting transportation data which can be used to calculate State reimbursements.

Contract Provisions

R5.4 Meigs LSD should negotiate to eliminate contractually-stipulated, guaranteed paid hours to bus drivers, and should instead pay drivers for the actual hours worked. Eliminating this provision will help the District ensure that it is able to effectively control personnel costs and that its employees are being compensated for all the hours they are working.

During the course of the audit, the District entered into a Memorandum of Understanding with its classified union to retain the 5 ½ hour guarantee as a minimum, but to pay drivers for all hours worked above the minimum.

Meigs LSD's classified employee contract guarantees bus drivers 5 ½ hours of pay each day, *regardless of the actual time driven*, except for the driver of the special needs bus. This contract provision has been interpreted by the District to mean that drivers are paid for 5 ½ hours, whether they work *more or fewer* hours than that. The District provided documentation, which AOS was unable to corroborate, showing that only 2 of the District's 23 drivers reported working fewer than 5.5 hours per day, and the average work day was approximately 6.5 hours. If these numbers are accurate, they indicate that most Meigs LSD bus drivers are working more hours than they are being paid for. District officials indicated that implementation of double routing in FY 2008-09 has increased the average work day, and in prior years there were significantly more drivers working fewer than the 5 ½ hours for which they were paid.

Several school districts in Ohio guarantee minimum paid hours to bus drivers. However, when a minimum number of paid hours is guaranteed in a contract and drivers work less than that minimum, they are being paid for time not actually spent working. Particularly given Meigs LSD's financial difficulties and the large percentage of its transportation expenditures devoted to salaries and benefits, paying people for time not working is problematic. On the other hand, the District should ensure that its drivers are paid for all the hours they are working. The provision in the contract has the potential to treat employees unequally and to undermine the financial condition of the District. The best

practice would be for Meigs LSD to simply pay employees for the actual numbers of hours worked.

Vehicle Insurance Procurement

R5.5 Meigs LSD should review its vehicle insurance coverage to ensure that it is paying for a level of coverage appropriate for the District’s needs, and then allocate premium costs so that its T-2 report only includes costs for the coverage for buses.

Meigs LSD solicits bids from different insurance providers for its bus insurance coverage. The District purchases an umbrella policy which covers not only its school buses, but also its other vehicles, which consists of trucks, utility vehicles, trailers, tractors, and vans.

Table 5-2 compares Meigs LSD’s bus insurance expenditures with the peer average, as well as an average of local districts.

Table 5-2: Bus Insurance Reported Expenditures

Bus Insurance	Meigs LSD	Peer Average	% Difference vs. Peers	Local District Average	% Difference vs. Local Districts¹
Total Cost	\$23,875	\$12,460	91.6%	\$13,003	83.62%
Total Cost Per Bus	\$702.21	\$524.15	34.0%	\$507.71	38.3%

Source: ODE T-2 reports

¹ Local districts were compared to identify any geographical bias in the expenditure amounts, and include Eastern LSD (Meigs County), Southern LSD (Meigs County), Gallia County LSD, and Vinton County LSD.

Table 5-2 shows that on a per bus basis, Meigs LSD’s reported expenditures were 34.0 percent higher than the peer average and 38.3 percent higher than the local district average. The variance in reported bus insurance expenditures appears to be caused by two factors. First, ODE’s instructions for the T-2 form require that districts report only insurance expenditures for coverage of vehicles used to provide routine transportation to students. However, Meigs LSD reports the entire cost of its insurance policy, which as described above, includes a number of vehicles in addition to its school buses. Consequently, Meigs LSD’s insurance expenditures may appear artificially high compared to the peers and local districts, due in part to a failure to properly limit its reported expenditures to those related to bus insurance only.

In addition, according to the District’s insurance provider, Meigs LSD carries a level of coverage that exceeds the standard coverage provided to school districts in Ohio. To the extent that the District’s reported bus insurance expenditures represent excessive coverage, the District may be paying too much for a level of vehicle insurance that it does

not need. However, the reporting errors make it difficult to determine how the District's insurance expenditures actually compare to peers.

Maintenance, Repairs, and Bus Replacement

R5.6 Meigs LSD should establish and implement a formal preventive maintenance plan to ensure that its buses are properly maintained and remain safe for students. As the plan is implemented, the District should document fleet maintenance and repair activities and their associated costs. It should track operational data such as bus mileage and maintenance costs per bus. A formal plan will improve efficiency, accountability, and productivity through prioritized scheduling of routine maintenance and non-routine (i.e., emergency) repairs.

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

According to the Transportation Director, District mechanics conduct routine checks of buses every 2,000 miles and perform preventive maintenance (e.g., changing oil and replacing filters, brake services, etc.) on each bus every 8,000 miles. For significant repairs (engine, transmission, etc.), the District solicits bids from local vendors then contracts for such services.

Table 5-3 compares Meigs LSD maintenance and repair costs to the peer district average

Table 5-3: Maintenance & Repair Expenditures

	Meigs LSD	Peer Average	% Difference vs. Peers
Total Cost	\$164,146	\$115,367	42.3%
• Per Yellow Bus Rider	\$95.54	\$97.07	(1.6%)
• Per Active Bus	\$6,079.48	\$6,321.50	(3.8%)
• Per Routine Mile	\$0.36	\$0.42	(12.9%)

Source: ODE T-2 reports

Meigs LSD's maintenance and repair costs are in line or below the peers on a per rider, per active bus, and per routine mile basis. This suggests that Meigs LSD is more efficient than the peer average in managing its maintenance and repair costs. However, the District has not documented its preventive maintenance plan, nor does it document or track the

types of maintenance performed or its costs by bus. In addition, the District does not have a bus replacement plan. According to District officials, Meigs LSD purchases buses on an “as needed” basis, based on the availability of funds.

