



Mary Taylor, CPA
Auditor of State

WEST MUSKINGUM
LOCAL SCHOOL DISTRICT
PERFORMANCE AUDIT

SEPTEMBER 24, 2009



Mary Taylor, CPA

Auditor of State

To the Residents and Board of Education of the West Muskingum Local School District:

Pursuant to Amended Substitute House Bill 119, a performance audit was initiated for the West Muskingum Local School District (WMLSD) beginning in February 2009 based on the District's October 2008 five-year forecast. The forecast was updated in January 2009 and projected a negative ending fund balance of approximately \$1 million by fiscal year 2009-10. The four functional areas assessed in the performance audit were financial systems, human resources, facilities, and transportation. These areas were selected because they are important components of District operations that support its mission of educating children, and because improvements in these areas can assist in improving its financial situation.

The performance audit contains recommendations that identify the potential for cost savings and efficiency improvements. The performance audit also provides an independent assessment of WMLSD's financial situation, and a framework for maintaining fiscal solvency and avoiding fiscal oversight by the State. While the recommendations contained in the audit report are resources intended to assist in managing WMLSD's finances, the District is also encouraged to assess overall operations and develop alternatives independent of the performance audit.

An executive summary has been prepared which includes the project history; a District overview; subsequent events; the scope, objectives and methodology of the performance audit; and a summary of noteworthy accomplishments, recommendations and issues for further study, and financial implications. This report has been provided to WMLSD, and its contents discussed with the appropriate officials and District administrators. The District has been encouraged to use the results of the performance audit as a resource for further improving its overall operations, service delivery, and financial stability.

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

Sincerely,

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

Mary Taylor, CPA
Auditor of State

September 24, 2009

Executive Summary

Project History

In accordance with House Bill 119, the Auditor of State's Office (AOS) conducted a performance audit of the West Muskingum Local School District (WMLSD or the District) to identify programs or areas of operation in which it believes greater operational efficiency, effectiveness, or accountability may be achieved. After consulting with the Ohio Department of Education (ODE), AOS initiated the performance audit in February 2009 based on the District's October financial forecast, which projected negative ending fund balances beginning in fiscal year (FY) 2009-10. In January 2009, the District submitted an updated financial forecast, showing a potential deficit of approximately \$868,000 in FY 2009-10 which could increase to \$7.3 million by FY 2012-13, assuming no significant increase in revenue. However, the financial forecast also indicated that if the District is successful in its plans to generate additional revenue, the deficit would decrease to approximately \$1.7 million by FY 2012-13.

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

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

Audit work concluded in April 2009. The goal of the performance audit process was to assist the WMLSD administration and Board of Education in identifying opportunities for cost savings and improving management practices. The resulting recommendations provide options that the District should consider in its continuing efforts to improve and stabilize its long-term financial condition.

District Overview

WMLSD encompasses 81 square miles and is located in Muskingum and Licking Counties. In FY 2007-08, the District reported providing educational services to 1,940 preschool through grade twelve students. Enrollment decreased to 1,708 in FY 2008-09, a decrease of approximately 13.5 percent. The administration attributed the decrease in students to the recent financial situation of the District. Over the past several years, WMLSD has proactively taken steps to eliminate projected deficits which included; cuts in administrative, clerical, teaching, and

support positions, reduced transportation service, reductions in building budgets, and the elimination of District funding for extra-curricular activities.

For FY 2007-08, ODE reported that the WMLSD received 45.1 percent of its revenues from local sources, 44.7 percent from the State, and 10.2 percent from federal and other sources. The District had a general operating budget (five-year forecast funds) of approximately \$14.4 million in FY 2007-08. WMLSD spent \$7,831 per pupil in FY 2007-08 which was \$194 less than the peer average of \$8,025. The District's expenditures per pupil were lower than the peer average even though it had higher percentages of students in poverty and with special needs. These groups are generally considered more costly to educate.

For FY 2007-08, ODE categorized WMLSD as an *effective* district having met 27 of 30 academic performance indicators and a performance index score of 97.3. However, the District did not meet its adequate yearly progress goals that year.

Due to the decline in enrollment and corresponding loss of State funding, WMLSD made mid-year staffing reductions in FY 2008-09 to avoid a year end deficit. At the time of the audit, the District employed 204 full-time equivalent (FTE) staff, consisting of 11 FTE administrators, 120 FTE educational personnel, 15 FTE teaching aid staff, 1 FTE professional/ technical personnel, 10 FTE office/clerical staff, and 47 FTE operations and other staff. The regular education student-to-teacher ratio was 18.6 to 1.

District employees are represented by two collective bargaining units. The West Muskingum Education Association represents certificated/licensed employees such as teachers, counselors, nurses, and librarians. During the course of the audit, the Board was negotiating a new contract with this bargaining unit. The West Muskingum Support Association includes food service workers, secretaries, paraprofessionals, custodians, and bus drivers. While the agreement with this bargaining unit is in place through June 30, 2010, salaries are renegotiated each year. In FY 2008-09, the Board negotiated no increase in base salaries.

The District reports a higher special education population (12.7 percent of its total students) than the peers (10.3 percent). WMLSD employs leading practices by including special education students in regular education classrooms (also known as mainstreaming). The District mainstreams 76.3 percent of its special education students into regular classrooms; however, this is 3.1 percent below the peer average. Despite mainstreaming at a slightly lower percentage than the peers, WMLSD's special education expenditures per special education student were \$2,001 below the peer average.

District voters approved a bond issue in November 2002 to construct, and renovate school buildings. The District chose to participate in the Expedited Local Partnership Program (ELPP) through the Ohio School Facilities Commission (OSFC) in order to move ahead with certain portions of their construction before they were eligible for the Classroom Facilities Assistance

Program (CFAP). When the District becomes eligible for the OSFC funding, its expenditures for the high school and middle school projects will be credited against its local share requirement. In December 2006, the District opened a new high school for grades 9-12, as well as the renovated middle school for grades 6th-8th. The next phase includes building two new elementary schools. During FY 2008-09, the District operated four buildings: two elementary school buildings, one middle school, and one high school.

Historically, WMLSD provided transportation service to preschool through grade twelve students with door to door service. However, to help address projected deficits, the District reduced transportation service in FY 2008-09 to only transport grades preschool through grade eight students who live one mile or more from their assigned school. Further, elementary students are only bused from a limited number of "cluster stops". Buses no longer pick up students at their individual houses. These reductions allowed the District to eliminate four middle school routes and two elementary routes.

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

Subsequent Events

On May 5, 2009, voters rejected a 7.9 mill emergency operating levy that would have generated \$2.3 million annually. Consequently, the Board and Administration must make deeper reductions (see R3.8) that will negatively impact education programs.

On June 24 2009, the Board approved a new collective bargaining agreement with the West Muskingum Education Association that would be retroactive from July 1, 2008 through June 30, 2011. This new agreement includes no increase in the base salaries for FY 2008-09 through FTY 2010-11.

In January 2009, the District was projecting an ending fund balance of approximately \$215,000 (see **Table 2-1**). In its May 2009 forecast, this projected balance increased to \$238,940. However, after the conclusion of the audit, WMLSD reported to auditors that its June 30, 2009 ending fund balance was only \$65,000.

On September 11, 2009, after the conclusion of the audit but before the release of the report, AOS was notified by ODE that the District had made a June 30, 2009 transfer of \$500,000 from

its General Fund to its Permanent Improvement Fund. AOS verified this transfer and noted that year-to-date (FY 2008-09) transfers from the General Fund to the Permanent Improvement Fund totaled \$535,000. WMLSD historically has transferred funds from the General Fund to its Permanent Improvement Fund, although the June 30, 2009 transfer is substantially larger than the prior years' transfers. In addition, this transfer removes \$500,000 from the FY 2008-09 General Fund ending fund balance. Had WMLSD not made this transfer, it would have ended the year with \$565,000 based on the Districts reported ending fund balance. Furthermore, it would have bolstered the District's carry over balance and improved its financial position in FY 2009-10. While audit work did not include financial data from FY 2008-09 because of the timing of the audit and its conclusion before the FY 2008-09 financial data was available, readers should be aware of this transfer and its potential impact on the District's financial position as it was depicted in the January and May forecasts.

On July 17, 2009, House Bill 1 (HB 1), which contains substantial changes to the school funding formula, was enacted into Ohio law. HB 1 bases State funding on new staffing assumptions and lower student-to-teacher ratios in grades K-3. As these assumptions and ratios become requirements through revised ODE operating standards, WMLSD's costs and staffing needs will change, and, therefore, these factors should be considered in the District's staffing and financial recovery plans. In addition, the District expects to see a reduction of State funding of 1 percent in FY 2009-10 and 2 percent in FY 2010-11. Such a reduction in State aid would increase projected deficits.

Finally, according to ODE, the District will receive \$171,676 in American Recovery and Reinvestment Act (ARRA) "stimulus" money. It should be noted that the ARRA funding will be eliminated in two years (FY 2012-13), and the status of future State unrestricted funding is unknown. Therefore, the District should be cautious in its use of these funds and avoid using the funds for financial commitments that extend beyond FY 2012-13.

Objectives, Scope and Methodology

Performance audits are defined as engagements that provide assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.¹

The performance audit of WMLSD was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). These standards require that AOS plan and perform

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

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 WMLSD and other school districts as needed. AOS developed a composite of ten selected districts which were used for peer comparisons. The selected districts were St. Henry Consolidated LSD (Mercer), Bluffton EVSD (Allen), North Central LSD (Wayne), Versailles EVSD (Darke), Bryan CSD (Williams), Dover CSD (Tuscarawas), Wheelersburg LSD (Scioto), Berlin-Milan LSD (Erie), Columbiana EVSD (Columbiana), and Buckeye LSD (Medina). These peer districts were specifically selected to compare WMLSD's operations and approaches for service delivery to other rural/agricultural districts with low costs and high academic performance. In certain assessments in this report, AOS used different peer groups to provide comparisons that are more relevant. In these cases, the different peers are noted.

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.

The performance audit process involved significant information sharing with WMLSD, 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 initial findings to improve or enhance operations. Throughout the audit process, input from the District was solicited and considered when assessing the selected areas and framing recommendations. Finally, WMLSD 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 WMLSD for its cooperation and assistance throughout this audit.

Noteworthy Accomplishments

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

Maintenance Staffing - WMLSD's maintenance function is highly effective when compared to national benchmarks. This is reflective of a well run maintenance function and staff who make effective use of existing resources to address identified tasks in an acceptable manner.

Transportation and Food Service Staffing Practices - Six of the District's bus drivers also work as cooks for the District's food service operation. This provides these part-time employees with additional hours and allows the District to split health insurance costs for these employees between the transportation (General Fund) and food service (Food Service Fund) functions.

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, WMLSD should:

- Update its Continuous Improvement Plan (CIP) to include a long-term perspective and its business-side operations. It should also use the CIP to link goals and objectives to the five-year financial forecast and operating budget. Once a comprehensive strategy is adopted and approved by the Board, WMLSD should assess all parts of the plan on an annual basis and amend its priorities, as appropriate, to reflect changes in internal and external conditions.
- Enhance its financial management policies to include elements of GFOA recommended practices. These policies should be tailored specifically to the District and its operations. Likewise, it should revise its credit card policy to include all elements of recommended practices for purchasing card practices.
- Combine its written payroll policies and procedures in a comprehensive payroll manual and formally document its time and attendance policy and procedures and ensure that appropriate internal controls are in place.
- Develop a comprehensive purchasing manual, which incorporates the informal procedures used by the District. It should also update its bidding policies and guidelines to include provisions that address performance requirements, award process and decisions, and contract provisions and monitoring.

In the area of human resources, WMLSD should:

- Develop a formal staffing plan to address current and future staffing needs.

- Consider eliminating the following positions to alleviate its financial condition and bring its staffing in line with the peers:
 - 8.0 FTE regular teacher positions
 - 2.0 FTE other certificated staff positions
 - 1.0 FTE teacher support position. This will help it bring staffing levels more in line with the peer averages and reduce personnel costs paid from the General Fund.

Based on its financial condition and the absence of additional revenues, WMLSD should consider eliminating 15 additional regular teacher positions and 2 educational service personnel (ESP) positions, which would bring WMLSD close to State minimum requirements in these areas.

- Discontinue the practice of paying any portion of retirement contributions (pickup) for administrators and any other staff.
- Negotiate the following changes to health insurance and bargaining agreements:
 - An employee contribution toward the premium cost of dental insurance for all employees that is consistent with the portion paid by certificated staff for family dental coverage.
 - An increase in the contribution rate toward the premium cost of single coverage health insurance for certificated and classified staff as well as an increase in the contribution toward family health coverage premiums for classified staff. Specifically, the District should seek a contribution rate that is more in-line with industry standards, or around 15 percent.
 - The elimination of contract provisions which exceed State minimum requirements and industry standards. The District should also attempt to eliminate provisions that reduce management's flexibility in the hiring or placement of staff.
 - The elimination of the early retirement incentive (ERI) provision in its certificated collective bargaining agreement. It should apply GFOA recommended practices when evaluating future retirement incentives.

In the area of facilities, WMLSD should:

- Establish benchmarks and performance measures to track facility-related supplies and materials expenditures in order bring these costs more in line with industry standards.
- Eliminate 2.0 FTE custodial positions to bring workload ratios in line with industry standards and help reduce salary and benefit expenditures.
- Develop and implement a written procedures manual for maintenance and custodial operations. Furthermore, the District should develop formal performance standards and measures to clarify staff expectations, which should be consistent with procedures identified in the manual.
- Develop and implement an energy management and conservation policy in an effort to conserve energy and control rising utility costs. Specifically, the District should develop a clear, concise set of goals and procedures which is consistent with best practice. The policy should recognize the informal steps the District already uses to control utility costs but also expand on these efforts while educating staff and students on energy management.

During FY 2008-09, the District implemented several informal energy conservation practices, resulting in significant utility savings. While the informal activities employed achieved significant savings, the District should fully implement the recommendation of a formal energy conservation policy with specific goals and procedures that are consistent with current and best practices.

- Implement a formal facilities master planning process to help manage its renovated and new buildings and prepare for future construction. It should implement building audits and incorporate elements of leading practices into its facility master plan, such as capital improvement plans, preventative maintenance plans, enrollment projections, and capacity/utilization analyses. It should also monitor student enrollment and develop a methodology for projecting future enrollment.

During the course of the audit, the District began conducting building audits to help plan for maintenance and capital needs.

- Charge all food service related utility expenses to the Food Service Fund based on the proportion of facility space used by the food service program.

In the area of transportation, WMLSD should:

- Formally document key processes and procedures in transportation operations including:
 - The methodology by which the District's non-routine transportation fees were developed.
 - The criteria used to develop its bus replacement schedule and include it as part of its formal bus replacement plan.
 - The procedures for completing, reconciling, and submitting transportation data in accordance with ODE instructions.
- Eliminate a minimum of three and up to five, regular needs buses, in order to improve the efficiency and reduce the cost of its transportation operation. If it restores high school transportation, the District could maintain its current fleet size.
- Reduce transportation costs by implementing measures to compare its fuel costs to an industry benchmark and periodically solicit bids from multiple suppliers to ensure it is getting the best fuel prices available. Similarly, it could examine the different rate structures available for its maintenance contract and consider renegotiating the contract to include a rate structure more beneficial to the District.

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:

Building Reconfiguration: In conjunction with monitoring enrollment, capacity and utilization rates the District should study the potential costs and benefits of reconfiguring building use if enrollment continues to decline. The Hopewell elementary school appeared overcrowded based on optimal utilization rates, even after the headcount decline was considered (see **Table 4-8**). However, the middle and high schools appear underutilized and may be able to absorb a grade if the elementary schools were to be consolidated (see **Table 4-8**). If enrollment continues to decline, WMLSD may consider studying the effects of consolidation on its building utilization rates and the corresponding costs and savings associated with a potential building closure. In addition, if enrollment remains lower and it adopts building reconfigurations, WMLSD may want to revisit its future building plans.

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 WMLSD 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

	Estimated Annual Savings
<i>Recommendations Not Subject to Negotiation</i>	
R3.2 Eliminate 8 FTE regular teacher, 2 FTE other certificated staff, and 1 FTE paraprofessional positions	\$499,000
R3.3 Discontinue providing employee pickup	\$71,000
R3.8 Eliminate an additional 15 FTE regular teacher and 2 FTE ESP positions	\$802,000
R4.1 Reduce Supplies and material expenditures	\$17,000
R4.2 Eliminate 2 FTE custodial positions	\$71,000
R4.4 Implement an energy conservation program	\$13,000
R4.7 Use cost allocation to account for all expenses of the food service operation	\$46,000
R5.4 Eliminate at least 3 buses to achieve the efficiency level of the peers	\$92,000
Subtotal	\$1,611,000
<i>Recommendations Subject to Negotiation</i>	
R3.4 Increase dental insurance contributions to a level commensurate with that paid by classified employees for the family premium	\$17,000
R3.5 Increase medical insurance contributions to at least 15 percent for all employees	\$78,000
R5.6 Renegotiate the fleet maintenance contract	\$47,000
Subtotal	\$142,000
Total Cost Savings from Performance Audit Recommendations	\$1,753,000

Source: Performance audit recommendations

Note: Savings are rounded to the nearest thousand and represent the first year of savings only. Total savings reported in the revised forecast may vary due to rounding.