According to the *Public Works Practices Management Manual* (APWA, September 2002), the preventive maintenance of a unit, if properly tracked, will ensure the operator’s safety, reduce downtime, track warranty coverage, and avoid costly repairs. Properly tracking the preventive maintenance of its fleet allows a transportation department to communicate warranty recovery and productivity savings from reduced unit downtime to its district leadership. This type of information can be further communicated to the public to demonstrate the efficiency and effectiveness of a district’s operations.

School Bus Fleet Magazine (2008) also emphasizes the importance of documenting and tracking maintenance costs. Tracking repairs allows a district to identify trends in parts and services being repeated, which is useful in planning future maintenance and in future bus and parts purchases. Without properly recording repairs, information is not accessible, analysis becomes less reliable, and costly future problems are more difficult to avoid.

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

Meigs LSD appears to have an appropriate preventive maintenance plan, which contributes to the District’s lower maintenance and repair costs compared to the peer average. However, the failure to formally plan, document, or track operations or expenditures in these areas inhibits the District’s ability to evaluate information to make appropriate decisions about its vehicle fleet or to communicate with the public about its fleet needs and maintenance accomplishments.

Food Service

Background

This section focuses on the operational efficiency of the Meigs Local School District (Meigs LSD or the District) food service program. The procedures and financial condition of the District's food service program were analyzed for the purposes of developing recommendations for improvements in processes and identifying opportunities to increase efficiency. The District's operations were evaluated against best practices and operational standards including the National Food Service Management Institute (NFSMI), the United States Department of Agriculture (USDA), the Government Finance Officers Association (GFOA), and selected peer¹ and adjacent² districts.

Organizational Structure and Function

Meigs LSD's Food Service Department is responsible for serving breakfast and lunch to all students at the District. Each school building has a separate kitchen where food is prepared. In FY 2007-08, the Department employed 17 individuals, but reduced staff to 15 for FY 2008-09. **Table 6-1** shows FY 2007-08 total meal equivalents (breakfast, lunch, and a la carte) served per day and the total labor hours worked at each school compared to the National Food Service Management Institute (NFSMI) standards.

¹ The peers include Ridgewood LSD (Coshocton County), East Guernsey LSD (Guernsey County), New London LSD (Huron County), Springfield LSD (Mahoning County), East Holmes LSD (Holmes County), Logan-Hocking LSD (Hocking County), Garaway LSD (Tuscarawas County), Leipsic LSD (Putnam County), Southeast LSD (Wayne County), and Celina CSD (Mercer County).

² Adjacent districts: Alexander LSD (Athens County), Eastern LSD (Meigs County), Federal Hocking LSD (Athens County), Gallia County LSD (Gallia County), Southern LSD (Meigs County), and Vinton LSD (Vinton County).

Table 6-1: Meals per Labor Hour (MPLH) FY 2007-08

Building	Total Meal Equivalents Served/Day	Labor Hours per Building	Actual MPLH	NFSMI Standard ¹ (MPLH)	Difference vs. NFSMI Standard	Labor Hours at NFSMI Standard
Meigs Primary/Intermediate Elementary	1,065	45.8	23.3	23.0	0.3	46.3
Meigs Middle	520	25.0	20.8	19.0	1.8	27.4
Meigs High	762	33.8	22.6	22.0	0.6	34.6
Total	2,348	104.5			2.7	108.3

Source: ODE, Meigs LSD, and NFSMI

Note: Totals may not equal due to rounding.

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

Table 6-1 shows that across all buildings, the District exceeds the NFSMI standard MPLH by an average of 2.7 meals per labor hour. Operating the food service program with a high degree of productivity reduces the overall food service costs by producing a high number of meals per labor hour. The District should continue to use the meals per labor hour calculation in comparison to the national standard as a performance measure for evaluating District efficiency (See **R6.1**). For FY 2008-09, Meigs LSD reduced labor hours to 99.3. As a result, the food service operation increased its efficiency.

The Food Service Director is responsible for management of the food service operation, menu planning, purchasing, conducting training, and data collection for claims submission. Data collection and cash handling is managed through the NutriKids point-of-sale system. The Director indicated that the point-of-sale system has helped increase participation and allows parents to deposit funds electronically through an online portal available on the District's website.

Meigs LSD sends applications for free and reduced-priced meals at the beginning of the school year. In addition, the District uses a direct certification list to identify students qualified to receive food stamps or other State assistance. The Food Service Director verifies all the applications in compliance with Ohio Department of Education (ODE) instructions. The list of directly certified students is received electronically and uploaded into the point-of-sale system.

The majority of the District's supplies and materials purchases are made through a membership program with the Metropolitan Educational Council (MEC) consortium. Through MEC, the District arranges for the purchase of government commodities, the storage of food supplies, and weekly deliveries. The District can order items as needed from the cooperative and does not have to store goods at the District. The District pays fees for the processing and storage of food supplies. The Director indicated that the fees paid for storage and delivery are cost effective because they improve the reliability, choice, and flexibility in how commodities are received.

Previously, deliveries were made to one building and custodians served as drivers shuttling the food to other buildings.

Lunch Student Participation & Meal Prices

Table 6-2 presents Meigs LSD's participation rates compared to the peers for FY 2006-07 and FY 2007-08. Average daily participation of average daily attendance provides an indicator of the percent of students who are purchasing meals including those that are free and reduced-price. Total participation includes students purchasing meals or a la carte items.

Table 6-2: Peer Comparison of Participation Rates

	Total Lunch Meals Served	Average Daily Participation	% Free of Total	% Reduced Price of Total	Ave. Daily Participation of Ave. Daily Attendance	% Total Participation
FY 2006-07						
Meigs LSD	256,738	1,528	56.9%	10.5%	77.3%	92.0%
Peer Average	198,290	1,126	31.5%	11.8%	67.5%	78.5%
Difference	58,448	402	25.4%	(1.3%)	9.8%	13.6%
FY 2007-08						
Meigs LSD	257,051	1,521	59.8%	10.0%	77.8%	90.4%
Peer Average	202,319	1,159	32.7%	12.4%	69.4%	78.3%
Difference	54,732	362	27.1	(2.4%)	8.4%	12.1%

Source: Meigs LSD and Peer District MR 60 for FY 2006-07 and FY 2007-08.

As **Table 6-2** indicates, Meigs LSD's reimbursable participation increased slightly from 77.3 percent in FY 2006-07 to 77.8 percent in FY 2007-08. In both years, the District exceeded peers in the percentage of students purchasing meals and the percentage of students purchasing meals plus a la carte items. Meigs LSD maximizes its federal reimbursements through the high participation rate of free and reduced eligible students.

Table 6-3 compares Meigs LSD's lunch prices to six adjacent districts.

Table 6-3: FY 2007-08 Comparison of Lunch Meal Prices

	Meigs	Alexander	Eastern	Federal Hocking	Gallia County	Southern	Vinton	Average
Elementary School	\$2.00	\$1.75	\$1.75	\$1.75	\$1.65	\$1.75	\$1.50	\$1.69
Middle School	\$2.25	\$2.25	\$1.75	\$1.75	\$1.65	\$1.75	\$1.75	\$1.82
High School	\$2.25	\$2.25	\$1.75	\$2.00	\$1.75	\$2.00	\$1.75	\$1.92
Average	\$2.17	\$2.08	\$1.75	\$1.83	\$1.68	\$1.83	\$1.67	\$1.81

Source: Meigs LSD and adjacent districts

Note: Adjacent districts were used because they reflect the regional pricing.

As **Table 6-3** illustrates, the District's average lunch price (\$2.17) is 19.9 percent higher than the average of the adjacent districts (\$1.81). Although higher meal prices can sometimes lead to lower participation, Meigs LSD does not appear adversely affected by the slightly higher meal prices. In FY 2005-06, the District implemented a Board policy that links meal prices to the federal reimbursement rate for breakfast and lunches. This resulted in price increases in FYs 2006-07 and 2007-08 as the District increased meal prices to bring them in line with federal reimbursement rates. On the surface, the automatic meal price increase policy appears to be beneficial in that it helps the District index meal rates to the federal reimbursement rate. However, the FY 2008-09 federal rate was announced after the District had to announce meal prices to accommodate the start of the school year. Meigs LSD adjusted its prices without knowledge of the final federal rate. Further, if the District had adjusted the policy to \$2.50 for lunches, this would be significantly higher than the peers. By linking prices to the federal rate, the policy streamlines the task for revisiting meal prices and ensures the food service program has a mechanism for matching increasing expenditures. Further, passing a Board policy also saves time and paperwork for the District and provides a clear and deliberate process for price increases. However, the noted problems with timing and the peer rates should be considered to improve the policy.

Financial Condition

The food service program is considered an enterprise fund, which means it is intended to function in a manner similar to private business by relying on charges and reimbursement for services to support operations. **Table 6-4** presents Meigs LSD's Food Service Fund revenues, expenditures, and other financing activities for FY 2005-06 through FY 2007-08. The table includes a fully funded federal Fruit and Vegetable Program grant in FY 2007-08. This added \$68,200 to the federal reimbursement for \$47,800 in supplies and materials purchases and \$20,400 in salaries and benefits.

Table 6-4: Food Service Fund, Three Year History

	FY 2005-06	FY 2006-07	Percent Change	FY 2007-08	Percent Change	Change vs. FY 2005-06
Operating Revenue						
Student Charges	\$295,593	\$310,612	5.1%	\$319,489	2.9%	8.1%
Non-Operating Revenue						
Earnings on Investments	\$6	\$349	6124.8%	\$926	165.0%	16398.8%
State Grants-in-Aid	\$30,849	\$29,769	(3.5%)	\$27,831	(6.5%)	(9.8%)
Federal Grants-in-Aid ¹	\$586,874	\$628,404	7.1%	\$722,907	15.0%	23.2%
Refund of Prior Year Expenditures	\$139	\$616	344.0%	\$906	47.1%	553.2%
Total Revenue	\$913,460	\$969,750	6.2%	\$1,072,059	10.5%	17.4%
Operating Expenditures						
Personal Services – Salaries ²	\$265,847	\$245,734	(7.6%)	\$274,169	11.6%	3.1%
Employees Retirement and Insurance ²	\$292,596	\$267,947	(8.4%)	\$309,207	15.4%	5.7%
Purchased Services ³	(\$3,085)	\$3,575	215.9%	\$9,609	168.8%	411.4%
Supplies and Materials	\$381,158	\$370,312	(2.8%)	\$480,324	29.7%	26.0%
Capital Outlay	\$18,577	\$7,078	(61.9%)	\$23,090	226.2%	24.3%
Other Objects	\$814	\$814	0.0%	\$814	0.0%	0.0%
Total Expenditures	\$955,906	\$895,459	(6.3%)	\$1,097,213	22.5%	14.8%
Revenue Over (Under) Expenditures	(\$42,446)	\$74,292	275.0%	(\$25,154)	(133.9%)	40.7%
Transfers/Advances						
Transfers-In	\$43,000	\$0	n/a	\$0	n/a	n/a
Net Transfers/Advances	\$43,000	\$0	n/a	\$0	n/a	n/a
Revenue Over (Under) Expenditures	\$554	\$74,292	n/a	(\$25,154)	n/a	n/a
Beginning Fund Balance	\$369	\$923	n/a	\$75,215	n/a	n/a
Ending Fund Balance	\$923	\$75,215	n/a	\$50,061	n/a	n/a