Financial Systems

Background

This section focuses on the financial systems in the West Muskingum Local School District (WMLSD, or the District). It analyzes historical revenue and expenditures, and the current financial condition of WMLSD for the purpose of developing recommendations to improve financial management and decision making. 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 is responsible for budgeting, forecasting, tracking District revenues and expenditures, developing financial statements, managing the District's payroll, accounts payable and receivable functions, maintaining fixed assets records, and benefits programs that include medical, dental, and vision. The Treasurer's Office consists of one full-time Treasurer and two part-time employees. The Treasurer has been with the District since 1992 and reports directly to the Board of Education (the Board).

Financial History and Condition

Since May 1998, the District renewed a five-year emergency operating levy for 3.5 mills and passed a 6.44 mill bond issue for its building projects. Since 2003, the District failed 5 levy attempts including four attempts to raise additional revenue. These included the following:

- A 1 mill income tax levy in May 2006,
- A 0.75 mill income tax in November 2007,
- A 0.75 mill income tax levy in March 2008, and
- A 6.9 mill emergency operating levy in November 2008.

During the course of the audit, WMLSD placed a 7.9 mill emergency levy on the May 5, 2009 ballot, which also failed. The District has not passed a levy generating new operating money

¹The peers include: Berlin-Milan LSD (Erie County), Bluffton EVSD (Allen County), Bryan CSD (Williams County), Buckeye LSD (Medina County), Columbiana EVSD (Columbiana County), Dover CSD (Tuscarawas County), North Central LSD (Wayne County), St. Henry Consolidated LSD (Mercer County), Versailles EVSD (Darke County), and Wheelersburg LSD (Scioto County).

since 1984, which has resulted in a lower effective millage rate when compared with the peers (see **Table 2-2**). Without additional revenue or significant cost reductions, WMLSD is projecting large deficits at the end of its five-year forecast period.

Table 2-1 illustrates the five-year forecast the District submitted to ODE in January 2009.

Table 2-1: WMLSD Five-Year Forecast (in 000s)

	Actual			Forecasted				
	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Revenue:								
General Property (Real Estate)	\$4,442	\$4,895	\$5,107	\$5,218	\$5,269	\$5,348	\$5,454	\$5,782
Tangible Personal Property Tax	\$733	\$699	\$520	\$232	\$25	\$13	\$6	\$0
Unrestricted Grants-in-Aid	\$5,777	\$5,769	\$5,756	\$5,693	\$5,693	\$5,693	\$5,693	\$5,693
Restricted Grants-in-Aid	\$85	\$145	\$113	\$134	\$134	\$134	\$134	\$134
Property Tax Allocation	\$567	\$760	\$1,038	\$1,243	\$1,407	\$1,426	\$1,303	\$1,208
All Other Operating Revenue	\$1,033	\$1,269	\$1,293	\$1,279	\$1,185	\$1,213	\$1,230	\$1,260
Total Revenue	\$12,638	\$13,537	\$13,827	\$13,799	\$13,715	\$13,827	\$13,821	\$14,076
Advances-In	\$90	\$95	\$221	\$151	\$150	\$150	\$150	\$150
All Other Financing Sources	\$4	\$16	\$7	\$5	\$5	\$5	\$5	\$5
Total Other Financial Sources	\$94	\$111	\$228	\$156	\$155	\$155	\$155	\$155
Total Revenue and Other Financing Sources	\$12,732	\$13,648	\$14,055	\$13,955	\$13,863	\$13,976	\$13,970	\$14,225
Expenditures:								
Personnel Services	\$7,102	\$7,276	\$7,505	\$7,137	\$7,225	\$7,481	\$7,748	\$8,026
Employees' Retirement/ Insurance Benefits	\$2,509	\$2,433	\$2,596	\$2,565	\$2,573	\$2,669	\$2,854	\$3,054
Purchased Services	\$2,527	\$2,553	\$2,793	\$3,712	\$3,884	\$4,026	\$4,174	\$4,328
Supplies and Materials	\$413	\$381	\$629	\$477	\$555	\$571	\$601	\$637
Capital Outlay	\$276	\$274	\$278	\$245	\$137	\$265	\$178	\$261
Debt Service:								
Principal - Other	\$30	\$37	\$39	\$41	\$42	\$44	\$46	\$48
Interest and Fiscal Charges	\$72	\$80	\$79	\$77	\$75	\$73	\$71	\$69
Other Objects	\$213	\$232	\$255	\$271	\$312	\$317	\$321	\$324
Total Expenditures	\$13,143	\$13,265	\$14,172	\$14,525	\$14,803	\$15,446	\$15,992	\$16,747
Other Financing Uses:								
Operational Transfers-Out	\$125	\$75	\$70	\$0	\$0	\$0	\$0	\$0
Advances-Out	\$90	\$210	\$119	\$151	\$150	\$150	\$150	\$150
Total Other Financing Uses	\$215	\$285	\$189	\$151	\$150	\$150	\$150	\$150
Total Expenditure and Other Financing Uses	\$13,358	\$13,550	\$14,360	\$14,676	\$14,953	\$15,596	\$16,142	\$16,897
Result of Operations (Net)	(\$626)	\$98	(\$306)	(\$721)	(\$1,083)	(\$1,614)	(\$2,166)	(\$2,665)
Cash Balance July 1st	\$2,094	\$1,469	\$1,567	\$1,261	\$540	(\$543)	(\$2,156)	(\$4,323)
Cash Balance June 30th	\$1,469	\$1,567	\$1,261	\$540	(\$543)	(\$2,156)	(\$4,323)	(\$6,988)
Outstanding Encumbrances	\$286	\$357	\$458	\$325	\$325	\$325	\$325	\$325
Total Reservations	\$50	\$50	\$50	\$0	\$0	\$0	\$0	\$0
Reservation of Fund Balance:								
Fund Balance June 30 for Certification of Appropriations	\$1,133	\$1,160	\$753	\$215	(\$868)	(\$2,481)	(\$4,648)	(\$7,313)

Source: West Muskingum Local School District and ODE

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. However, as shown in **Table 2-1**, the District projected a negative unreserved fund balance of \$868,000 beginning in fiscal year (FY) 2009-10, which is forecasted to grow to over \$7 million by FY 2012-13 without new operating revenue or reductions in expenditures. The performance audit included a review of the assumptions that have a significant impact on the forecast, such as general property tax, unrestricted and restricted grants-in-aid, personal services, employees' retirement and insurance benefits, purchased services, and supplies and materials. AOS analyzed the District's assumptions and methodologies and found that they were sound, well-documented, and appropriate.

Table 2-2 compares WMLSD's assessed valuation and millage with the peer average for FY 2007-08. Additional District information for FY 2005-06 and FY 2006-07 is shown to provide a historical perspective.

Table 2-2: Assessed Valuation and Millage

	WMLSD			Peer Average FY 2007-08	Difference
	FY 2005-06	FY 2006-07	FY 2007-08		
Formula ADM	1,768.63	1,753.41	1,754.77	1,490.88	263.89
Assessed Valuation	\$254,485,206	\$263,988,688	\$296,754,859	\$212,978,096	\$83,776,763
Assessed Valuation Per ADM	\$143,888	\$150,557	\$169,113	\$136,701	\$32,412
Millage Rate	41.10	41.10	41.10	43.23	(2.13)
Effective Millage					
> Residential (Class I)	20.00	20.00	20.00	22.78	(2.78)
> Business (Class II)	20.06	20.05	20.00	25.02	(5.02)
Property / Income Tax Collections	\$5,175,514	\$5,594,553	\$5,626,715	\$5,455,596	\$171,119
Collections Per ADM	\$2,926	\$3,191	\$3,207	\$3,459	(\$253)
Ratio of Assessed Valuation to Collections	49.2	47.2	53.7	40.9	11.9

Source: Ohio Department of Education

As illustrated in **Table 2-2**, the District is at the 20 mill floor² with an effective rate of 20.0 for both residential (class I) and business (class II). This is below the peer averages of 22.8 and 25.0 mills respectively. **Table 2-2** also shows the District's assessed valuation, assessed valuation per

² HB 920, enacted in 1976, requires the effective millage of voted property tax levies to be reduced in proportion to rising property values, to protect owners from paying more taxes on a given levy than they originally approved. Additionally, ORC § 319.301 prevents school levies from being reduced below "two percent of taxable value," or 20 mills. Known as the "20 mill floor," that provision partially protects school districts from facing a fixed income while costs rise over time. Voters could approve additional levies beyond those 20 mills, but reductions would then apply again until the effective millage was gradually reduced back to a total of 20 mills.

ADM, and property/income tax collections had increased steadily and were at levels above the peer average in FY 2007-08. However, WMLSD's FY 2007-08 collections per ADM were below the peers. Further, the Assessed Valuation to Collections ratio was 53.7 to 1 compared with the peer average ratio of 40.9 to 1. A ratio above the peers suggests the District collected less revenue from property and income taxes in proportion to its assessed valuation in comparison to the peer average. This indicates the District is receiving proportionally less local support based on its assessed valuation than the peers.

Expenditures

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 2-3** compares WMLSD's expenditures on a per pupil basis by expenditure type, as reported in the Expenditure Flow Model (EFM), with the peer average. Unlike the five-year forecast, the EFM includes all spending related to the education of pre-school through grade 12 students.

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

	WMLSD			Peer Average			Difference Per Pupil	Percent Difference
	Total \$	\$ Per Pupil	Percent of Total	Total \$	\$ Per Pupil	Percent of Total		
Administration	\$1,918,413	\$1,014	13.0%	\$1,527,174	\$955	11.9%	\$59	6.2%
Operations Support	\$3,233,470	\$1,710	21.8%	\$2,129,741	\$1,343	16.5%	\$367	27.4%
Staff Support	\$514,803	\$272	3.5%	\$208,318	\$130	1.6%	\$142	109.4%
Pupil Support	\$997,762	\$528	6.7%	\$1,366,216	\$816	10.6%	(\$288)	(35.3%)
Instruction	\$8,144,577	\$4,307	55.0%	\$7,648,453	\$4,782	59.4%	(\$475)	(9.9%)
Total	\$14,809,025	\$7,831		\$12,879,902	\$8,025		(\$194)	(2.4%)

Source: Ohio Department of Education, Expenditure Flow Model

As **Table 2-3** shows, WMLSD spent 2.4 percent less overall per pupil than the peer average in FY 2007-08. Implementation of the recommendations in this performance audit could help the District to continue to maintain expenditures per pupil in line or below with the peer average, while also ensuring funds are spent effectively and efficiently. The following is a brief explanation of the spending levels of the District:

- **Administration:** WMLSD spent \$1,014 per pupil which was 6.2 percent more than the peers. The majority of these costs were associated with services relating to the Offices of Building Principals (48.9 percent), the Office of the Superintendent (23.6 percent), and the Office of the Treasurer (19.2 percent). Compared with the peers, the District reported above average expenditures for the Office of the Superintendent (\$53 per pupil) and Offices of Building Principals (\$40 per pupil) which were comprised primarily of salaries and benefits. While FY 2007-08 administration expenditures were \$59 per pupil above

the peer average, after the District's reductions of the assistant superintendent and a secretarial position in FY 2008-09, administration costs per pupil would be reduced by approximately \$61 per pupil bringing it in line with the peers.

- **Operations Support:** The District's operations support cost of \$1,710 per pupil was 27.4 percent more than the peer average of \$1,343. The majority of these expenditures were related to the operation and maintenance of buildings and equipment, the operation of vehicles, and the operation of the District's food service program. The majority (51.1 percent) of the expenditures for operations and maintenance pertained to salaries, utilities, and maintenance and repair services (see **facilities**). In vehicle operations, the majority (61.4 percent) of these costs were related to salaries, benefits, and fuel (see **transportation**). The bulk of food service expenditures included salaries, benefits, and other food related supplies and materials. Based on its cost per pupil of \$367 above the peer average, the District spent nearly \$700,000 more than the peers in the area of operations support. While some of these costs are fixed, implementing the recommendations within this report will help the District to control costs and help lower its expenditures per pupil in this area.
- **Staff Support:** WMLSD spent significantly more per pupil than the peer average on staff support. Expenditures in this category were related to classroom support (special education aides) and staff needs, such as professional development, training, supplemental compensation, and other improvements of instruction services. Specifically, the District allocated 64.9 of its staff support expenditures to classroom support, which was \$136 above the peer average on a per student basis (see **human resources**). Altogether, the District spent \$272 per pupil in staff support, or \$142 more than the peer average, which equated to nearly \$300,000 in additional expenditures as compared with the peers.
- **Pupil Support:** The District's pupil support expenditures were 35.3 percent per pupil below the peer average. These expenditures were related to student needs outside of the classroom, such as guidance counseling, help in the media center or library, field trips, and psychological testing.
- **Instruction:** Although WMLSD allocated over half (55.0 percent) of its expenditures per pupil on instruction, it spent 9.9 percent less per student than the peer average. These expenditures were directly related to the education of students and include the salary cost 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. As reported by ODE, the District received an *Effective* designation by meeting 27 of 30 State Indicators and achieved a Performance Index Score of 97.3 (out of 120).

Table 2-4 compares WMLSD's five-year forecast expenditures with the peer average for FY 2007-08. Expenditures from the general, emergency levy, and poverty based assistance (PBA) funds are included in the five-year forecast.

Table 2-4: Five-Year Forecast Expenditures Comparison

	WMLSD	Dollars Per Pupil	Peer Average	Dollars Per Pupil	Difference Per Pupil	Percent Difference
Personnel Services	\$7,504,794	\$3,969	\$7,238,463	\$4,529	(\$561)	(12.4%)
Employees' Retirement / Insurance Benefits	\$2,595,648	\$1,373	\$2,628,445	\$1,622	(\$250)	(15.4%)
Purchased Services	\$2,792,581	\$1,477	\$1,427,870	\$939	\$538	57.3%
Supplies and Materials	\$628,628	\$332	\$416,896	\$271	\$62	22.7%
Capital Outlay	\$277,878	\$147	\$138,795	\$107	\$40	37.7%
Debt Service	\$39,000	\$21	\$7,104	\$5	\$16	355.4%
Interest and Fiscal Charges	\$78,592	\$42	\$591	\$0	\$41	8749.9%
Other Objects	\$254,745	\$135	\$358,176	\$226	(\$91)	(40.3%)
Total Expenditures	\$14,171,866	\$7,494	\$12,216,340	\$7,699	(\$205)	(2.7%)

Source: Ohio Department of Education

As shown in **Table 2-4**, although WMLSD spent, in total, approximately 2.7 percent less per pupil than the peer average, it spent more on purchased services, supplies and materials, capital outlay, debt service, and interest and fiscal charges. The above average purchased services expenditures per pupil was due primarily to its bus maintenance contract (see **R5.6 in transportation**) and utility costs (see **R4.4 and R4.7 in facilities**). The Treasurer explained that the recent opening of the District's new and remodeled buildings could explain why supplies and material expenditures are high, particularly over historical trends (see **Table 2-1**). The District anticipates that supplies and material expenditures will decrease; however, it should monitor budgetary allocations and results for these items (see **R4.1**). The above average capital outlay expenditures resulted from issues related to the building project. Last, the District reported above average expenditures in debt service and interest and fiscal charges. The Treasurer indicated that an oversight in construction planning, attributed to the Ohio School Facilities Commission (OSFC) by the District, resulted in the District requiring an additional loan in order to complete the project.

In order to reduce its expenditures and projected deficits, the District made several reductions that included:

- Closing all libraries except at the high school, enabling the District to eliminate library aide positions;
- Eliminating all extracurricular funding;
- Eliminating high school busing;
- Eliminating 9 teacher positions;

- Delaying planned computer purchasing; and
- Postponing textbook purchases for two years.

These reductions have saved the District an estimated \$1 million. While these reductions have help extend its solvency, educational outcomes may be impacted due to a lack of available resources and efficiency levels have been negatively affected due to the reduction in busing (see **transportation**).

Audit Objectives

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

- Does the District's financial data appear to be valid and reliable?
- What has been the District's recent financial history?
- How do the District's revenue and expenditures per pupil compare with peer districts?
- Does the District have comprehensive financial policies and procedures that meet leading practices?
- Do the District's forecasting and budgeting processes meet leading practices?
- What is the likely financial position of the District based on the implementation of the performance audit recommendations?
- Does the District report appropriate financial information to management and the community?
- Has the District developed a 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?

WMLSD's budgeting and forecasting process and sharing of financial information were comparable to recommended practices.

Recommendations

Planning

R2.1 WMLSD should update its Continuous Improvement Plan (CIP) to include a long-term perspective and its business-side operations. It should also use the CIP to link goals and objectives to the five-year financial forecast and operating budget. Once a comprehensive strategy is adopted and approved by the Board, WMLSD should assess all parts of the plan on an annual basis and amend its priorities, as appropriate, to reflect changes in internal and external conditions.