Source: Meigs LSD financial reports and ODE claims reports

Note: Expenditures do not include salaries and benefits for the District's Food Service Director and a secretary who provides administrative support.

¹ Due to timing of payments, restricted grants-in-aid from federal sources were adjusted to account for actual claims for the fiscal year. In addition, the District received reimbursement for expenses for participation in the Fruit & Vegetable Program in FY 2007-08.

² Does not include salary and fringe benefits expenditures for the Food Service Director and a secretary (see R6.2).

³ Does not include an estimate for the utilities expenditures used by the District's food service program (see R6.2).

According to **Table 6-4**, Meigs LSD's Food Service Fund expenditures have exceeded revenues each of the past three years. The Fund experienced a deficit of approximately \$42,400 in FY 2005-06 that was offset by a transfer-in of \$43,000 from the General Fund. For FY 2006-07, the fund shows an apparent surplus of \$74,300. However, because the Food Service Fund did not include all food service-related expenditures (see R6.2), the Fund was not self-sufficient during this time period. In FY 2007-08, the District experienced a deficit of \$25,200.

Table 6-5 shows adjusted financial data for FY 2006-07 and FY 2007-08 and compares Meigs LSD's food service operation revenues and expenditures to the peer average on a per meal equivalent basis.³

Table 6-5: Operating Statistics Comparison

	Meigs LSD FY 2006-07	Meigs LSD FY 2007-08	Peer Average FY 2006-07	Difference FY 2006-07
Total Meal Equivalents Served	403,776	395,928	211,825	90.6%
Revenue per Meal Equivalent				
Operating Revenue	\$0.77	\$0.79	\$1.42	(45.8%)
Non-Operating Revenue	\$1.63	\$1.69 ¹	\$0.99	65.1%
Total Revenue per Meal Equivalent	\$2.40	\$2.49	\$2.41	(0.3%)
Expenditures per Meal Equivalent				
Salaries ²	\$0.61	\$0.65 ¹	\$0.86	(29.3%)
Fringe Benefits ²	\$0.66	\$0.75 ¹	\$0.54	22.5%
Purchased Services	\$0.01	\$0.02	\$0.09	(90.5%)
Supplies and Materials	\$0.92	\$1.07 ¹	\$0.89	3.3%
Capital Outlay	\$0.02	\$0.06	\$0.01	221.2%
Other	\$0.00	\$0.00	\$0.00	(9.4%)
Total Expenditure per Meal Equivalent	\$2.22	\$2.55	\$2.39	(7.3%)
Total Gain or (Loss) per Meal Equivalent	\$0.18	(\$0.06)	\$0.02	996.4%

Source: Meigs LSD and peer district FY 2006-07 and FY 2007-08 4502 reports, and MR reports.

¹Meigs LSD participated in the federal Fresh Fruit and Vegetable Program in FY 2007-08. The District received \$68,188 in reimbursements for expenditures in salaries, fringe benefits, and supplies and materials. This was excluded from the table to make the comparison to peer revenue and expenditures more comparable.

² FY 2006-07 and FY 2007-08 salaries and benefits did not include expenditures for the Food Service Director and a secretary that were paid from the General Fund (see **R6.2**).

³ FY 2006-07 and FY 2007-08 purchased services did not include certain direct costs such as utilities. Utility costs were paid from the General Fund (see **R6.2**).

As shown in **Table 6-5**, Meigs LSD derives a larger portion of revenue from non-operating sources, i.e., federal and State reimbursements, than the peers. This is because the District has a higher poverty rate and more students are eligible for free or reduced-priced meals. It therefore receives a higher proportion of revenue from reimbursement than from student charges for meals. However, the District was in line with peers on total revenue per meal equivalent in FY 2006-07.

³ Per meal equivalents are based on definitions from the NFSMI. The conversion of meal equivalents used is as follows:

- 1 lunch = 1 meal equivalent
- 3 breakfasts = 2 meal equivalents
- A la carte meal equivalents = a la carte sales divided by free lunch reimbursements plus commodity value per meal (\$2.40 + \$0.1700 in FY 2006-07 and \$2.47 + \$0.1875 in FY 2007-08)

According to **Table 6-5**, Meigs LSD spent less per meal equivalent on food service employee salaries than peers in FY 2006-07, but significantly more on fringe benefits. The low cost to the District for total staff salaries results from the high efficiency of its staff compared to the peers. This holds true even when costs not billed to the Fund are added into the analysis (e.g. Food Service Director's salary). The high costs for classified benefits, plus recommendations to address this issue, are discussed in the **human resources** section of this audit.