WMLSD has developed a district-wide Continuous Improvement Plan (CIP) that functions as a strategic plan. However, it has not been recently reviewed and updated. The District also maintains a Comprehensive Continuous Improvement Plan (CCIP) and has developed building-level CIPs that are maintained by the building principals and are updated annually. The building-level CIPs include the District's vision, mission, beliefs, and goals, along with a list of community identified strengths that assist the District in achieving its goals. The district-wide CIP includes goals focus on improving the following functional areas:

- Teaching and Learning/Professional Development;
- Technology;
- Family, Business, and Community Involvement;
- Facilities and Environment;
- Attendance; and
- Graduation Rate.

In the CIP, the District also outlines the performance indicators, data source, strategies, and evaluation methods for each goal. This enables WMLSD to plan, track, and assess its progress for each goal. Although, these plans help with the implementation of its goals and objectives, they are short-term and are not linked to current budgetary decisions and the five-year forecast.

According to OAC 3301-35-03(A), a strategic plan guides the school districts and key stakeholders in the ongoing measurement of performance to assure adequate progress is being made toward strategic goals and objectives. Strategic planning identifies short-and long-range goals and the strategies necessary to achieve them. *Recommended Budget Practices on the Establishment of Strategic Plans* (GFOA, 2005, states that entities should develop a multi-year strategic plan that provides a long-term perspective for services delivered and budgeting, thus establishing logical links between authorized

spending and annual goals based on identified needs, projected enrollment, and revenues. Accordingly, entities should take the following actions when developing strategic plans:

- Initiate the strategic planning process;
- 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.

North Union Local School District (Union County) and Westerville City School District (Franklin County) are examples of school districts that have successfully developed comprehensive strategic plans.

By maintaining a strategic plan, WMLSD can gain a better perspective on its future financial needs and develop a more comprehensive approach to balancing its finances with its educational mission. In addition, a strategic plan can serve as a tool to improve communication between the District and community, provide direction for the Board, and align planning and budgeting processes.

Financial Reporting

R2.2 WMLSD should develop a Popular Annual Financial Report (PAFR)³ and enhance information available in its website by posting the PAFR and other monthly financial reports that are provided to the Board. Providing these reports will compliment the financial information already available on its website and help inform its residents about the District’s operations and financial condition.

WMLSD does not issue a full Comprehensive Annual Report (CAFR) but has augmented its financial reporting by including some of the statistics and additional information typically contained in a CAFR. The District also does not issue a PAFR. The Treasurer indicated that she has been unable to create these reports due to its limited funds and staff. However, WMLSD provides the following general and financial information on its website:

- The most recent annual report;
- The five-year forecast with detailed assumptions and notes;

³ A PAFR provides a clear and thorough overview of a district’s finances through an easy-to-read, user-friendly format. The Westerville City School District in Franklin County prepares and publishes a PAFR.

- Links to information about income tax and school funding; and
- District-wide and building level report cards.

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 a Comprehensive Annual Financial Report (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 using the characteristics recommended by best practice, which include reporting the information in a consolidated or aggregated presentation, or a variety of other user-friendly formats.

Additionally, school districts in Ohio such as Newark City School District (Licking 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 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; and
- **Miscellaneous** – Audit Findings, School Finance Terms, State Financial Designations, ODE Local District Report Cards, Reports on enrollment, and Finance and Audit Committee information.

Developing a PAFR-like presentation for its website would ensure the District provides key financial information to its stakeholders in a format that is easily comprehended by the layperson. By posting the PAFR on its website, WMLSD can increase awareness and understanding of its financial condition but not incur the additional costs of printing such a document. Although staff time is required to develop, maintain, and update the information on the website, the District could enhance the use of its website by including additional types of financial reports at little additional direct cost.

Financial Policies

R2.3 WMLSD should enhance its financial management policies to include elements of GFOA recommended practices. These policies should be tailored specifically to the District and its operations. While the District has some financial management policies in place, those policies are lacking certain elements of recommended practices. Once the financial management policies have been developed and adopted by the Board, the District should ensure that its financial and budgetary practices are consistent with these policies.

WMLSD has several financial management policies that were developed with the assistance of, and are maintained by, NEOLA®⁴ which are available through the District's web site. The policies provide guidance and oversight over areas such as investments, borrowing, purchasing, and use of credit cards. However, the District has not developed or documented policies in all areas recommended by leading practices.

The District should consider expanding its financial policies to include elements of the following GFOA⁵-recommended practices:

- **Debt Issuance and Management** – A government should develop policies to guide the issuance and management of debt. The District has a policy in place that suggests that funds be borrowed from the responsible organization offering the most favorable terms, as approved by the Board. However, policies on debt issuance and management should include elements such as purposes for which debt may be issues, limitations on the amount of outstanding debt, types of permissible debt, refunding of debt, and investment of debt proceeds.
- **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. The District has a policy in place that it should borrow based on the most favorable terms and limit the amount of outstanding debt. However, the policy does not specify the amount of debt that may be issued to help ensure that the outstanding and planned debt levels do not exceed an amount that can be supported by the existing and projected tax and revenue base.
- **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

⁴ WMLSD's financial management policies can be found online at: <http://www.neola.com/westmuskingum-oh/>

⁵ *Best Practices in Public Budgeting*. Government Finance Officers Association (GFOA, 2000). <http://www.gfoa.org>.

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 the 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 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.
- **Balance the Operating Budget** - A government should develop a policy that defines a balanced operating budget. The District has a policy in place for budget preparation. However, it focuses on annual building budgets and does not provide for disclosure when a deviation from a balanced operating budget is planned or when it occurs.
- **Revenue Diversification** – A government should adopt a policy that encourages and identifies approaches that will improve revenue diversification. This District has not developed a policy addressing revenue diversification. Because all revenue sources have particular characteristics in terms of stability, growth, and impact of tax and rate payers, a diversity of revenue sources can improve a government’s ability to handle fluctuations in revenues and help 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. 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.
- **Stabilization Fund** - A government should develop policies to guide the creation, maintenance, and use of resources for financial stabilization purposes. The policies should establish how and when a government builds up stabilization funds and should identify the purposes for which they may be used.

By enhancing its current financial management policies to include elements of GFOA-recommended practices, the District will be able to better manage its limited resources and help ensure consistency in financial practices. Such policies can also help the District

operate more smoothly; be used as a tool for financial decision making; and improve the ability of the District to take timely action when unexpected events occur. In addition, strong financial policies aid in the overall management of the budget and achievement of the District's long range goals.

R2.4 WMLSD should expand its ethics policy to require all administrators and staff, including financial staff, to conduct themselves in a manner that avoids favoritism, bias, and the appearance of impropriety. Once amended, the policy should be distributed and discussed with all administrators and staff. Each staff member should sign a form acknowledging the receipt and understanding of the ethics policy. The policy should also be posted on the District's website so that it is readily available.

WMLSD has a general ethics policy that its entire staff is required to adhere to which focuses on maintaining high standards in working relationships and in the performance of professional duties. However, the policy does not include elements that pertain specifically to its financial staff.

According to the OEC sample ethics policy⁶ 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 by 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

⁶ The Ohio Ethics Commission's sample ethics policy for local government officials can be found online at: http://www.ethics.ohio.gov/ModelEthicsPolicy_localagencies.html

- Using, or authorize 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.

The District should use the OEC's sample ethics policy as a guide when developing an ethics policy for its financial staff. The policy will help ensure that staff members who are entrusted with District funds conduct themselves in a manner that avoids favoritism, bias, and the appearance of impropriety.

Payroll Policies

R2.5 WMLSD should combine its written payroll policies and procedures in a comprehensive payroll manual. The manual should be updated as policies and procedures change to ensure it remains up-to-date and relevant. Furthermore, once documented, the time and attendance policy should also be included in the payroll manual (see R2.6).

The District has written payroll policies in place that address issues concerning payroll authorization and deductions. It has also developed detailed procedures to guide employees through the payroll process. The procedures provide adequate levels of internal control throughout the payroll process and include steps to ensure proper review, verification, and reconciliation. However, WMLSD's payroll policies and procedures are not located in a centrally maintained payroll manual.

According to *Recommended Practices- Enhancing Management Involvement with Internal Control* (GFOA, 2004),⁷ 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. Furthermore, Lancaster City School District maintains a payroll manual that encompasses related policies and procedures and serves as a tool to educate and guide payroll personnel and employees on applicable requirements and processes.

By documenting its payroll procedures, the District has reduced the risk of payroll errors and, potentially, the misuse or abuse of resources. However, by organizing its payroll policies and procedures into a formal payroll manual, WMLSD can ensure accountability within the payroll function; reduce the risk of possible error; and use the manual as a tool to train new payroll personnel. The manual could be developed at little additional cost to the District and be made available electronically which would speed revisions.

⁷ <http://www.gfoa.org/downloads/caafmanaginternalcontrol.pdf>.

R2.6 WMLSD should formally document its time and attendance policy and procedures and ensure that appropriate internal controls are in place. The policy and procedures should be included in the Board Policies and communicated to all District employees. A written time and attendance policy would strengthen WMLSD's controls over this process, while decreasing the risk of inaccurate reporting and potential abuse. These policies should be included in a payroll manual (R2.5) and reviewed on an annual basis or as processes change.

The District uses a manual system to track time and attendance for all employees. Because certificated staff is comprised of salaried employees, they are paid using the exception based method. Therefore, the certificated employee is only required to submit a time sheet or leave use request to the building principal when leave is used. Once approved, the time sheet or leave request is sent to the building secretary to be recorded for attendance purposes. Although classified employees are compensated hourly, the District processes their payroll in the same manner as a salaried employee by determining their expected pay per period using the employee's hourly rate of pay and their number of work days, as specified in the classified employee negotiated agreement. Doing so enables the District to track classified employee time and attendance in the same manner as the certificated staff. As such, whenever a classified employee works additional time or uses leave, they are required to submit a time sheet or leave use request to their supervisor and building principal. All employee timesheets and leave request approvals are sent to the payroll staff each week following the payday. This process enables the District's payroll staff to focus on payrolls that have been modified due to employee overtime or leave usage and provides adequate time for reconciliation.

According to *Maintaining Effective Control over Employee Time and Attendance Reporting* (GAO, 2003), control activities should provide reasonable assurance that (1) time and attendance transactions are properly authorized and approved and (2) time and attendance information is accurately and promptly recorded and retained. Furthermore, government entities should have a well-defined organizational structure and flow of time and attendance information with clearly written and communicated policies and procedures setting forth the responsibilities of employees, timekeepers, supervisors, and others regarding recording, examining, approving, and reporting time and attendance information.

Formal, written policies can help ensure that appropriate internal controls exist over the District's time and attendance processes. These policies can also help promote accountability and accuracy of employee records, while reducing the risk of possible error or abuse of leave. Incorporating time and attendance policies and procedures in a payroll manual will ensure that all employees have access to instructions on how to properly complete time and attendance reports.

Purchasing

R2.7 WMLSD should develop a comprehensive purchasing manual, which incorporates the informal procedures used by the District. Furthermore, the manual should periodically be reviewed to determine whether it is being consistently followed and if the procedures contained in the manual are still relevant to the District's operations.

WMLSD has written purchasing policies in place which address issues such as soliciting quotations and bids, local purchasing, cooperative purchasing, use of credit cards, and payment procedures. The District has also developed procedures to guide employees through the requisition and purchasing process. However, these policies and procedures are not part of a formal purchasing procedure manual.

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 outline of the procurement process, including the processing of requisitions, solicitations, bid evaluation 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 outline 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 other 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 (Miami County) has a requisition and purchase order handbook that includes references to ORC statutes for purchase order authorization; detailed procedures for preparing purchase orders, emergency purchases, and creating and managing online requisitions; USAS coding definitions; and sample forms. Elyria City School District (Lorain County) has a finance and purchasing manual that includes purchasing procedures, detailed instructions for using purchase orders, records retention policies, basic accounting instructions, a listing of funds, instructions for dealing with petty cash, and a listing of staff responsibilities and contact information.

While some of the items recommended by NIGP are present in existing policies, WMLSD has not compiled its policies and instructions into a formal purchasing policies and procedures manual. The development, approval, and distribution of a manual would help the Board, Treasurer, and Superintendent clarify the District's official position on purchasing practices and improve the consistency of those practices.

R2.8 WMLSD should update its bidding policies and guidelines to include provisions that address performance requirements, award processes and decisions, and contract provisions and monitoring. By including these provisions in its bidding policies and guidelines, WMLSD can ensure proper internal controls exist and that all vendors are aware of the bidding process and performance expectations. WMLSDs bidding policies and guidelines should be included in the District's purchasing manual (see R2.7).

The District has a purchasing policy in place that meets the requirements established by ORC §3313.46, which requires a competitive bidding process for purchases above \$25,000. The policy also requires the Superintendent to seek at least two price quotations on purchases of more than \$15,000 for a single item, with exceptions for emergency purchases, when price negotiations would not result in savings, or when the item is subject to the formal bidding process. WMLSD also has bidding policies that disclose the details for bid preparation, bid opening, cooperative bids, and instructions to bidders. While the District's policy incorporates the majority of elements of leading practices suggested by the National State Auditors Association (NSAA), it does not contain

provisions for performance requirements, award processes and decisions, or contract provisions and monitoring.

According to *Contracting for Services* (NSAA, 2003), governments should develop policies and procedures for the procurement of contracted services. These policies and procedures should, among other things, include the following elements:

- **Performance Requirements** - Once the decision to contract has been made, the agency should develop performance requirements that will hold vendors accountable for the delivery of quality services.
- **Award Process** – The contract award process should ensure vendor proposals are responsive to the agency’s needs, consistently and objectively evaluated, and contracts are awarded fairly to responsible vendors.
- **Award Decision-** When making an award decision, the agency should ensure, among other things, it received an adequate number of proposals; used fixed, clearly defined, and consistent scoring scales to measure the proposal against the criteria specified in the RFP; and carefully check vendor references
- **Contract Provisions** – Contracts for the purchase of services must be formal, written documents. Contract provision should protect the interests of the agency, identify the responsibilities of the parties to the contract, define what is to be delivered, and document the mutual agreement, the substance, and parameters of what was agreed upon.
- **Contract Monitoring** – Should ensure that contactors comply with contract terms, performance expectations are achieved, and any problems are identified and resolved. Without a sound monitoring process, the contracting agency does not have adequate assurance it will receive what it contracts for.

Policies and procedures surrounding contracted services can be useful to help ensure efficient, effective, and accountable vendors are selected. Furthermore, policies and procedures help ensure consistent application of appropriate internal controls during the procurement process. Including the NSAA-recommended elements in its purchasing manual (see **R2.7**), will help WMLSD ensure it receives the best value through its contracted purchases.

R2.9 WMLSD should revise its credit card policy to include all elements of recommended practices for purchasing card practices. A revised policy will help ensure proper internal controls over credit card use and promote accountability in the procurement process. The revised credit card policy should be included in the District's purchasing manual (see R2.7) and be communicated to all employees authorized to make credit card purchases on behalf of the District.

WMLSD's credit card policy incorporates some elements of recommended practices, such as guidelines on appropriate uses and procedures for handling disputes and unauthorized purchases. While no inappropriate use of a credit card was identified, the District's policy does not include all elements of recommended practices.

According to, *Purchasing Card Programs* (GFOA, 2003),⁸ if not properly monitored, the issuance of purchasing cards or credit cards to employees could result in internal control issues or abuse. In order to ensure its credit card policy includes all elements of recommended practices, the District should amend its policy to address the following areas:

- Written agreement with the Bank, which include fee schedules and processing procedures;
- Spending and transaction limits;
- Written requests for higher spending levels;
- Recordkeeping requirements;
- Clear guidelines on the appropriate uses of purchasing cards;
- Guidelines for making purchases by telephone, fax, or Internet;
- Periodic audits for card activity; and
- Procedures for card issuances and cancellation, lost or stolen cards, and employee termination.

According to *Best Practices* (AOS, Winter 2004),⁹ appropriate policies and procedures pertaining to credit card use reduce the risks associated with purchasing programs, and help protect against abuse while promoting employee accountability. Without a comprehensive credit card use policy, the District increases the risk of misuse and abuse of District funds.

⁸ <http://www.gfoa.org/>

⁹ http://www.auditor.state.oh.us/Publications/BestPractices/BestPractices_Vol1Issue2_Winter2004.pdf

Five-Year Forecast

R2.10 WMLSD should implement the recommendations contained in the performance audit to help offset projected deficits. In addition, it should update its five-year forecast on a regular basis or whenever material changes in assumptions are made or unanticipated events occur.

By implementing the performance audit recommendations, including those subject to negotiation, WMLSD should be able to maintain a positive fund balance until FY 2011-12. However, achieving a positive ending fund balance through the forecast period will require WMLSD to make significant reductions in its operations. Should the District desire to continue operations at current levels, it would have to generate approximately \$1.6 to \$2.0 million annually to offset the need for staffing and service reductions.

The recommended staffing reductions contained in **human resources** could have a significant impact on the educational programs of WMLSD. Whenever possible, WMLSD should seek to identify savings in areas not related to direct instruction, prior to reducing staffing with a direct affect on education. In lieu of service reductions, WMLSD should examine options to collaborate with neighboring districts or share services with other governmental entities to enhance its cost savings.

Table 2-5 demonstrates the impact of the recommendations on the 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
Revenues:								
General Property Tax	\$4,442	\$4,895	\$5,107	\$5,218	\$5,269	\$5,348	\$5,454	\$5,782
Tangible Personal Property Tax	\$733	\$699	\$520	\$232	\$25	\$13	\$6	\$6
Unrestricted Grants-in-Aid	\$5,777	\$5,769	\$5,756	\$5,693	\$5,693	\$5,693	\$5,693	\$5,693
Restricted Grants-in-Aid	\$85	\$145	\$113	\$134	\$134	\$134	\$134	\$134
Property Tax Allocation	\$567	\$760	\$1,038	\$1,243	\$1,407	\$1,426	\$1,303	\$1,208
All Other Revenues	\$1,033	\$1,269	\$1,293	\$1,279	\$1,185	\$1,213	\$1,230	\$1,260
Total Revenues	\$12,638	\$13,537	\$13,827	\$13,799	\$13,715	\$13,827	\$13,821	\$14,083
Total Other Financing Sources	\$94	\$111	\$228	\$156	\$155	\$155	\$155	\$155
Total Revenues and Other Financing Sources	\$12,732	\$13,648	\$14,055	\$13,955	\$13,870	\$13,982	\$13,976	\$14,238
Personnel Services	\$7,102	\$7,276	\$7,505	\$7,137	\$7,225	\$7,481	\$7,748	\$8,026
Expenditures:								
Employees' Retirement/Insurance Benefits	\$2,509	\$2,433	\$2,596	\$2,565	\$2,573	\$2,669	\$2,854	\$3,054
Purchased Services	\$2,527	\$2,553	\$2,793	\$3,712	\$3,884	\$4,026	\$4,174	\$4,328
Supplies and Materials	\$413	\$381	\$629	\$477	\$555	\$571	\$601	\$637
Capital Outlay	\$276	\$274	\$278	\$245	\$137	\$265	\$178	\$261
Debt Service	\$102	\$117	\$118	\$118	\$117	\$117	\$117	\$117
Other Objects	\$213	\$232	\$255	\$271	\$312	\$317	\$321	\$324
Total Expenditures	\$13,143	\$13,265	\$14,172	\$14,525	\$14,803	\$15,446	\$15,992	\$16,747
Operating Transfers-Out	\$125	\$75	\$70	\$0	\$0	\$0	\$0	\$0
All Other Financing Uses	\$90	\$210	\$119	\$151	\$150	\$150	\$150	\$150
Total Other Financing Uses	\$215	\$285	\$189	\$151	\$150	\$150	\$150	\$150
Performance Audit Recommendations- Net Savings	\$0	\$0	0	\$0	1,751	1,793	1,851	1,914
Total Expenditures and Other Financing Uses	\$13,358	\$13,550	\$14,360	\$14,676	13,201	13,801	14,290	14,982
Result of Operations (Net)	(\$626)	\$98	(\$306)	(\$721)	668	180	(314)	(744)
Balance July 1	\$2,094	\$1,469	\$1,567	\$1,261	540	1,208	1,388	1,074
Cash Balance June 30	\$1,469	\$1,567	\$1,261	\$540	1,208	1,388	1,074	329
Estimated Encumbrances June 30	\$286	\$357	\$458	\$325	325	325	325	325
Total Reservations	\$50	\$50	\$50	\$0	0	0	0	0
Fund Balance / June 30 for Certification of Appropriations	\$1,133	\$1,160	\$753	\$215	883	1,063	749	4

Source: AOS and WMLSD

Note: Numbers will vary due to rounding

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 Performance Audit Recommendations

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Recommendations Not Subject to Negotiations				
R3.2 Eliminate 8 FTE regular teacher, 2 FTE other certificated staff, and 1 FTE paraprofessional positions	\$499,000	\$510,000	\$524,000	\$539,000
R3.3 Discontinue providing employee pickup	\$71,000	\$72,000	\$74,000	\$75,000
R3.8 Eliminate an additional 15 FTE regular teacher and 2 FTE ESP positions	\$802,000	\$817,000	\$841,000	\$866,000
R4.1 Reduce Supplies and material expenditures	\$17,000	\$17,000	\$20,000	\$25,000
R4.2 Eliminate 2 FTE custodial positions	\$71,000	\$73,000	\$75,000	\$77,000
R4.4 Implement an energy conservation program	\$13,000	\$13,000	\$14,000	\$14,000
R4.7 Use cost allocation to account for all expenses of the food service operation	\$46,000	\$48,000	\$49,000	\$51,000
R5.4 Reduce at least 3 buses to achieve the efficiency level of the peers	\$92,000	\$93,000	\$93,000	\$94,000
Subtotal	\$1,611,000	\$1,643,000	\$1,690,000	\$1,741,000
Recommendations Subject to Negotiation				
R3.4 Increase dental insurance contributions to a level commensurate with that paid by classified employees for the family premium	\$17,000	\$18,000	\$20,000	\$22,000
R3.5 Increase medical insurance contributions to at least 15 percent for all employees	\$78,000	\$86,000	\$94,000	\$104,000
R5.6 Renegotiate fleet maintenance contract	\$47,000	\$47,000	\$47,000	\$47,000
Subtotal	\$142,000	\$151,000	\$161,000	\$173,000
Total Cost Savings from Performance Audit Recommendations	\$1,753,000	\$1,794,000	\$1,851,000	\$1,914,000

Source: Performance audit recommendations

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

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Human Resources

Background

This section of the performance audit focuses on the West Muskingum Local School District (WMLSD or the District) human resource (HR) functions; including staffing levels, compensation, employee benefits, negotiated agreements, HR management, board governance, special education, and early retirement incentives. 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), the Government Finance Officers Association (GFOA), the Kaiser Family Foundation (Kaiser), the Society for Human Resource Management (SHRM), the Ohio Education Association (OEA), the Ohio Department of Education (ODE), the Ohio Department of Administrative Services (DAS), and the National School Boards Association (NSBA).

Organizational Structure and Function

WMLSD does not have a department dedicated to performing HR functions. Instead, HR activities are completed by the Superintendent, Treasurer, and other administrative personnel. The Superintendent conducts employee recruitment and hiring, reviews staffing levels, and leads the District's negotiating team during collective bargaining. The Superintendent's administrative assistant maintains personnel files, which include general information on employees, certifications and licenses, evaluations, and exit interviews. The Treasurer maintains files on the salary and benefits for each employee, administers the District's health insurance benefits and workers compensation, and participates on the District's negotiating team. The Treasurer's staff is responsible for processing payroll and reporting staff data in the Education Management Information System (EMIS).

¹ The peers include: St. Henry Consolidated LSD (Mercer County), Bluffton EVSD (Allen County), Botkins LSD (Shelby County), North Central LSD (Wayne County), Clear Fork Valley LSD (Richland County), Bethel-Tate LSD (Clermont County), Versailles EVSD (Darke County), Marion LSD (Mercer County), Coldwater EVSD (Mercer County), and Fort Recovery LSD (Mercer County).

Staffing

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

Table 3-1: Staffing Levels by Function

	FTE Staff			FTE/1,000 Students		
	WMLSD	Peer Average	Difference	WMLSD	Peer Average	Difference
Administrative Personnel ¹	11.0	11.0	0.0	6.8	6.5	0.3
Office/Clerical ²	10.0	10.6	(0.6)	6.2	6.8	(0.6)
Classroom Teachers ³	83.0	73.1	9.9	51.6	48.3	3.3
Special Education Teachers	15.0	14.2	0.8	9.3	8.9	0.4
Education Service Personnel ⁴	9.0	11.7	(2.7)	5.6	7.3	(1.7)
Other Certificated Staff ⁵	11.0	6.7	4.3	6.8	3.9	2.9
Teacher Aides	14.5	11.6	2.9	9.0	7.2	1.8
Other Tech/Professional ⁶	1.0	2.7	(1.7)	0.6	1.8	(1.2)
Other Student Services ⁷	1.0	1.8	(0.8)	0.6	1.0	(0.4)
Operations ⁸	47.0	31.7	15.3	29.2	20.5	8.7
Total Staffing	202.5	173.9	28.6	125.7	112.1	13.6

Source: Education Management Information System (EMIS) data as submitted to ODE. EMIS data from WMLSD has been adjusted to reflect the most recent staffing levels. Functional categories compiled by AOS

¹ Administrative Personnel includes district administrators and professional staff with District-wide responsibilities such as legal, public relations, personnel, and planning.

² Office/Clerical includes all office and clerical staff including school buildings and treasurer office personnel; plus any professional or technical staff performing clerical functions.

³ Classroom Teachers include regular and vocational teachers and permanent substitutes.

⁴ Education Service Personnel include ESP teachers, counselors, librarians, registered nurses, social workers, and visiting teachers.

⁵ Other Certificated Staff includes curriculum specialists, remedial specialists, tutor/small group instructors, and other professionals.

⁶ Other Technical/Professional Staff includes library aides, computer support staff, and other professional staff.

⁷ Other Student Services include student services staff less counselors, registered nurses, social work staff, and visiting teachers.

⁸ Operations include custodians, food service workers, vehicle operators, and general maintenance staff.

As illustrated in **Table 3-1**, WMLSD's staffing is higher on a per-1,000 student basis when compared to the peer average in administrative personnel, classroom teachers, other certificated staff, teacher aides, and operations. The variances for classroom teachers, other certificated staff

and teacher aides are discussed in **R3.2**. Most areas of operations staff are assessed separately in **facilities** and **transportation**.

Compensation

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

Table 3-2: Average Salary by Function¹

	Average Salaries			Salaries Per Student Educated		
	WMLSD	Peer District Average	Variance	WMLSD Salaries per Student	Peer Salaries per Student	Variance
Administrative Personnel	\$64,991	\$68,337	(4.9%)	\$444	\$439	1.1%
Office/Clerical	\$26,579	\$29,316	(9.3%)	\$165	\$195	(15.4%)
Classroom Teachers	\$45,141	\$50,570	(10.7%)	\$2,328	\$2,440	(4.6%)
Special Education Teachers	\$45,727	\$49,436	(7.5%)	\$426	\$439	(3.0%)
Education Service Personnel	\$40,917	\$53,540	(23.6%)	\$229	\$391	(41.4%)
Other Certificated Staff	\$44,002	\$46,130	(4.6%)	\$301	\$186	61.8%
Teacher Aides	\$15,782	\$15,154	4.1%	\$142	\$112	26.8%
Other Tech/Professional	\$43,000	\$16,067	167.6%	\$27	\$33	(18.2%)
Other Student Services	\$0	\$21,652	(100.0%)	\$0	\$35	(100.0%)
Operations ⁸	\$16,756	\$20,253	(17.3%)	\$489	\$410	19.3%

Source: FY 2008-09 EMIS data as submitted to ODE. EMIS data from WMLSD was adjusted to reflect FY 2008-09 salaries.

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

Table 3-2 shows WMLSD's average salaries are above the peer average in two categories, teacher aides and other technical/professional staff. **Table 3-2** also compares the salary cost per student educated. Salary cost per student is a function of the number of staff employed and their average salaries. If a district's average salaries are lower than the peers, its salary cost per student could still be higher because the district employs more people, albeit at a lower salary. **Table 3-2** indicates that the salary cost per student for other certificated staff, teacher aides, and operations is significantly above the peer average. This is consistent with **Table 3-1** which illustrated that the District's staffing was higher on a per-1,000 student basis compared to peers in the same categories (see **R3.2** and **R4.2**).

Benefits

WMLSD offers medical, dental, and vision insurance to certificated and classified employees through a self-funded insurance plan. Vision coverage is only offered to certificated employees and non-bargaining classified employees. As a self-insured entity, the District does not pay a premium rate per employee to a health insurance provider. Rather, the Board and employees contribute monthly into a separate fund established for health insurance claims. The District pays a third party administrator (TPA) who pays actual claims made by employees from this fund. WMLSD consults an insurance broker and reviews the claim history in order to set monthly funding rates. The collective bargaining agreements establish the portion of the funding rate paid by the Board and its employees (see **R3.4**). Due to lower than expected claims in FY 2007-08, the District's funding rates did not increase for FY 2008-09. Lastly, the District uses an insurance committee to evaluate its insurance provisions and monitor the insurance industry. The committee makes recommendations regarding appropriate actions to keep insurance costs in line, while maintaining a sufficient level of coverage. Using an insurance committee to manage benefits is considered a leading practice.

The District's insurance premiums and contribution rates were compared with industry standards. The comparison concluded that the District's premiums are generally in-line with or below State averages. However, the employee contribution rates for single coverage health and dental insurance for both certificated and classified employees are below industry standards. Moreover, contribution rates for family healthcare coverage for classified staff who work more than 6 hours per day are below industry standards. These issues are discussed further in **R3.4** and **R3.5**.

The District also provides life insurance at a cost comparable to the DAS benchmark. Moreover, the amount of life insurance coverage provided by the District is below the peer average and the average level of coverage reported by OEA. In addition, WMLSD has achieved low worker's compensation claims over the past three years through participation in the employer group rating discount program, which reduced its worker's compensation costs.

Negotiated Agreements

The **West Muskingum Education Association** represents certificated/licensed employees employed by the Board performing any work of the bargaining unit members, such as teachers, guidance counselors, nurses, librarians, speech and hearing therapists, and tutors. The negotiated agreement was effective between July 1, 2005 and June 30, 2008. During the course of the audit, a tentative agreement on a new contract was reached in March 2009.

The Board also has a collective bargaining agreement with the **West Muskingum Support Association/OEA/NEA**. The term of this negotiated agreement is July 1, 2007 through June 30, 2010. Membership in this collective bargaining unit includes food service workers, secretaries,

paraprofessionals, custodians, utility workers, bus aides, bus drivers, and mechanics. Those excluded from the agreement include administrative and supervisory personnel, and all central office employees.

During the performance audit, certain contractual and employment issues such as maximum class size, evaluation procedures, leave incentives, sick day accrual, and severance pay were assessed and compared with provisions of the ORC and OAC, as well as standard practices. Areas that were determined to be in excess of these guidelines were compared with contiguous school districts' negotiated agreements.² Within the areas examined, provisions related to maximum class size and evaluation procedures were found to be in excess of State minimum requirements (see **R3.6**).

Special Education

The District reports a higher special education population (12.7 percent of its total students) than the peers (10.3 percent). WMLSD employs leading practices by including special education students in regular education classrooms (also known as mainstreaming). The District mainstreams 76.3 percent of its special education students into regular classrooms; however, this is 3.1 percent below the peer average. Despite mainstreaming at a slightly lower percentage than the peers, WMLSD's special education expenditures per special education student were \$2,001 below the peer average.

The District provides many of its special education services through the use of the Muskingum Valley Education Service Center (MVESC). In addition, it shares some transportation resources with other districts in order to minimize the cost of transporting special needs students. Services provided to WMLSD by the MVESC include multiple disability programs, classroom aides, sign language interpreters, psychological services, preschool services, autism programs, speech therapy and other occupational and physical therapy services. The MVESC also funds three early childhood intervention classes at the District's elementary schools, which may lessen the long-term cost of instruction for special education students.

² Contiguous school districts include Tri-Valley LSD (Muskingum County), Northern LSD (Perry County), East Muskingum LSD, (Muskingum County), Licking Valley LSD (Licking County), Lakewood LSD (Licking County), River View LSD (Coshocton) and North Fork County LSD (Licking County).

Audit Objectives

The following questions were used to evaluate HR functions within WMLSD:

- How do staffing levels in the major personnel categories compare to the selected peer districts?
- Is employee compensation in line with the selected peer districts, similar surrounding districts, and industry practices?
- How does the cost of benefits offered by the District compare with State averages and industry benchmarks?
- Are the District's negotiated agreements in line with peers and best practices?
- Does the District effectively address human resource management and has it created a working environment that enhances its workforce?
- Does the Board operate in an effective manner?
- Does the District provide special education programs for students with disabilities that maximizes resources and are compliant with state and federal regulations?
- Are District retirement incentives cost effective?

Auditors noted that WMLSD's Board operations and special education programs meet or surpass industry standards and recommended practices.

Recommendations

- R3.1 WMLSD should develop a formal staffing plan to address current and future staffing needs. In addition, the District should develop a comprehensive recruitment plan that is based upon, and consistent with the staffing needs identified in the staffing plan. The development of staffing and recruitment plans will help the District formalize existing processes; identify and achieve staffing goals; and better communicate those goals to the public.**

While the District lacks a formalized staffing plan, informal elements of leading practices are being used. For example, the Superintendent works closely with building principals to discuss staffing needs based on desired class size, budgetary constraints, and program offerings. Additionally, the Superintendent considers the District's local report card and Comprehensive Continuous Improvement Plan (CCIP) in evaluating staffing needs and professional development goals. When a job opening occurs, it is posted by the Superintendent's assistant on the Ohio REAP website and MVESC website. Typically the Superintendent selects three applicants and interviews them in tandem with the building principal where upon the final candidate is submitted to the Board for approval.

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

Lakota Local School District (Butler County) has established staffing plans that incorporate staffing allocation factors such as State and federal regulations, workload measures, and other leading practices. In general, staffing benchmarks in these plans are calibrated to available General Fund revenue, which assists the District in ensuring a balanced budget. Staffing plans can not only be used as guides for determining staffing levels on an annual basis, but can also aid in determining mid-year staffing levels when changes are necessary. The Cincinnati City School District (Hamilton County) has developed a staffing plan that incorporates State requirements, contractual agreements, available resources, and educational goals into a process that includes central and site-based administrators and other personnel.