Table 6-5 also shows that the District spent more for supplies and materials in FY 2006-07 than the peers. While Meigs LSD spent about \$0.03 more per meal equivalent on supplies and materials than peers, part of the expenses included fees paid to the cooperative for storage and processing, which is offset by a lower cost per meal equivalent for purchased services. Although peer cost data was not available for FY 2007-08, the increased costs at Meigs LSD were due in large part to increased costs in world food prices.

Audit Objectives for the Food Service Section

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

- What is the financial status of the District's Food Service Fund?
- How can the District improve the efficiency of its food service staff?
- What steps can the District take to minimize the cost of food service items?
- Are the District's meal prices in line with area peer districts?
- What can the District do to maximize program participation?
- Does food service management effectively use data to make strategic plans and operational decisions?
- Are there costly or inefficient items in the classified employee negotiated agreement that limit or hinder the food service program's ability to remain self-sufficient?

Recommendations

R6.1 Meigs LSD should develop a strategic plan for the food service operation. It should contain specific goals and objectives which support and are consistent with District-wide strategic planning efforts (see R2.1 in the financial systems section). Based on identified strategic goals and objectives for its food service program, Meigs LSD should develop a budget and five-year forecast of the Food Service Fund and a comprehensive set of performance measures. This will assist management in proactively addressing or minimizing operating deficits, ensuring progress toward operational goals and objectives, and maintaining alignment with the District's strategic initiatives.

Meigs LSD does not have a strategic plan for its food service operation to guide it in setting and achieving operational goals or measuring progress towards those goals. The Food Service Director has used informal cost analyses in decision-making, but has not developed a standard methodology for performance measurement or comprehensive data analysis. The Director and Treasurer prepare an annual food service budget based on historical and anticipated expenditures. However, this budget is not expanded into a five-year forecast for the Food Service Fund.

The Treasurer has included annual transfers of \$30,000 from the General Fund to the Food Service Fund in the District's five-year forecast. The repeated need to transfer funds into the Food Service Fund from the General Fund indicates that the District has subsidized the Food Service Fund rather than monitor and adjust expenditures as needed. The District closely monitors certain short-term costs such as food and supplies, but not other expenditures such as salaries and benefits.

District Leadership, Organization, and Management (Texas School Performance Review, 2003) recommends the development of a strategic plan related to food service operations. Documents and plans needed to develop a food service strategic plan include the following:

- Food Service mission and goals;
- Facility plans as they pertain to kitchens and cafeterias;
- Department preventative maintenance schedule or plan;
- Cafeteria capital improvement plans;
- Budget planning documents;
- Budgets for food service for the last five years;
- List of student and staff meal prices;
- Paid and reduced price meal participation rates for the last three years;

- Standard operating and management reports for the last two years, including profit and loss statements, budget variance reports and other financial reports used regularly for financial management;
- Annual budgets and financial records showing budgeted and actual costs and revenues for food service for the last three years and showing the fund balance;
- Any recent Food Service Department customer survey instruments and results; and
- Student, parent, teacher, and staff survey results as they pertain to food service.

An important component of a strategic plan for the food service operation is a current year budget and a longer-range forecast. *School Foodservice Management for the 21st Century* (Pannell-Martin, 1999) states that a budget can be used as a plan for financial management, allowing a manager to forecast revenue and expenses based on the prior year's data, estimates, and planned changes. The budget can also serve as a tool for identifying potential problems by contrasting actual financial activity with projected activity, and can provide a basis for comparison. Finally, it can be used to set performance standards, control erratic expenditures, and help a manager determine if the program can afford to make purchases. Pannell-Martin recommends forecasting revenue and expenditures over a five-year period for long-range planning. Forecasting can give the administration sufficient notice of emerging issues so that action can be taken to correct them.

Finally, performance measures can be used to document progress towards the food service operational goals. *Quality Financial Decision Making* (NFSMI, 2002) provides a list of performance measures that a school district should use when evaluating food service operations. These include

- Cost of purchased food and the value of commodities used;
- Total per meal cost and meal cost per expenditure category;
- Food and labor cost percentages;
- Revenue to variable cost ratio;
- Meals per labor hours; and
- Average daily participation.

Springfield Local School District (Summit County) tracks the performance of its food service operation on a monthly basis. Analyses are performed at the building and District-wide levels. Measures used to analyze the food service operation include operating profit (loss), labor costs per meal, meals per labor hour (MPLH), food costs per meal, and the level of free and reduced lunches at the school level.

Developing a strategic plan and performance measures would assist the District in identifying and articulating the goals of the program. It would also provide a mechanism to ensure that the decisions and actions of the program are aligned with those goals and help the District identify the resources available to accomplish those goals. Moreover, a forecast of the Food Service Fund will provide a complete picture of the operation's finances and may aid in the development and execution of the strategic plan. With a forecast, the District can identify whether a surplus or deficit is likely to continue, and plan accordingly. The creation of a forecast would help the District plan strategies for reducing the food service operation's dependence on transfers from the General Fund. For example, if the financial forecast predicts that the Food Service Fund's expenditures will exceed revenues, the District can evaluate the need to adjust its meal prices, reduce labor hours, or increase participation rates to avoid the projected deficit. By establishing strategic goals and estimates of the District's food service revenues and expenditures, the District will have a more concrete vision for the financial and operational management of the food service operation.