The National Education Association (NEA) publication *Meeting the Challenges of Recruitment and Retention* (NEA, 2003) recommends that school districts develop a comprehensive recruiting plan to address staffing needs. A district should first gather a recruitment team to evaluate the district's needs, identify resources, and recommend a list of desired changes in policies and practices. The recruitment team should include administrators, teachers, union members, parents, representatives from higher learning institutions, and community leaders. The recruitment plan should then:

- Assess the needs of the District to determine the number of teaching staff that are needed as well as the curriculum areas;
- Examine the culture within the district to ensure that a positive working environment exists;
- Clarify the academic mission to define what new teaching staff should be able to provide; and
- Identify the population of potential teachers and how to appeal to their interests as well as how to attract them to the community.

By having formalized staffing and recruitment plans, the District can openly communicate staffing strategies and priorities, as well as contingency plans should the District fail to secure sufficient revenue to avoid projected deficits. Furthermore, the District can explain or defend its decisions to hire or reduce personnel based on the objective analysis and clear reasoning that a staffing plan offers. Finally, integrating recruiting strategies into its staffing plan will help WMLSD better identify particular skills and attributes needed to effectively carry out the District's mission and achieve its academic goals.

R3.2 Due to its projected deficit and decline in enrollment, WMLSD should consider eliminating 8.0 FTE regular teacher positions, 2.0 FTE other certificated staff positions, and 1.0 FTE teacher support position. This will help it bring staffing levels more in line with the peer averages and reduce personnel costs paid from the General Fund.

Table 3-3 examines the number of regular teachers based the ratio of regular education students to regular teachers in comparison to the peers.

Table 3-3: Regular Teacher Staffing Analysis

	WMLSD	Peer Districts	Difference
Regular Teachers (FTE)	80.0	71.6	8.4
Regular Student Population	1,333.8	1,329.7	4.1
Regular Student-to-Teacher Ratio	16.7	18.6	(1.9)
Total FTE Regular Teachers above Peer Districts			8.3

Source: FY 2008-09 EMIS data as submitted to ODE. EMIS data from WMLSD was adjusted to reflect FY 2008-09 staffing levels.

Table 3-3 shows that WMLSD operates with a lower student-to-teacher ratio (16.7) when compared with the peer districts (18.6). The low student-to-teacher ratio is partially attributable to a drop in enrollment of 212 students that occurred in FY 2008-09. By eliminating 8.0 regular teacher positions, the District would bring its student-to-teacher ratio in line with the peers and save approximately \$381,000 in salaries and benefits starting in FY 2009-10.

Table 3-4 displays staffing levels for other certificated staff, including curriculum specialists, remedial specialists, tutors/small group instructors, and other certificated support staff.

Table 3-4: Other Certificated Staffing Analysis

	WMLSD	Peer Average	Difference
Students Educated (FTE)	1,609.5	1,529.6	79.9
Remedial Specialists per 1,000 Students	5.6	1.7	3.9
Tutor/Small Group Instructors per 1,000 Students	0.6	1.8	(1.2)
Curriculum Specialists and All Other Educ. Support Staff per 1,000 Students	0.6	0.5	0.1
Total Other Certificated Staff per 1,000 Students	6.8	4.0	2.8
<i>Total FTE Other Certificated Staff Above/(Below) Peer Districts</i>			4.5

Source: FY 2008-09 EMIS data as submitted to ODE. EMIS data from WMLSD was adjusted to reflect FY 2008-09 staffing levels.

As **Table 3-4** indicates WMLSD is 2.8 FTEs per 1,000 students above the peer districts. The elimination 4.5 FTE positions would bring the District in line with the peer average. However, all but one remedial specialists and one tutor / small group instructor is grant funded. Therefore WMLSD should focus on eliminating the locally funded remedial specialist and tutor positions. This would help the District could reduce its salary and benefit costs yet maintain more FTEs per 1,000 students in the other certificated staff category than the peers. Eliminating the locally funded remedial specialist and tutor positions would save the District approximately \$98,000 in salaries and benefits starting in FY 2009-10.

Table 3-5 displays staffing levels for teacher support staff compared to the peer districts on a per-1,000 student basis. This group includes teaching aides; who are assigned to assist teachers with routine activities associated with teaching; and instructional paraprofessionals, who assist in one-on-one tutoring, classroom management, or support under the direction of a teacher.

Table 3-5: Teacher Support Staffing Analysis

	WMLSD	Peer Districts	Difference
Students Educated (FTE)	1,609.5	1,529.6	79.9
Teaching Aides per 1,000 Students	0.0	5.3	(5.3)
Instructional Paraprofessionals per 1,000 Students	9.0	1.9	7.1
Total Teacher Support Staff per 1,000 Students	9.0	7.2	1.8
Total FTE Teacher Support Staff Above/(Below) Peer Districts			2.9

Source: FY 2008-09 EMIS data as submitted to ODE. EMIS data from WMLSD was adjusted to reflect FY 2008-09 staffing levels.

As indicated by **Table 3-5**, the District reported 9.0 total teacher support staff per 1,000 students, which is above the peers. The elimination of 2.9 FTE positions would bring the District in line with the peer average on a per 1,000 student basis. However, all but one instructional paraprofessional is grant funded. Therefore, by eliminating the locally funded instructional paraprofessional position, the District can reduce its General Fund costs and still maintain a higher level of teacher support staff per 1,000 students than the peers. By eliminating the locally funded instructional paraprofessional position, the District could save approximately \$20,000 in salaries and benefits in FY 2009-10.

Financial Implication: WMLSD could save about \$499,000 in FY 2009-10 by eliminating 8.0 FTE regular teachers, the locally funded remedial specialist and tutor positions, and the locally funded instructional paraprofessional position. However, these reductions may impact the District's ability to achieve its mission of educating children.

R3.3 WMLSD should discontinue the practice of paying any portion of retirement contributions (pickup) for administrators and any other staff. While paying a portion of retirement contributions is allowed under State Law, picking up an employee's retirement contributions increases the District's compensation costs and makes the employee's total compensation less transparent.

Both the State Teachers Retirement Systems (STRS) and the School Employees Retirement Systems (SERS) require employers and employees to contribute specified percentages of the employee's salary to the retirement funds. The WMLSD pays the employee share of the retirement contributions (pickup) for 10 people; the Superintendent, Treasurer, four building principals, two assistant principals, a coordinator, and the utility worker. The total cost of picking up the employees' retirement contribution was approximately \$70,000 in FY 2007-08.

Picking up the employees retirement contributions is a form of compensation that is not transparent to all stakeholders. While the practice is somewhat commonplace in school districts across the State, it does not promote full disclosure of a public official's total compensation. Moreover, given the District's financial condition, offering pickup may not be a benefit WMLSD can afford. Hence, the Board should consider discontinuing the

practice of picking up the employee's share of the retirement contributions. Although this may require the renegotiation of administrator contracts, WMLSD could save \$292,600 during the forecasted period by implementing this recommendation.

Financial Implication: By discontinuing the practice of picking up the employee share of the retirement contributions, the District would save approximately \$71,000 annually starting in FY 2009-10.

- R3.4 WMLSD should attempt to renegotiate an employee contribution toward the premium cost of dental insurance for all employees that is consistent with the portion paid by certificated staff for family dental coverage. Doing so would eliminate the disparity between contribution rates and reduce the District's benefit costs.**

Table 3-6 compares employee contribution rates for dental insurance at WMLSD to the SERB average.

Table 3-6: Dental Insurance Employee Contributions

	Single Coverage	Coverage Family
WMLSD Certificated Staff	0.0%	40.0%
WMLSD Classified Staff	0.0%	20.0%
SERB Average	8.7%	20.3%

Source: WMLSD and SERB

As shown in **Table 3-6**, there is no employee contribution for single coverage dental insurance. In addition, the comparison indicated that when factoring classified employee's contribution toward the premium for family dental insurance, the District pays \$73.49 per person per month, which is above the industry standard of \$65.56. In contrast, the District pays \$55.12 per person per month for certificated staff dental premiums when the 40 percent employee share is factored into the calculation. Negotiating a 40 percent employee contribution for dental insurance for all employees would reduce the disparity between employee groups and provide a cost savings to the General Fund.

Financial Implication: If WMLSD negotiated an increase in employee contributions toward the cost of dental insurance premiums to 40 percent, the District would save approximately \$17,000 annually starting in FY 2009-10.

R3.5 WMLSD should attempt to renegotiate an increase in the contribution rate toward the premium cost of single coverage health insurance for certificated and classified staff as well as an increase in the contribution toward family health coverage for classified staff. Specifically, the District should seek a contribution rate that is more in-line with industry standards.

Table 3-7 compares health insurance contribution rates at WMLSD to industry averages.

Table 3-7: Health Insurance Employee Contributions

	Single	Family
WMLSD Certificated Staff	0.0	15.0
WMLSD Full-time Classified Staff (6 hrs or more)	0.4	9.0
WMLSD Part-time Classified Staff (4 to 6 hrs)	0.4	20.0
SERB Average Southeast Region	11.3	14.3
Kaiser Family Foundation	16.0	27.0

Source: WMLSD and SERB

As shown in **Table 3-7**, both certificated and classified staff enrolled in the single coverage health insurance plan, contribute very little toward the Board's cost for premiums. *Health Care Cost Containment* (GFOA, 2004) recommends that governments share health care costs with employees in order to realize financial savings and encourage market efficiency by making employees more aware of the true costs of health care.

If the District negotiated an increase in contribution levels for single medical coverage for certificated and classified staff to meet an industry average of about 15 percent, the District would experience a savings of \$68.63 per person per month for certificated staff and \$66.80 per person per month for classified staff. Furthermore, if WMLSD negotiated an increase in the contribution rates for full-time classified employees enrolling in family health insurance coverage that was equal to the 15 percent contribution required of certificated staff, the District would save \$61.70 per person per month.

Financial Implication: Increasing contribution rates for single plan health insurance premiums for certificated and classified staff, and increasing contribution rates for classified family health insurance premiums to 15 percent could savings of approximately \$78,000 annually.

R3.6 WMLSD should re-examine the certificated agreement and seek to negotiate the removal of contract provisions that exceed State minimum requirements and industry standards. The District should also attempt to eliminate provisions that reduce management's flexibility in the hiring or placement of staff. Renegotiating these provisions would increase management control and bring negotiated agreements more in line with benchmarks.

As a component of the performance audit, certain provisions within the WMLSD certificated and classified agreements were compared with State minimum requirements and the provisions in the contracts of similar districts in the area. No provisions within the classified agreement were determined to exceed the benchmarks; however, the following areas in the District's certificated agreement were identified as potential issues for consideration:

- **Maximum class size:** WMLSD's certificate agreement contains the following maximum class size requirements.
 - K and 1—20 students per regular education class and 24 students per art, gym, or music class.
 - Grades 2 and 3—25 students per regular education class and 29 students per art, gym, or music class.
 - Grades 4 and 5—32 students per class.
 - Grades 6 through 8—33 students per class.
 - Grades 9 through 12—170 students per instructional day, and 180 per day for health and gym.
 - For classes that are block scheduled—33 students per block.

According to OAC § 3301-35-05, the ratio of teachers to students district-wide shall be at least one full-time equivalent classroom teacher for each twenty-five students in the regular student population, meaning some classes can be bigger and some smaller, as long as the average ratio is 25:1. Specific class size requirements in the collective bargaining agreement limit the Board's ability to adjust classes based on student populations and financial constraints.

- **Evaluation procedures:** The contract includes very detailed procedures for the evaluation process. According to ORC § 3319.11.1, any board of education evaluating a teacher shall adopt evaluation procedures that shall be applied each time a teacher is evaluated. These evaluation procedures shall include, but not be limited to:
 - Criteria for expected job performance in the areas of responsibility assigned to the teacher being evaluated;
 - Observation of the teacher being evaluated by the person conducting the evaluation on at least two occasions for not less than thirty minutes on each occasion;
 - A written report of the results of the evaluation that includes specific recommendations regarding any improvements needed in the performance of the teacher being evaluated and regarding the means by which the teacher may obtain assistance in making such improvements.

The inclusion of highly detailed evaluation procedures limits management's ability to implement leading practices in evaluations or adjust its processes through Board resolution.

Adjusting these provisions can be difficult because they are specified in the collective bargaining agreement and any changes need to be agreed upon during negotiations. However, the maximum class size provision is particularly restrictive and potentially costly if the student population substantially increases, as the District would be contractually obligated to hire more teachers or aides in order to meet required staffing levels. Moreover, this provision may hinder the District's ability to implement additional staff reductions if it is unable to obtain additional revenue or make reductions in other areas.

The lengthy evaluation procedures require the District to use only the process and tools specified in the contract to examine staff performance and effectiveness. If standards change or WMLSD identified a better practice, the District would be required to negotiate new evaluation procedures and tools. Agreeing to a more high-level description of the evaluation process in the collective bargaining agreement would provide managers more flexibility in providing regular formal feedback and performance appraisals to staff.

R3.7 WMLSD should attempt to negotiate the elimination of the early retirement incentive (ERI) provision in its certificated collective bargaining agreement then apply GFOA recommended practices when evaluating future incentives. If unsuccessful in removing the contract language, WMLSD should attempt to amend the provision and stipulate that the early retirement incentive will only be offered when the District determines that the incentive will generate cost savings or achieve staffing efficiencies. Furthermore, WMLSD should follow recommended practices when evaluating future retirement incentives and include in the evaluation process the goals of the incentive, its costs and benefits, an estimated budget impact, and plans for implementation.

The District's certificated employee bargaining agreement provides for an ERI in which the Board will pay an incentive of \$12,000 to all teachers reaching 30 years of State Teachers Retirement System (STRS) retirement credit, if they retire. Teachers with 25 or more of their 30 years at WMLSD are eligible for a \$14,000 retirement incentive. Failure to accept the incentive upon reaching 30 years results in forfeiture of the entire provision. Expressed interest in the retirement incentive is typically low and recently has become even lower as STRS provides incentives for teachers not to retire until reaching 35 years.

The Treasurer explained that the incentive typically does influence a teacher's decision to retire. However, she does not conduct a cost benefit analysis to determine if the ERI provides a financial benefit for the District. While the early retirement incentive does not

appear to have cost the District a significant amount of money, WMLSD should continue to monitor the provision and conduct cost benefit analyses in the future to determine if the ERI meets the District's staffing and budgetary goals. By doing so, the District can take advantage of potential opportunities to save money through a more effective ERI.

Worthington CSD's (Franklin County) certificated agreement contains an ERI that mirrors leading practices. To ensure adequate savings, Worthington CSD has determined the required number of staff and levels of experience needed in order for the incentive to be beneficial to the district. For instance, the agreement stipulates service requirements that employees must meet in order to be eligible for the incentive. The agreement also reserves the right to provide the incentive only if enough employees apply for the incentive. By including these stipulations, Worthington CSD only provides the incentive when it yields savings to the district.

To assist in the development of an effective retirement incentive, WMLSD should incorporate elements found in *Evaluating the Use of Early Retirement Incentives* (GFOA, October 2004), which recommends that governments exercise extreme caution if considering ERIs. According to GFOA, governments should take several actions prior to the decision to offer an ERI. Governments should also develop an implementation plan. The following is a brief description of the actions GFOA recommends:

- **Goal-Setting:** Governments should be explicit in setting documented goals for the ERI. Goals can be financial in nature and can also be designed to achieve human resource goals. Any ERI goals should not conflict with other retirement plan goals.
- **Cost/Benefit Analysis:** Governments should assess the potential costs and benefits of the proposals, and the cost/benefit analysis should be linked to the goals of the ERI. An ERI should be offered very infrequently and without a predictable schedule to avoid the expectation that another ERI will be offered, as this will distort normal employee retirement patterns.
- **Budgetary Considerations:** It is necessary to estimate the incremental cost of the ERI, which will vary according to the level of employee participation. Any budgetary analysis should project multiple scenarios for employee participation levels.
- **Implementation Plan:** Governments should consider a communication plan to help employees understand the ERI and consider the impact upon service delivery after employees retire, with identification of critical personnel whose services must be maintained. The duration of the window should take into account the ability of retirement staff to manage retirement application workloads, among

other factors. Lastly, performance measures should be used to ensure ERI goals are met.

By implementing GFOA-recommended components in its ERI, the District could evaluate the costs and benefits and determine the appropriateness of offering a retirement incentive. To reduce the potential of offering an incentive that may have a negative impact on its financial condition, WMLSD should attempt to remove the ERI and buyout provision from the certificated bargaining agreement and perform the process suggested by GFOA on an annual or periodic basis.

R3.8 Based on its financial condition and the absence of additional revenues, WMLSD should consider eliminating 15 additional regular teacher positions and 2 educational service personnel (ESP) positions, which would bring WMLSD close to State minimum requirements in these areas. However, reducing educational staff to State minimum requirements may negatively affect educational outcomes.

According to OAC § 3301-35-05, “The ratio of teachers to students district-wide shall be at least one full-time equivalent classroom teacher for each twenty-five students in the regular student population as defined in ORC § 3317.023. The ratio of teachers to students in kindergarten through fourth grade on a district-wide basis shall be at least one full-time equivalent classroom teacher per twenty-five students in the regular student population.” **Table 3-8** examines regular classroom teachers at the District in relation to the state minimum staffing requirements.

Table 3-8: Regular Teacher Comparison to State Minimum Standards

Comparison to State Minimum Requirements	FTE Teachers
Regular Teachers Locally Funded ³	78.0
State Minimum Required Regular Teachers	53.4
Regular Teachers Above State Minimum Requirement	26.6

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

As shown in **Table 3-3**, WMLSD’s operates with 8.3 more regular teachers than the peer districts. However, the District is 26.6 regular teachers above the State minimum requirement. If WMLSD continues to project deficits and is unable to generate additional revenue, it should consider reducing regular teachers toward the State minimum in addition to implementing other cost saving measures. If WMLSD reduced 15 additional regular education FTEs, it would save \$712,000 annually in salaries and benefits. This reduction along with the other performance audit recommendations would provide sufficient cost savings and allow WMLSD to maintain a balanced budget during the five-

³ This excludes two federally funded regular teachers.

year forecast period. However, reductions of this magnitude are disruptive to operations and affect the District's ability to achieve its educational goals and mission.

OAC § 3301-35-05 requires that school districts employ a minimum of 5.0 ESP FTEs for every 1,000 students in the regular student population. These ESP must be assigned to at least five of the eight following areas: counselor, library media specialist, school nurse, visiting teacher, social worker, elementary art, music, and/or physical education. **Table 3-9** displays staffing levels for ESP compared to the peers and State minimum requirements.

Table 3-9: Educational Service Personnel (ESP) Staffing Analysis

	WMLSD	Peer Districts	Difference
ESP Teachers (FTE)	6.0	6.9	(0.9)
Counselors (FTE)	2.0	3.3	(1.3)
Librarians / Media Specialists (FTE)	1.0	0.9	0.1
School Nurses (FTE)	0.0	0.6	(0.6)
Social Workers (FTE)	0.0	0.0	0.0
Visiting Teachers (FTE)	0.0	0.0	0.0
Total Educational Services Personnel (FTE)	9.0	11.7	(2.7)
Students Educated (FTE)	1,609.5	1,529.6	79.9
ESP Teachers per 1,000 Students	3.7	4.2	(0.5)
Counselors per 1,000 Students	1.2	2.1	(0.9)
Librarians / Media Specialists per 1,000 Students	0.6	0.6	0.0
School Nurses per 1,000 Students	0.0	0.4	(0.4)
Social Workers per 1,000 Students	0.0	0.0	0.0
Visiting Teachers per 1,000 Students	0.0	0.0	0.0
Total ESP per 1,000 Students	5.5	7.3	(1.8)
Total FTE ESP Above/(Below) Peer Districts			(2.9)
State Minimum Requirements			FTEs
Total ESP Employed			9.0
State Minimum Required ESP			6.7
ESP Above State Minimum Requirement			2.3

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

As indicated by **Table 3-9**, the District has 2.9 fewer ESP students compared to the peers. However, the District is 2.3 ESP above the State minimum requirement. In the absence of additional revenue, WMLSD should consider reducing ESP to the State minimum in addition to implementing other cost saving measures. The reduction of 2.0 ESP FTEs would save \$90,000 annually in salaries and benefits.

Financial Implication: By eliminating an additional 15.0 FTE and 2.0 ESP FTEs, WMLSD could reduce its costs for salaries and benefits by \$802,000 starting in FY 2009-10.

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 8 FTE regular teacher, 2 FTE other certificated staff, and 1 FTE paraprofessional instructor positions.	\$499,000
R3.3 Discontinue pickup of retirement contributions. ²	\$71,000
R3.4 Increase employee contributions toward dental insurance. ²	\$17,000
R3.5 Bring health insurance contributions in line with industry standards. ²	\$78,000
R3.8 Reduce an additional 15 regular education and 2 ESP staff bring the District closer to State minimum standards.	\$802,000
Total Estimated Savings	\$1,467,000

Source: AOS recommendations

¹ Savings based on implementation in FY 2009-10.

² Implementation is subject to negotiations.

Facilities

Background

This section focuses on the maintenance and operations (M&O) of facilities in the West Muskingum Local School District (WMLSD 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.

Buildings

WMLSD has four school buildings (2 elementary, 1 middle, and 1 high school). The District has recently completed a series of construction projects. In December 2006, the District opened a new high school for grades 9-12 and renovated the middle school for grades 6-8. The District has a long-term facility plan that includes two new elementary schools (grades pre-k through 5) which would replace the Falls and Hopewell Elementary Schools. The District chose to participate in the Expedited Local Partnership Program (ELPP) through the Ohio School Facilities Commission (OSFC) in order to move ahead with certain portions of construction with local money before it was eligible for the Classroom Facilities Assistance Program (CFAP). When the District is eligible for CFAP funding, its expenditures for the high school and middle school projects will be credited against its required local share. The District does not currently have an eligibility date for OSFC funding.

In addition to the four school buildings, the District uses four modular buildings: two at the Hopewell site for classroom space, one at Falls Elementary for pre-school classes, and one modular at the administrative site that houses the Director of Special Services who oversees transportation, food service, and is in charge of the District's safety planning. During FY 2008-09, the District sold the Dillon Elementary School property. Richey Elementary School was demolished. Currently, the OSFC master plan calls for the Richey Elementary and Hopewell sites to be used for new elementary schools.

Staffing

The WMLSD M&O Department is responsible for the upkeep of the District's facilities and grounds. **Table 4-1** presents the fiscal year (FY) 2008-09 staffing levels of the M&O Department.

Table 4-1: Maintenance and Operations Staffing

Classification	Number of Positions	Number of FTEs ¹
Custodians ²	12	11.2
Maintenance ³	2	1.9
Grounds ⁴	N/A	1.5
Total	14	14.6

Source: WMLSD

¹The FTE count was based on the percentage of time each staff member spends on a particular function.

² Because the four day-shift custodians spend an estimated 20 percent of their time performing light maintenance, 0.8 FTEs were allocated to maintenance.

³Includes maintenance supervisor at 0.5 FTE; utility worker at 0.6 FTE; and day-shift custodians' time at 0.8 FTE.

⁴The seasonal grounds staff FTEs were based on the total number of hours spent mowing in FY 2007-08. This figure includes the maintenance supervisor at 0.4 FTE, utility worker at 0.4 FTE, and seasonal mowing staff at 0.7 FTE.

The District employs 12 custodians, 1 utility worker, 1 maintenance supervisor, and seasonal staff who mow during the summer. There are three shifts of custodians: day, afternoon, and late. The four day-shift custodians spend approximately 20 percent of their time on maintenance tasks and 80 percent of their time on routine cleaning in their assigned areas. The two afternoon-shift custodians arrive to help with lunch room cleanup and also complete routine cleaning. The six late-shift custodians perform deep cleaning in their assigned areas. The building principals are the custodians' direct supervisor during the school year.

The Maintenance Supervisor's duties include assigning maintenance tasks; purchasing supplies; completing appropriate paperwork; monitoring the HVAC and security systems at the high school, middle school, and Falls Elementary School; completing other maintenance tasks as needed; and grounds duties. In addition, the Maintenance Supervisor provides assignments to and manages the Utility Worker. The Maintenance Supervisor reports to the Superintendent.

The Utility Worker duties include completing all maintenance and groundskeeping tasks assigned by the Maintenance Supervisor; including mowing and snow removal at all sites.

Key Statistics

Key statistics used to assess workloads based on FY 2008-09 data are presented in **Table 4-2**.

Table 4-2: Key Statistics and Workload Comparisons

Buildings	
Total Number of Buildings	9
Elementary School	2
Middle School	1
Administration Building	1
High School	1
Modular Units	4
Square Feet	
Total Square Feet Maintained	285,494
Total Square Feet Cleaned	275,912
• Elementary Schools	95,012
• Middle School	79,698
• High School	101,202
• Administration Building ¹	3,632
Workload Ratios	
<i>NCES Planning Guide Benchmark² (Sq. Ft. per FTE)</i>	<i>29,500</i>
Total Square Feet Cleaned per FTE (11.2 FTE)	24,635
• Elementary Schools (4.6 FTE)	20,655
• Middle School (2.8 FTE)	28,464
• High School (3.8 FTE)	26,632
<i>AS&U Cost Survey National Median³ (Sq. Ft. per FTE)</i>	<i>95,000</i>
Total Square Feet Maintained per FTE (1.9 FTE)³	150,260
<i>AS&U Cost Survey National Median³ (Acreage per FTE)</i>	<i>43</i>
Total Acres per Groundskeeper (1.5 FTE maintaining 135.8 acres)⁴	90.5

Source: WMLSD, NCES, and AS&U Magazine.

Note: Totals may vary due to rounding.

¹ A contracted employee cleans the administrative building therefore the square footage for this site is not included in workload ratios.

² 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.

³ The AS&U study is based on a national survey which is released in April each year.

⁴ This includes the 1.5 FTEs identified for maintaining grounds in **Table 4-1**.

Table 4-2 shows that WMLSD's maintenance and grounds staff has a high workload, significantly exceeding the national median. This level of productivity is possible because of the newer buildings, the level of experience of the Maintenance Supervisor, and the use of seasonal staff for mowing. Despite the higher maintenance and groundskeeping workload, these functions appeared to be completed at an acceptable level and were determined to be operating at a high level of efficiency. However, the District also operates with an overall custodial productivity

level of approximately 24,600 square feet per FTE, which is 17 percent less than the recommended workload of 29,500 square feet per FTE (see **R4.2**).

Financial Data

Table 4-3, summarizes expenditures reported by the District to maintain and operate its facilities for FY 2005-06 through FY 2007-08.

Table 4-3: Historical Expenditures

Object of Expenditure	FY 2005-06	FY 2006-07	FY 2007-08	3 Year Percent Change
Salaries	\$431,363	\$493,298	\$460,380	6.7%
Regular Salaries	\$351,985	\$328,869	\$365,493	3.8%
Overtime	\$11,344	\$17,204	\$9,921	(12.5%)
Benefits	\$184,118	\$190,752	\$210,203	14.1%
Purchased Services¹	\$221,311	\$245,640	\$246,134	11.2%
Utilities	\$363,369	\$449,477	\$530,039	45.8%
Electricity	\$202,355	\$260,307	\$305,216	50.8%
Water & Sewage	\$14,328	\$14,567	\$15,846	10.6%
Gas	\$146,685	\$174,602	\$208,975	42.4%
Supplies/Materials	\$71,399	\$106,087	\$133,625	87.1%
Capital Outlay	\$19,306	\$53,409	\$82,219	325.9%
Total General Fund	\$1,290,867	\$1,538,667	\$1,662,809	28.8%

Source: WMLSD year-end financial records.

Note: Totals may vary due to rounding.

¹ Purchased Services total exclude utilities costs.

As shown in **Table 4-3**, total facility expenditures increased 28.8 percent from FY 2005-06 to FY 2007-08, with most of the increase occurring in FY 2006-07. The following is a brief explanation of some of the variances from year to year:

- **Salaries:** When the District opened the new high school in FY 2006-07, it hired a new custodian. During this same time, the previous Maintenance Supervisor was on medical leave and WMLSD hired the present Maintenance Supervisor in FY 2007-08. The additional staff member and the overlap in filling the Maintenance Supervisor position increased overtime in FY 2006-07 and increased regular salaries in FY 2007-08 (see **R4.2**).
- **Benefits:** This increase is attributed to the additional staff and the rising costs of benefits other than health insurance (see **human resources**).
- **Purchased Services and Capital Outlay:** The majority of the increases in these categories were related to the District's ongoing construction projects. During the three year period, renovations were completed at the middle school, and WMLSD was still

incurring operating costs at the Richey and Dillon buildings, which were subsequently closed. The District also incurred additional costs for painting and preparation to Falls Elementary in anticipation of the building being open for operations. Moreover, the District experienced some costly heating, ventilation, and air conditioning (HVAC) issues with the new high school that contributed to the higher cost.

- **Utilities:** These increases are a result of opening the new high school, renovating the middle school, and large increases in electricity and gas rates over the past few years (see **R4.4**).
- **Supplies and Materials:** These increases are due to the supplies and materials needed for the Falls Elementary and middle school renovations and building openings (see **R4.1**).

Table 4-4 shows the District's costs per square foot compared to the AS&U National Median benchmarks. Expenditure categories that exceed the AS&U *37th Annual Maintenance and Operations Cost Study* national median may indicate operational inefficiencies and may represent opportunities for further cost reductions.

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

Expenditure Category	WMLSD	AS&U	Dollar Difference	Percent Difference
Salaries and Benefits	\$2.40	\$2.05	\$0.35	17%
Purchase Service (excluding utilities)	\$0.88	\$0.21	\$0.67	319%
Utilities	\$1.90	\$1.52	\$0.38	25%
Supplies and Materials	\$0.48	\$0.38	\$0.10	26%
Other	\$0.29	\$0.40	(\$0.11)	(26%)
Expenditure Total	\$5.95	\$4.56	\$1.39	30%

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.

As shown in **Table 4-4**, WMLSD's costs per square foot exceed the AS&U national median in all areas except the *other* category, which, for WMLSD, includes capital outlay. The District's salaries and benefits (**R4.2**), purchased services, utilities (**R4.4**), and supplies and materials (**R4.1**) were evaluated in detail as a result of the cost variances.

Audit Objectives

The following is a list of the audit objectives used to evaluate the District's Maintenance and Operations Department:

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

WMLSD met leading practice standards for providing training to its M&O staff.

Recommendations

Budgeting

- R4.1 WMLSD should establish benchmarks and performance measures to track expenditures related to supplies and materials in order to reduce costs. The District should use the annual appropriation process to tie its resource allocation to effective practices and products, thereby ensuring it receives the best value for its limited funds. Linking performance measures to planned expenditures will help the District allocate resources among high priority areas and can help bring the supplies and materials costs in line with industry standards.**

The District does not use performance measures or benchmarking to determine what practices and operations are effective, improve its cost management, or achieve the best results. Budgeting is conducted using historical information and an understanding of planned projects for the upcoming year. The budgetary process does not allow the M&O Department to link budgetary plans to performance measures and benchmarks or to overall District finances. WMLSD experienced a high rate of increase in supplies and materials—87 percent (**Table 4-3**)—and exceeded the AS&U national median by 26 percent (**Table 4-4**). Although this increase is mainly due to recent building renovations, using historical expenditures as a base for budgeting purposes and not tracking the effectiveness of its purchases has also led to increased costs (also see **R4.3**).

According to *Budgeting for Results and Outcomes* (GFOA, 2007), government entities should consider budgeting for results and outcomes as a practical way to integrate performance into the budgetary process. Furthermore, *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting* (GFOA, 1998) recommends that governments develop budgets that are consistent with approaches to achieve goals, and that they include performance measures. Some of these performance measures should document progress toward achievement of previously developed goals and objectives as defined by the government-wide strategic plan. GFOA indicates that governments should provide opportunities in the budget process for obtaining stakeholder input. WMLSD could use these recommended practices, in conjunction with a more rigorous long-term planning process (see **R2.1**) to better control its facility expenditures.

Budgeting using data from performance measures and benchmarks will not only help WMLSD better manage its costs and bring them in line with national averages, but can help the District prioritize repairs and replacement, allocate resources among high priority facility needs, and more effectively use the results of analyses to determine desired results. By applying performance-based budgeting or budgeting for results, WMLSD can focus its facility expenditures on high priority areas while reducing facility

costs to the General Fund. If the District is able to control its supplies and materials costs and hold them to a level commensurate with the three-year historical average over the life of the forecast, it could save a total of \$78,000 over the five-year period.

Financial implication: Limiting supply and materials expenditures to the three-year historical average expenditures, could save the District approximately \$17,000 annually and bring its costs in this area more in line with national averages on a cost-per-square-foot basis.

Staffing

R4.2 WMLSD should eliminate 2.0 FTE custodial positions to bring workload ratios in line with industry standards and help reduce salary and benefit expenditures.

The District employs 12 custodians, 1 utility worker, 1 maintenance supervisor, and several seasonal staff who mow during the summer. The District also contracts for 30 hours per month with a person who cleans the administrative buildings on the weekends. **Table 4-5** shows the FTE allocations for custodial staff based on the percentage of time allocated towards the custodial function.

Table 4-5: Custodial Staffing Comparison

	Day Shift FTEs	PM / Late FTEs	Square Footage	Square Footage Per FTE	FTEs based on Recommended Workload ¹	Difference
Falls Elementary	0.8	2	59,614	21,291	2.0	0.8
Hopewell Elementary	0.8	1	35,398	19,666	1.2	0.6
Middle School	0.8	2	79,698	28,464	2.7	0.1
High School	0.8	3	101,202	26,632	3.4	0.4
Total	3.2	8.0	275,912	24,635	9.5	1.7

Source: District interviews, OSFC Master Plans, NCES Planning Guide for School Facilities (2003).