R6.2 Meigs LSD should charge all food service-related expenses to the Food Service Fund, regardless of the Fund's ability to maintain a positive fund balance. Allocating all food service expenses to the fund will provide a more accurate financial picture and help improve financial and operational decision-making.

Meigs LSD does not identify and allocate some direct costs, such as salaries and benefits of certain food service employees, or a portion of utility expenditures, to the Food Service Fund. These are paid from the General Fund instead. Specifically, the District has not been allocating salary and benefit costs for the Food Service Director and a secretary to the Food Service Fund. This amounted to \$75,400 in FY 2006-07 and, because the secretary was no longer employed in food service operations, a reduced amount of \$61,500 in FY 2007-08. During the course of the audit, the District indicated that it started attributing the Director's salary and benefits to the fund in FY 2008-09.

In addition, the District does not have a methodology for estimating the portion of utility expenditures consumed by the food service operations. One method of allocating costs to the Food Service Fund is to calculate the percentage of square footage used by the food service operation and apply that percentage to the utility costs and custodial supplies. Using this method, the food service operations used utilities and other supplies with an estimated value of \$40,200 in FY 2006-07 and \$35,300 in FY 2007-08.

Table 6-6 presents the Food Service Fund revenue and expenditures, with adjustments made for these costs.

Table 6-6: Adjusted Food Service Revenue & Expenditures

	FY 2006-07	FY 2007-08	% Change
Total Revenue	\$969,750	\$1,072,059	10.5%
Total Expenditures	\$895,459	\$1,097,213	22.5%
Revenue Over (Under) Expenditures	\$74,292	(\$25,154)	n/a
Adjustment – Salaries and Benefits Expenditures	\$75,362	\$61,477	(18.4%)
Adjustment – Utilities Expenditures	\$40,217	\$35,328	(12.2%)
Total Adjusted Revenue Over (Under) Expenditures	(\$41,287)	(\$121,959)	n/a

Source: Meigs LSD financial reports

According to Ohio Revised Code (ORC) § 3313.81,

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

Moreover, *Measuring the Cost of Government Services* (GFOA, 2002) suggests that governments should measure the full costs of their services, which encompass all direct and indirect costs related to that service. Direct costs include the salaries, wages, and benefits of employees while they are exclusively working on the delivery of the service, as well as the materials and supplies, and other associated operating costs such as utilities, rent, training, and travel.

Even when the Food Service Fund faces impending deficits, it is important to account for all costs related to the operations of the program. Not charging all food service-related expenditures to the Food Service Fund creates an inaccurate depiction of the costs of operations and may create the illusion of a surplus. Furthermore, using the General Fund to support Meigs LSD’s food service operations reduces the funds available for educational and instructional purposes at the District. Accurately capturing all costs in the Food Service Fund will help Meigs LSD better evaluate the efficiency and performance of its food service operations and effectively plan for future needs (see **R6.1**).

Financial Implication: Reallocating the food service-related salaries and benefits to the Food Service Fund would decrease General Fund obligations by approximately \$50,800 in FY 2009-10. In addition, if the District allocates utility expenditures to the Food Service Fund, the General Fund purchased services would decrease by approximately

\$38,900 in FY 2009-10. The recommendations in the **food service** section should address potential deficits resulting from charging all related costs to the Food Service Fund.

R6.3 In order to eliminate the deficit in the Food Service Fund, Meigs LSD should consider options to enhance revenue, including charging for breakfast and increasing breakfast participation. Since several food service program areas, including staffing, lunch meal prices, and lunch meal participation, are consistent with national standards and peer districts, the breakfast program may be contributing to the deficit in the Food Service Fund. In providing a universally free breakfast program, the District aims to subsidize costs for meals, supplies, and labor through federal reimbursement funds and potential surpluses associated with efficiencies in the lunch program. After the District develops strategic plans (R6.1), allocates all appropriate costs to the Food Service Fund (R6.2), and develops a comprehensive five-year forecast (R6.1), it will be able to better understand the long-term issues involving ensuring that the Food Service Fund is self-supporting. Increasing participation and charging for meals are two recommended areas for reducing the Food Service Fund deficit.

Although Meigs LSD is efficient in its operations and has a high lunch participation rate, the Food Service Fund is projected to experience future deficits. However, the District has not opted to generate additional revenue through its breakfast program. According to Ohio Revised Code § 3313.813 (C)(4)(b), a school district is required to “establish a breakfast program in every school where at least one-third of the pupils in the school are eligible under federal requirements for free breakfasts.” According to the Ohio Department of Education, all three of Meigs LSD’s schools have greater than one-third (33.3 percent) of students eligible for free meals⁴ and are therefore required to provide breakfast programs.

Offering free breakfast to all students ensures that all students have an opportunity for a meal to start the day and helps ensure children can focus on learning. However, a free breakfast program generates revenue only through the federal and State reimbursements, which can lead to deficits if the costs for the program exceed these reimbursements. While the District is required to have a breakfast program, it has chosen to provide breakfast at no cost to all its students. Although Meigs LSD reported supporting the free breakfast program by drawing federal and State reimbursements, this could not be verified because costs associated with breakfast and lunch are not separated. While the National School Lunch Program does not require separate tracking, the USDA Food and Nutrition Service noted that school food agencies generally do not fully cover the costs of

⁴ Specifically, according to ODE’s October 2007 report on the District’s breakfast eligibility rates, the high school has 44.0 percent free meal eligible students, the middle school has 56.3 percent, and the elementary school has 61.1 percent.

providing breakfast programs through reimbursable funds. They must often use surpluses from the lunch program to subsidize the breakfast program.

Table 6-7 compares Meigs LSD's breakfast prices to the prices charged by the six adjacent peers.

Table 6-7: FY 2007-08 Comparison of Breakfast Prices

	Meigs	Alexander	Eastern	Federal Hocking	Gallia County	Southern	Vinton	Average
Elementary School	\$0.00	\$1.00	\$0.00	\$0.00	\$0.85	\$1.00	\$0.00	\$0.48
Middle School	\$0.00	\$1.00	\$0.00	\$0.00	\$0.85	\$1.00	\$0.00	\$0.48
High School	\$0.00	\$1.00	\$0.00	\$0.00	\$0.85	\$1.00	\$0.60	\$0.58
Average	\$0.00	\$1.00	\$0.00	\$0.00	\$0.85	\$1.00	\$0.20	\$0.51

Source: Meigs LSD and peer districts

Note: These six peer districts were used because they are adjacent to Meigs LSD and therefore reflect regional pricing.

Table 6-7 shows that of the six adjacent peer districts, four charged for breakfast during FY 2007-08. While prices at peer districts ranged from free to \$1.00, the average price charged was \$0.51. This indicates that Meigs LSD could potentially charge a similar amount for breakfasts at all buildings and be consistent with its peers.

In addition to charging for breakfast, a comparison of breakfast participation to adjacent districts with similar poverty levels indicated an opportunity for adding revenue through increases in breakfast participation. Meigs LSD is already able to maximize the amount of federal reimbursements for serving lunch to free meal eligible students due to high lunch participation. **Table 6-8** presents free meal eligible student participation in the breakfast program in comparison to adjacent districts.

Table 6-8: FY 2007-08 Breakfasts Served to Eligible Students

	Poverty Rate	Total Breakfasts Served	Average Daily Breakfasts Served	Eligible Students	Average Daily Free Breakfasts Served as % of Eligible Students
Meigs LSD	63.2%	101,891	616	1,117	55.2%
Adjacent Districts	52.8%	67,484	415	703	58.6%
Difference	11.6%	34,407	201	414	(3.4%)

Source: Meigs LSD and Peer District MR 31 for FY 2007-08.

As noted in **Table 6-8**, Meigs LSD was 3.4 percent lower than adjacent districts in terms of the percentage of eligible students eating reimbursable breakfasts. This presents a reasonable opportunity for the District to increase participation in the breakfast program based on the actual food service operations in regionally similar districts. For example,

Federal Hocking LSD has a poverty rate of 59.1 percent compared to Meigs LSD's 63.2 percent; however, Federal Hocking LSD serves meals to 76.2 percent of eligible students.

The food service staff encourages students to participate in the breakfast program. However the Director indicated that there has not always been consideration of the impact on food service operations in District decisions to change building start times and busing schedules. In particular, the high school has one bus that arrives at the end of breakfast, so those students are not even give an opportunity to participate.

Table 6-9 shows the potential revenue derived from increasing free student participation in breakfast. The table contrasts increases from actual FY 2007-08 participation rates of 55.2 to a conservative increase (60.0 percent) and a more aggressive increase (75.0 percent).

Table 6-9: Potential Reimbursement Revenue Increase

	Conservative Increase	Aggressive Increase
Targeted percentage of free breakfast served as % of free meal eligible students	60.0%	75.0%
Number of additional free meals	620	851
Difference from current service	54	235
FY 2007-08 free meal breakfast reimbursement	\$1.61	\$1.61
Daily increase in reimbursable funding	\$87	\$378
Annual additional revenue for free student participation	\$14,318	\$62,476
Required labor hours (based on NFSMI benchmarks)	255.2	1050.0
Additional salary costs	(\$3,570)	(\$14,687)
Estimated food costs per meal	\$0.68	\$0.68
Additional food costs	(\$3,991)	(\$16,421)
Annual additional expenditures	(\$7,561)	(\$31,108)
Potential net increase in revenue	\$6,757	\$27,801

Source: Meigs LSD FY 2007-08 MR 31 Report

As **Table 6-9** illustrates, the District could potentially increase gross revenue from reimbursement as much as \$62,500 by increasing the percentage of free meal eligible students participating in the breakfast program. Although the District would incur additional labor and supply costs as a result of increased participation, the net difference is estimated to be an increase of \$27,800 that could be used to offset the Food Service Fund deficit.

By combining existing activities designed to increase food service participation with improved District communication on all food service issues, the District could raise interest in the breakfast program. These measures, coupled with efforts to align transportation and bell schedules to enhance participation, could help bring breakfast

participation in line with other Districts. Charging for breakfast and increasing breakfast participation will help the food service program become self-sufficient.

Financial Implication: Establishing breakfast charges of \$1.00 for paid meals and \$0.30 for reduced-priced meals would generate \$43,400 in additional revenue for paid and reduced-price meals at the current participation rate. Furthermore, increasing its free breakfast participation percentage to 60.0 percent would generate an increase in federal reimbursement of \$14,300. Increasing participation, however, would necessarily increase food and labor costs by approximately \$7,500, for a net revenue impact of \$6,800.