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

When compared to the *Planning Guide for School Facilities* (NCES, 2003) median workload of 29,500 square feet per custodial FTE for level 3 cleaning (acceptable to most users), the District's custodians are less productive. On average, the District's custodians clean approximately 4,800 fewer square feet than the benchmark. By eliminating a total of 2 FTEs, the District could improve productivity at each site and decrease salary and benefits expenditures. WMLSD should use the techniques described in **R4.3** to ensure that its M&O staff maintain the buildings at an acceptable level even using the higher workload. Over the forecast period, the District could save a total of \$296,000 through a reduction in staff in this area.

Financial Implication: By eliminating 2 FTE custodial positions, the District would save approximately \$71,000 in salary and benefits starting in FY 2009-10.

Internal Controls

R4.3 WMLSD should develop and implement a written procedures manual for maintenance and custodial operations. The manual should contain specific instructions on the performance of routine and non-routine tasks and directions on any equipment to be used in completing the tasks. Furthermore, the District should develop formal performance standards and measures to clarify staff expectations, which should be consistent with procedures identified in the manual. Formal performance measures can be used to evaluate the efficiency and effectiveness of operations, improve decision-making and resource allocation, and help to ensure that all staff are properly informed of expectations related to their positions.

The District does not have a formal handbook, policy and procedures manual, or any performance standards for its custodial and maintenance staff. WMLSD uses informal means to convey job duties and performance standards. In each of the buildings, custodial assignment sheets or duty checklists are posted in the janitors' closets. These sheets include the worker's name, shift start and end time, assigned area, tasks to be completed and the frequency of the tasks. As the building principals are the custodians' direct supervisor during the school year, they ensure that tasks are completed. Board policy 7420 states, in part, that building principals are responsible for building cleanliness.

According to *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, such as via the Intranet or Internet. NCES suggests that at a minimum, the manual should include:

- Mission statement;
- Personnel policies;
- Purchasing regulations;
- Accountability measures;
- Asbestos procedures;
- Repair standards;
- Vehicle use guidelines;
- Security standards; and
- Work order procedures.

The *Planning Guide for Maintaining School Facilities* (NCES, 2003) also states that to assess staff productivity, the organization (through its managers and supervisors) must establish performance standards and evaluation criteria. For example, a custodian's performance might be measured by the amount of floor space or number of rooms serviced, the cleanliness of those facilities, and his or her attendance history. The

custodian's work likely will be assessed by his or her immediate supervisor and the principal of the school.

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 Methods and Procedures Manual* (Association of School Board Officials International, 2000) recommends an updated custodial and maintenance procedural manual that encompasses current cleaning processes utilized by the District's custodial operations, and incorporates standards to ensure appropriate staffing levels that are updated to reflect the current environment. *The Science of Cleaning* (Trombetta, n.d.) recommends cleaning professionals consider their occupation a science and evaluate how they perform each cleaning process and the tools they use. WMLSD could also use the ISSA recommended cleaning times to re-evaluate its cleaning processes. Twin Valley Local School District (Preble County) has applied these standards to its custodial procedures and achieved high levels of efficiency while maintaining a sanitary environment. Similarly, Oregon CSD (Lucas County) has instituted ISSA workload measures for its staff and achieved a very high productivity level without sacrificing building conditions (approximately 39,000 square feet cleaned per custodian in FY 2008-09). Oregon CSD uses written procedures and a handbook to instruct staff in the best methods to apply cleaning and maintenance procedures.

As a small District with experienced staff, the WMLSD has not created written manuals or formal performance standards for custodial and maintenance staff. Procedures for job responsibilities have been conveyed through informal methods. However, without a formal handbook for the M&O Department, the District cannot effectively communicate

management expectations as to the quality of work and performance. Maintenance and custodial employees may be unable to effectively and efficiently prioritize and perform their duties. Work performance may also be negatively impacted in the event that experienced employees are absent or otherwise unavailable. WMLSD could create a manual and performance standards using internal resources and leading practice examples at little additional cost.

Energy Management

R4.4 WMLSD should develop and implement an energy management and conservation policy in an effort to conserve energy and control rising utility costs. Specifically, the District should develop a clear, concise set of goals and procedures which is consistent with best practice. The policy should recognize the informal steps the District already uses to control utility costs but also expand on these efforts while educating staff and students on energy management.

During FY 2008-09, the District implemented several informal energy conservation practices, resulting in significant utility savings. While the informal activities employed achieved significant savings, the District should fully implement the recommendation of a formal energy conservation policy with specific goals and procedures that are consistent with current and best practices.

The District does not track energy usage or have any type of formal energy management or conservation and awareness programs. However, the District has employed some informal practices that mirror recommended practices. For example, the Maintenance Supervisor, who has over 20 years HVAC experience, has made appropriate adjustment to the heating and cooling systems to ensure it runs efficiently. Furthermore, he can remotely monitor the system from a laptop at home that is directly connected to the HVAC systems and make adjustments as needed based on weather conditions. The District has also installed adjustable lights throughout the new buildings that allow for dim, medium, and bright lighting settings. The new buildings also have low water flow fixtures in the restrooms.

Table 4-6 illustrates the District's historical utilities costs from FY 2005-06 through FY 2007-08, the percent change over the three year period, and how these expenditures compare to national median square-footage expenditures for utilities.

Table 4-6: Utilities Cost – WMLSD and AS&U Comparison

	FY 2005-06	FY 2006-07	FY 2007-08	3 Year Percent Change	District Cost per Sq. Foot	AS&U National Median	Percent Difference
Utilities	\$363,369	\$449,477	\$530,039	45.8%	\$1.90	\$1.52	24.7%
Electricity	\$202,355	\$260,307	\$305,216	50.8%	N/A	N/A	N/A
Water & Sewage	\$14,328	\$14,567	\$15,846	10.6%	N/A	N/A	N/A
Gas	\$146,685	\$174,602	\$208,975	42.4%	N/A	N/A	N/A

Source: WMLSD financial reports for FY 2005-06 through FY 2007-08 and the AS&U 37th Annual Cost Study.

Note: Totals may not sum due to rounding.

The District's overall utilities' costs have increased by approximately 46 percent during the three-year period, with electricity and gas comprising the largest increases at 51 percent and 43 percent respectively. These increases are partly attributable to rising utilities costs but are also related to the construction and opening of the new high school and renovated middle school. When compared to the AS&U national median, the District's costs are 25 percent higher.

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

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

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

The large increases in utilities costs could be controlled and, perhaps diminished, through the adoption of formal policies and more rigorous procedures. Additional steps beyond the informal practices in place could be helpful in controlling and monitoring these expenditures. According to the Department of Energy, some degree of energy awareness typically generates an immediate 1-3 percent savings, with additional savings up to 15

percent possible through aggressive energy management. With a strong emphasis on energy management, WMLSD could save as much as 10 percent on its utility cost, resulting in a cost avoidance of \$53,000 annually.

Financial Implication: Using the mid-point of a 2 percent reduction in utility expenditures, the District could realize a savings of \$13,000 annually based on projected utility costs for FY 2009-10.

Planning

R4.5 WMLSD should implement a formal facilities master planning process to help manage its renovated and new buildings and prepare for future construction. It should implement building audits and update the OSFC master plan on an annual basis. The District should also incorporate elements of leading practices into its facility master plan, such as capital improvement plans, preventive maintenance plans, enrollment projections, and capacity/utilization analyses (see R4.6). Developing a facility master plan and conducting formal audits will improve the long-term condition of the buildings and help WMLSD better manage its facility costs.

During the course of the audit, the District began conducting building audits to help plan for maintenance and capital needs.

WMLSD has a facility master plan that was completed by the OSFC that included building two new elementary schools. Although the plan was revised in November 2006 and July 2008, it was not updated to include recent changes in the District and does not incorporate some elements of leading practices. The District received a preventive maintenance (PM) plan during its most recent construction project. The PM plan follows OSFC requirements. Portions have been implemented and the Maintenance Supervisor has been working toward full implementation. He also uses his HVAC experience and parts of the OSFC plan to ensure preventive maintenance activities are completed.

According to *Creating a Successful Facilities Master Plan* (DeJong, 2001), school districts should develop a long-term facilities plan. The plan should contain information on capital improvements and financing, preventive maintenance and work orders, overall safety and condition of buildings, enrollment projections and capacity analysis (see **R4.6**). The plan should be developed on a foundation of sound data and community input. The plan, if developed appropriately, has the potential of having a significant effect on the quality of education in a school district. As a road map the facility master plan should specify the projects that have been identified, the timing and sequence of the projects, and estimated costs. A district-wide facility 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.

Preventive 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.

Formally assessing District buildings is a necessary component in developing and updating a facility master plan and a capital improvement plan. The *Planning Guide for Maintaining School Facilities* (NCES, 2003) explains that a facility audit is a comprehensive review of a facility's assets. Facility audits are a standard method for establishing baseline information about the components, policies, and procedures of a new or existing facility. An audit is a way of determining the status of the facility at a given time – that is, it provides a snapshot of how the various systems and components are operating. A primary objective of a facility audit is to measure the value of an aging asset relative to the cost of replacing the asset. Thus, facility audits are a tool for projecting future maintenance costs.

Given the fact that the District has devoted a significant amount of money into new facilities, WMLSD will need to conduct ongoing capital planning and preventive maintenance to ensure good stewardship of its facility investment. The District should begin using the OSFC preventive maintenance plan and incorporate the informal activities already being used into the OSFC PM plan. Furthermore, regular inspections will help the M&O Department address problems before they escalate into costly repairs or replacements.

Addressing maintenance issues at an early stage can reduce maintenance costs and ultimately save staff time. Regular building audits help develop routines and baselines for recognizing repair issues. By integrating the findings of building audits over time, planners can determine product life cycles, measure the impact of various maintenance strategies and efforts on product life cycles, and plan for future demands the aging process might place on the infrastructure of a school district. This information can be used to increase the efficiency and cost-effectiveness of facility use and maintenance efforts in the future.

R4.6 WMLSD should monitor student enrollment and develop a methodology for projecting future enrollment. Furthermore, the District should track building capacity and calculate utilization rates for each building. These steps should help the District plan for future facility decisions (see *Issue for Further Study* and R4.5).

Based on historical headcount data, WMLSD's enrollment has generally increased over the past ten years. However, in FY 2008-09, the District's enrollment decreased by 232 students. The District does not complete enrollment projections or building utilization assessments.

To estimate future enrollment, auditors used a modified Cohort Survival method to project enrollment for the next five years.¹ **Table 4-7** illustrates WMLSD's projected enrollment.

Table 4-7: WMLSD Enrollment Projection

Year	K	1	2	3	4	5	6	7	8	9	10	11	12	Total
2010	142	111	121	124	125	129	123	117	116	128	136	126	124	1,623
2011	142	135	108	121	122	125	126	122	116	119	130	134	122	1,622
2012	142	135	131	108	119	122	122	125	120	119	121	129	130	1,622
2013	142	135	131	131	106	119	119	121	123	124	121	119	124	1,615
2014	142	135	131	131	128	106	116	118	120	127	126	119	115	1,613

Source: AOS enrollment projection using Cohort Survivor Methodology and ODE historical enrollment data.

Unlike historical trends, **Table 4-7** shows a continued decrease in enrollment for the next five years. District officials feel that the financial situation and budgetary cuts in services and programs help explain the recent decline in students. If WMLSD was able to address its financial situation, it could have a positive impact on enrollment projections.

The District also does not conduct building capacity or utilization analyses. Therefore, auditors developed capacity and utilization rates for WMLSD's buildings using typical methodologies. **Table 4-8** shows the District's capacity and utilization per building for FY 2007-08 and 2008-09.

¹ The projections are based on the average mean difference from the previous six years. As with any projections, outcomes will vary due to the vitality of the variables used in the projections. Therefore, it is critical that projections are updated continually and include the most up-to-date information.

Table 4-8: Capacity and Utilization Rates

Building	Regular Class Rooms	Functional Capacity	FY 2007-08 Head Count	FY 2007-08 Utilization Rate	FY 2008-09 Head Count	FY 2008-09 Utilization Rate
Falls Elementary	22	550	530	96.4%	471	85.6%
Hopewell Elementary	14	350	353	100.9%	320	91.4%
Middle School	25	531	413	77.7%	360	67.8%
High School	37	795	644	81.0%	557	70.1%

Source: District building tours, floor plans, and interviews.

Based on the FY 2007-08 headcount data, the District's elementary buildings appear to be crowded. Even with lower FY 2008-09 headcounts, the utilization rates at the elementary schools are above the optimal utilization rate of 85 percent. The middle and high schools are both underutilized based on the FY 2007-08 and FY 2008-09 headcounts (see *Issues for Further Study*).

According to *Creating a Successful Facilities Master Plan* (DeJong, 2001), school districts should develop enrollment projections and capacity analyses as part of capital improvement planning. By calculating capacity and utilization rates, and projecting enrollment, the District can plan better for the future. If the enrollment trends show a decline and the buildings are inefficiently utilized, the District can make the decision to close a building based on data. Conversely, if the enrollment is increasing and the buildings are overcrowded, the District will have data that can help it convince voters there is a need for levy to build new buildings.

WMLSD has not developed enrollment projections or capacity analyses needed to support its future building decisions. Without this data, it is difficult for District officials to communicate facility needs to the public. By developing and maintain capacity analyses, WMLSD can better communicate its facility needs and intentions to its stakeholders.

Utility Charge-backs

R4.7 WMLSD should ensure that all food service related expenses are charged to the Food Service Fund, regardless of any future needs to transfer funds from the General Fund to the Food Service Fund. Specifically, the District should charge all direct costs such as utilities to the Food Service Fund. By accurately charging all food service expenses, WMLSD will have a more accurate financial picture, allowing for improved decision-making related to the Food Service program. Lastly, charging back to the Food Service Fund could help reduce the General Fund's obligations and contribute favorably to the overall financial condition of the District.

WMLSD does not identify and allocate direct facilities costs, such as electricity, gas, and water, to the Food Service Fund. One method of allocating costs to the Food Service Fund is to calculate the percentage of square footage used by the food service operation and then to apply that percentage to a cost category. For example, applying the percent of the facilities square footage occupied by the food service operation to the electricity expenditures for the District would result in additional food service costs of \$22,000 in FY 2008-09.

Measuring the Cost of Government Service (GFOA, 2004) suggests that governments should measure the full costs of its services. The full cost of a service encompasses all direct and indirect costs related to that service. Direct costs include the salaries, wages, and benefits of employees while they are exclusively working on the delivery of the service, as well as the materials and supplies, and other associated operating costs such as utilities and rent, training and travel.

Furthermore, the Ohio Revised Code § 3313.81 states that all receipts and disbursements in connection with the operation of food service for school food service purposes and the maintenance, improvement, and purchase of equipment for school food service purposes shall be paid directly into and disbursed from the food service fund which shall be kept in a legally designated depository of the board. Revenue 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.

Accurately capturing all costs in the Food Service Fund will help WMLSD evaluate the efficiency and performance of its food service operation, while improving the decision making process and helping to improve condition of the District's General Fund.

Financial Implication: Charging the Food Service Fund for direct utility costs such as gas, electricity, and trash removal, could result in an estimated saving in the General Fund of approximately \$46,000 for FY 2009-10.

Financial Implications Summary

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

Summary of Financial Implications for Facilities

Recommendation	Estimated Annual Cost Savings
R4.1 Control supplies and materials expenditures.	\$17,000
R4.2 Reduce custodial staffing by 2.0 FTEs.	\$71,000
R4.4 Implement an energy management program	\$13,000
R4.7 Charge a portion of utilities costs to the Food Service Fund	\$46,000
Total	\$147,000

Source: AOS recommendations

Transportation

Background

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

Table 5-1: Transportation Peer Comparison

School District	Square Miles	Total Riders	Density Riders per Square Mile	District Enrollment	Enrollment per Square Mile
West Muskingum Local	81	1,562	19.3	1,940	24.0
Firelands Local (Lorain County)	89	1,663	18.4	2,036	22.9
Minerva Local (Stark County)	81	1,553	19.0	2,143	26.5
Indian Creek Local (Jefferson County)	74	1,458	19.3	2,495	33.7
Lakewood Local (Licking County)	85	1,631	18.5	2,182	25.7
Crestwood Local (Portage County)	74	1,583	20.7	2,406	32.5
Fairless Local (Stark County)	65	1,414	21.2	1,953	30.0
Peer Average	78.0	1,550	19.5	2,203	28.5
Percent Variance	4%	1%	(1%)	(14%)	(19%)

Source: WMLSD and peer district T-1 reports.

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

Transportation Policies

Ohio Revised Code (ORC) § 3327.01 requires that, at a minimum, school districts provide transportation to and from school to all students in grades kindergarten through eight (K-8) who live more than two miles from their assigned schools. Districts are also required to provide transportation to community school and non-public school students on the same basis as provided to their own students. In addition, districts must provide transportation to disabled students who are unable to walk to school, regardless of the distance. Finally, when required by individualized education programs (IEP), districts must provide specialized, door-to-door transportation to special needs students based on the unique needs of the students.

The WMLSD Board of Education (the Board) has policies and administrative guidelines addressing:

- General Transportation Guidelines,
- Bus Driver Certification,
- Student Removal/Suspension from Transportation,
- Field Trips,
- Non-Routine Transportation,
- Bus Safety/Route Hazards,
- Special Education Transportation,
- Anti-Idling, and
- Bus Driver Procedures.