R6.4 Meigs LSD should negotiate a salary schedule for new food service employees to bring salaries in line with the peers. In addition, the District should negotiate the removal of the uniform allowance from the collective bargaining agreement. While the District may choose to offer uniforms, including the provision in the contract obligates it to supply uniforms even when the District is experiencing financial difficulties.

Meigs LSD's food service employees are covered by the contract negotiated for classified employees, which runs from July 1, 2006, through June 30, 2009. Food service employees are paid an hourly wage, which is determined by their salary steps, a reflection of their years of employment with the District. **Table 6-10** displays the FY 2008-09 cook salary schedule for Meigs LSD and adjacent districts.

Table 6-10: Adjacent District Salary Schedule Comparison

Step	Meigs LSD	Peer Average	Above (Below) Average
Beginning	\$12.95	\$11.48	\$1.47
Median	\$13.55	\$13.07	\$0.48
Final	\$13.95	\$13.50	\$0.45
Average	\$13.45	\$12.89	\$0.57
Average Step Increase	0.7%	1.7%	(0.9%)
Number of Steps	10.0	10.7	(0.7)

Source: Meigs LSD, Alexander LSD, Eastern LSD, Federal Hocking LSD, Gallia County LSD, Southern LSD, Vinton LSD collective bargaining agreements.

Note: Beginning is Step 0, Median is Step 15, and Final is Step 30.

As **Table 6-10** indicates, Meigs LSD offers its employees higher hourly wages than the adjacent districts. The District's hourly wages remain higher than the peer average for the entirety of the expected career of a food service employee. While the differences decrease over time, even at the schedule's final step, food service employees are paid \$0.57 more per hour at Meigs LSD.

The Meigs LSD classified bargaining agreement also includes a provision reimbursing food service workers annually for three uniforms. The uniforms remain the property of

the District, but must be washed and maintained by the individual food service employees, and may not be used for any purpose other than work for the District. None of the adjacent districts have included this provision in their contracts.

Offering significantly higher wages than adjacent districts is costly and creates an ongoing financial liability to the District. If Meigs LSD was able to bring its salary schedules for food service employees in line with adjacent districts through negotiating new starting wage rates, this would reduce the District's food service costs. Over time, this will help the Food Service Fund become and remain self-sufficient. Lastly, by reviewing and renegotiating its uniform allowance provision, Meigs LSD could reduce this additional program cost. This may require the District to evaluate alternatives to providing uniforms to its food service employees.

Financial Implications Summary

The following table is a summary of estimated annual cost savings, revenue enhancements, and implementation costs.

Financial Implications for Food Service

Recommendation	Potential Annual Revenue / Savings	Annual Implementation Costs
R6.2 Use cost allocation to account for all expenses of the food service operation.		\$89,700 ¹
R6.3 Establish breakfast meal price of \$1.00.	\$43,400	
R6.3 Increase breakfast participation.	\$6,800	
Total Food Service Section Recommendations	\$50,200	\$89,700
Other Audit Recommendations Impacting the Food Service Fund		
R3.4 – R3.6 Impact on Food Service Fund to reduce funding rates and increase employee contributions for health, dental, and vision insurance.	\$70,500	
Total Audit Recommendations for the Food Service Fund	\$120,700	\$89,700

Source: AOS recommendations

¹ Includes \$50,800 for the Food Service Director's salary and benefits, and \$38,900 for utilities expenditures. These costs will be reflected as savings to the District's General Fund (see **Table 2-6**).

DISTRICT RESPONSE

District Response

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

MEIGS LOCAL SCHOOL DISTRICT

41765 Pomeroy Pike

Pomeroy, OH 45769

William L. Buckley, Superintendent (740) 992-2153

Mark E. Rhonemus, Treasurer (740) 992-5650 FAX (740) 992-7814

www.meigslocalschools.org

April 21, 2009

Mary Taylor, Auditor of State
c/o Scott Bennington, Senior Audit Manager
Performance Audit Division
88 East Broad Street, P.O. Box 1140
Columbus, OH 43215

Dear Ms. Taylor and Mr. Bennington:

Please consider this letter as the official response to the Performance Audit of the Meigs Local School District that has been recently completed. The Meigs Local School District was pleased with the post audit discussion with Mr. Bennington and his associate and their detailed explanation of their findings.

The Performance Audit recommendations have certainly created discussion and debate among the Administrative team and the Meigs Local Board of Education. First of all, we realize that we are in fiscal peril. We cannot continue to spend money as in the past but we have made financial cuts in the past that have allowed the district to remain solvent while minimizing the impact on our students.

We acknowledge that your office put a great deal of time and effort into their research and recommendations. For that we are appreciative. We will use the information and recommendation is the weeks/months ahead as we approach the end of the fiscal year and in our planning for the new biennium budget. While we cannot guarantee that we will implement all of the recommendations (the new biennium budget plan is contradictory to some of the recommendations), we will use the recommendations as the basis for upcoming negotiations with our bargaining units as well as for non-bargaining cost cutting measures.

Our immediate plan is to remain fiscally sound and, unlike the Federal government, we do not have the ability to print more money. Your recommendations will allow us to move forward in a manner that minimizes the impact on our students while remaining fiscally solvent. We appreciate the opportunity to work with your office personnel and the discussions that ensued.

Sincerely yours,



William L. Buckley
Superintendent



**Auditor of State
Mary Taylor, CPA**

**Office of the Auditor of State of Ohio
88 E. Broad Street
Columbus, Ohio 43215
(800) 282-0370
www.auditor.state.oh.us**