In fiscal year (FY) 2008-09, the District eliminated busing for high school students and created pickup points for younger students in order to reduce expenditures. Students may have to walk up to a half mile to reach their bus stop. In addition, the District eliminated the practice of sending buses into subdivisions to pick up students door-to-door. These reductions have allowed the District to cut two buses and eliminate two driver positions by cutting four middle school routes and two elementary routes. WMLSD also intends to restore high school busing as soon as it can afford to do so.

Operating Environment

WMLSD provides transportation using Board-owned and operated buses (or yellow buses) to transport regular and special needs riders. In FY 2008-09, the Transportation Department consisted of a total of 18 staff members, including the Director of Special Services, 16 bus drivers, and 1 bus aide. The Director of Special Services supervises and manages the transportation and food service operations. Six of the bus drivers also work as cooks for the District's food service operation. This allows the District to split insurance costs for these

employees between the transportation and food service functions (see **noteworthy accomplishments** in the **executive summary**).

WMLSD has a total of four school buildings, including a high school, a middle school, and two elementary schools. The high school, the middle school, and one of the elementary schools are located on a centralized campus. The other elementary school, Hopewell Elementary, is situated at a different location about five miles from the main campus. The District also transports students to several area non-public schools and to the Mid-East Career and Technology Center.

WMLSD contracts out its bus maintenance services. The contractor also stores the District's buses and fuel tank in a fenced-in lot. All other aspects of the transportation operation – including buses, drivers, insurance, routing, and the purchasing of fuel – are the responsibility of the District.

Operating Statistics

WMLSD provided transportation to 1,562 Type I (yellow bus) riders during FY 2007-08. Public, regular needs riders comprised 98.3 percent of all students transported on buses during FY 2007-08. The District also transported 16 regular, non-public riders (approximately 1.0 percent of yellow bus riders) and 10 special needs students (approximately 0.6 percent of yellow bus riders.) Despite its smaller enrollment, WMLSD transported more yellow bus riders in FY 2007-08 than the peers. WMLSD used 18 active and 9 spare buses to provide transportation services to students during FY 2007-08. The District has since reduced its number of active buses to 16 and spare buses to 8 in FY 2008-09.

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

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

	WMLSD	Peer Average	Percent Above (Below)
Square Miles	81	78	3.9%
ODE Enrollment	1,940.0	2,202.5	(11.9%)
Total Students Transported (All Types)	1,565.0	1,567.7	(0.2%)
Percent of Students Transported	80.7%	71.2%	13.3%
Total Yellow Bus Riders	1,562.0	1,550.3	0.8%
Regular Riders	1,552.0	1,514.2	2.5%
• Public (Regular Needs)	1,536.0	1,462.5	5.0%
• Non-Public	16.0	50.0	(68.0%)
• Community (Regular Needs)	0	1.7	N/A
• Special Needs	10.0	36.2	(72.4%)
Buses			
• Regular Buses	17.0	18.8	(9.7%)
• Special Needs Buses	1.0	2.5	(60.0%)
• Active Buses	18	21.3	(15.6%)
• Spare	9	7.8	14.9%
Miles			
• Annual Routine Miles	317,160	340,890	(7.0%)
Operating Ratios			
• Daily Miles per Rider	1.1	1.2	(7.2%)
• Riders Per Square Mile	19.3	20.0	(3.5%)
• Enrollment Per Square Mile	24.0	28.5	(16.1%)
Regular Riders Per Regular Bus	91.3	82.3	10.9%
Yellow Bus Riders Per Active Bus	86.8	74.8	16.0%
ODE Efficiency Ratio	1.34	1.19	12.5%
Routine Miles Per Active Bus	17,620	16,158	9.1%
Spare Bus Ratio	33.3%	26.1%	27.8%
Percent Public Riders	98.3%	94.3%	4.3%
Percent Special Needs Riders	0.6%	2.3%	(72.5%)
Percent Non-Public & Community School Riders	1.0%	3.4%	(69.7%)

Source: WMLSD and T-forms submitted to ODE

As **Table 5-2** shows, the regular ridership per bus at WMLSD (91.3) was approximately 11 percent higher than the peer average (82.3) in FY 2007-08. When special needs students are included, WMLSD's riders per yellow bus dropped to 86.8, which is 16 percent higher than the peer average of 74.8.

Due to the service level reductions discussed above, the District experienced some efficiency losses in FY 2008-09. The District's total number of students transported fell to 951, a loss of approximately 39 percent, but only two buses were eliminated. As a result, the District's regular riders per regular bus fell from 91.3 in FY 2007-08 to 62.5 in FY 2008-09, for a loss of approximately 32 percent.

Operating Expenditures

Table 5-3 shows WMLSD's FY 2007-08 transportation expenditures as compared with the peer averages on a per yellow bus rider, per active bus, and per routine mile basis.

Table 5-3: FY 2007-08 Transportation Cost Comparison

Salaries	WMLSD	Peer Average	% Difference
• Per Yellow Bus Rider	\$212.46	\$289.46	(26.6%)
• Per Active Bus	\$18,437	\$21,047.51	(12.4%)
• Per Routine Mile	\$1.05	\$1.32	(20.7%)
Benefits			
• Per Yellow Bus Rider	\$126.42	\$224.04	(43.6%)
• Per Active Bus	\$10,970	\$16,515.52	(33.6%)
• Per Routine Mile	\$0.62	\$1.03	(39.6%)
Maintenance & Repairs			
• Per Yellow Bus Rider	\$110.14	\$100.19	9.9%
• Per Active Bus	\$9,558	\$7,455.07	28.2%
• Per Routine Mile	\$0.54	\$0.46	17.9%
Fuel			
• Per Yellow Bus Rider	\$90.65	\$108.18	(16.2%)
• Per Active Bus	\$7,866	\$7,897.68	(0.4%)
• Per Routine Mile	\$0.45	\$0.49	(9.0%)
Bus Insurance			
• Per Yellow Bus Rider	\$7.52	\$11.65	(35.5%)
• Per Active Bus	\$652	\$861.78	(24.3%)
• Per Routine Mile	\$0.04	\$0.05	(31.2%)
All Other Costs			
• Per Yellow Bus Rider	\$4.98	\$20.35	(75.5%)
• Per Active Bus	\$432	\$1,466.11	(70.5%)
• Per Routine Mile	\$0.02	\$0.09	(73.5%)
Total Expenditures			
• Per Yellow Bus Rider	\$552.16	\$753.88	(26.8%)
• Per Active Bus	\$47,915	\$55,243.67	(13.3%)
• Per Routine Mile	\$2.72	\$3.45	(21.1%)

Source: WMLSD and peer district FY 2007-08 T-reports

Note: Percentages may vary due to rounding

As shown in **Table 5-3**, WMLSD's transportation expenditures by category are generally lower than the peer averages. However, the District's maintenance and repair costs are higher than the peer averages (see **R5.6**).

Special Needs Transportation

Ohio law and WMLSD's transportation policy state that temporarily or permanently disabled children are entitled to bus transportation between their homes and schools. In FY 2008-09, the District used 1 special needs bus to transport 11 special needs riders. When appropriate, the District mainstreams onto regular bus routes those special needs students who don't have specific needs which would require the use of a special needs bus. In addition, the districts in Muskingum County have an agreement to work cooperatively to transport special needs students. Each district picks up its own students and meets the other district buses at the County MRDD Office. From there, the students are disbursed to the buses that are going to their respective schools. WMLSD is responsible for transporting the County's special needs students to Tri-Valley LSD. Decisions about the transportation of WMLSD's special needs students are made cooperatively between the Special Education Coordinator and the Director of Special Services, as provided for in Ohio law.

Audit Objectives

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

- How do the District's transportation policies and procedures compare with leading 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" (Type I & II) 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?
- Is the District effectively managing its maintenance contract?

The District's transportation policies were reviewed and found to meet recommended practices, and its transportation services are consistent with its policies and with State minimum standards. Similarly, the District reports and verifies its T-form data in accordance with ODE instructions and it monitors its ridership throughout the year, making adjustments when appropriate. The Director of Special Services employs several recommended routing methods, including multi-tier routing, staggered bell schedules, automated routing software, cluster stops, and the use of alternative transportation methods when appropriate.

The District met recommended practices for controls to ensure the security of its buses, equipment, parts, supplies, and fuel. Through the Contractor, the District has an effective preventive maintenance plan and procedures that meet leading practices, and it bids, monitors and manages this contract in accordance with recommended practices. Finally, the District met recommended and leading practices in its special needs transportation policy and practices.

Recommendations

Policies, Plans, Procedures, and Guidelines

- R5.1 WMLSD should formally document the methodology by which the District’s non-routine transportation fees were developed. The methodology should clearly state which groups are to be charged for non-routine transportation (e.g., athletics, student activities, etc.) and identify the extent to which the fees are expected to cover the District’s costs. It should also identify which costs are to be recovered through fees and charges. By developing written policies and procedures in this area and communicating them to District stakeholders, WMLSD will promote consistency in its transportation operations while ensuring that stakeholders have a clear understanding of non-routine transportation costs and associated fees.**

Ohio Administrative Code (OAC) § 3301-83-16 defines “non-routine transportation” as the transportation of passengers for any purpose other than regularly scheduled routes to and from school. OAC § 3301-83-16 holds that the board shall recover an amount, not to exceed the actual operational costs, associated with non-routine use of school buses, with the exception of field trips that are extensions of the instructional program.

At WMLSD, non-routine transportation consists primarily of field trips and transportation for athletic events and other extracurricular activities. The District’s non-routine transportation costs are calculated at \$1.00 per mile plus driver wages. The \$1.00 per mile figure was established by the Director of Special Services after researching historical transportation costs, maintenance and fuel costs, and what other area districts charge for similar services. Groups are billed directly for non-routine costs, although billing for athletic trips is handled separately by the Treasurer’s Office and charged to the District’s General Fund. The Director of Special Services keeps a running log of non-routine miles and driver wages. Non-routine fees and any changes to those fees are presented to the Board for approval, but there are no formal policies or guidelines that govern how these fees are determined.

Setting of Government Charges and Fees (GFOA, 2001) recommends that government policies on charges and fees identify the factors used to price a good or service, and that both direct and indirect costs be incorporated when determining the cost of a service. Furthermore, overhead costs, like central administrative services, should be incorporated so that the full cost of providing the service is calculated. Finally, information on the charges and fees – including the government’s policy on cost recovery – should be available to the public.

Without clear policies and procedures to govern the recovery of non-routine costs, the District is unable to communicate in a clear and transparent manner the factors used to determine its charges and other practices. Establishing policies and guidelines will provide a greater level of consistency in the District's practices, and help ensure that all parties understand the basis for the recovery of the costs of non-routine transportation.

R5.2 WMLSD should formally document the criteria used to develop its bus replacement schedule as part of its formal bus replacement plan. The criteria should account for enrollment and ridership trends, industry-established age and mileage replacement criteria, and maintenance costs per bus.

The District has a bus replacement plan, which is funded through its General Fund. The presence of a formal replacement schedule is a leading practice, and WMLSD has demonstrated a commitment to planning for these future expenditures. However, the criteria for determining the bus replacement schedule, has not been included in the plan.

The National Association of State Directors of Pupil Transportation Services (NASDPTS) emphasizes that replacement of school buses should be a planned process (*School Bus Replacement Considerations*, 2002). The following factors should be considered when determining how often buses should be replaced:

- Safety,
- Fuel efficiency,
- Environmental impact (this includes emissions standards and other environmental considerations),
- Maintenance costs, and
- Operational conditions.

According to the Director of Special Services, the factors recommended by NASDPTS are all included in the decisions about bus replacement, but the application of these factors is not documented. By formally documenting the criteria for determining the bus replacement schedule as part of its bus replacement plan, the District can clearly establish its priorities with regard to safety and emissions, and can help ensure that those priorities and criteria are carried forward through any turnover in staff or administration. Furthermore, the District can use the plan to communicate to administrators and the public the condition of its bus fleet, its progress in meeting its schedule of replacement, and any risks posed by the current state of the fleet.

Transportation Data

R5.3 WMLSD should formally document the procedures for completing, reconciling, and submitting transportation data in accordance with ODE instructions. The methodology for separating and allocating costs should be documented to ensure compliance and consistency in reporting transportation costs to ODE. Formal procedures, that document the activities of all positions responsible for collecting and reporting accurate transportation data will help ensure the reliability of reported data, the continuity of the process, and compliance with State requirements in the absence of employees with institutional knowledge.

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

WMLSD has sound methodologies in place for completing, reconciling, and submitting transportation data in accordance with ODE instructions. However, these methodologies have not been documented in the form of written procedures or guidelines. The Director of Special Services has been with the District for over twenty years and thoroughly understands her responsibilities pertaining to transportation data reporting. However, the methodologies she uses to prepare the forms to submit transportation data are not formally documented and may not be fully understood in her absence. Furthermore, both the Treasurer and the Director of Special Services are involved in collecting transportation data. The methodologies they use are appropriate but may not be sustainable in the event of employee turnover.

According to *Documentation of Accounting Policies and Procedures* (GFOA, 2002 and 2007), government agencies should formally document their accounting policies and procedures. GFOA states that a well-designed and properly maintained system of documenting accounting policies and procedures enhances both accountability and consistency. The resulting documentation can also serve as a useful training tool for staff. The documentation of accounting policies and procedures should be readily available to all employees. It 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, the documentation of accounting policies and procedures should indicate which employees are to perform which procedures. Procedures should be described as they are actually intended to be performed. Finally, documentation of accounting policies and procedures should explain the design and purpose of control-related procedures to increase employee understanding of and support for controls.

By formally documenting its procedures for completing, reconciling, and submitting transportation data, the District can ensure consistency in data reporting and continuity of operations, even in the case of employee turnover.

Routing Efficiency

R5.4 If WMLSD does not restore high school transportation, it should consider eliminating a minimum of three, and up to five, regular needs buses in order to improve the efficiency and reduce the cost of its transportation operation. If it restores high school service, the District could maintain its current fleet size and two-tier system, with elementary school riders on one tier and middle and high school riders on a combined second tier. Under the second scenario, WMLSD would meet recommended efficiency targets. Prior to making a final decision on high school transportation, WMLSD should examine the impact of any new ODE transportation funding formula to determine the most effective option.

Table 5-4 compares WMLSD's regular student ridership per bus with the peer average.

Table 5-4: Ridership Comparison to Peer Average

	WMLSD (FY 2008-09)	WMLSD (FY 2007-08)	Peer Average (FY 2007-08)	Difference vs. Peers (FY 2007-08)
Regular Needs Buses	15.0	17.0	18.8	(1.8)
Regular Needs Riders	938.0	1,552.0	1,514.2	37.8
Regular Riders per Regular Bus	62.5	91.3	82.3	9.0
Number of Buses Needed (Using FY 2008-09 WMLSD Ridership and FY 2007-08 Peer Efficiency Level)				12

Source: WMLSD and peer districts' T-1 reports

Table 5-4 shows that, due primarily to the elimination of high school busing, WMLSD experienced a significant drop in the District's level of efficiency. This drop is particularly marked when examined in relation to the FY 2007-08 peer average, as WMLSD's ridership efficiency was 10.9 percent above the peers in FY 2007-08 but 24.1 percent below based on FY 2008-09 data. To achieve the peers' level of efficiency of 82.3 riders per bus, WMLSD would need to operate with 12 regular needs buses, a reduction of 3 buses from its FY 2008-09 level.

Table 5-5 compares WMLSD's regular needs ridership with AASA recommended capacity levels.¹

Table 5-5: Ridership Comparison to Industry Benchmark

Total # of Active Regular Buses	15
AASA Benchmark Capacity	1,434.1
AASA Benchmark Capacity per Bus	95.6
WMLSD Regular Riders	937.0
WMLSD Average per Bus	62.5
# of Buses to Achieve Benchmark	9.8
# of Buses Above (Below) Benchmark	5.2

Source: ODE, WMLSD, and AASA

As **Table 5-5** shows, the District would need to reduce 5 regular needs buses in order to operate at the AASA capacity benchmark. However, if high school busing is restored and the District's ridership per bus returns to the levels of previous years, it could restore the two buses it eliminated in FY 2008-09, maintain its two-tier transportation system, and meet targeted levels of efficiency.

According to the AASA, operating buses more efficiently is one of the most effective ways to achieve savings in a school district's transportation operation. By transporting more students per bus, a district can reduce the number of buses it uses and the costs associated with operating those buses.

By eliminating 5 buses to meet the AASA benchmark, WMLSD could save approximately \$153,000 per year. By eliminating 3 buses to meet the peer efficiency level, WMLSD could save approximately \$92,000 per year. However, if the ODE transportation funding formula is changed to reimburse districts based on ridership and efficiency, WMLSD should consider restoring high school busing. Under this scenario, the District would be credited for transporting its high school riders and receive a higher rate of reimbursement for its more efficient transportation system.

Financial Implication: If WMLSD eliminated 3 buses to meet the peer efficiency level, it could save approximately \$92,000 per year.

¹ *Hidden Savings in Your Bus Budget* (AASA: The School Administrator, December 2005)

Fuel Purchasing

R5.5 WMLSD should implement measures to compare its fuel costs to an industry benchmark and periodically solicit bids from multiple suppliers to ensure it is getting the best fuel prices available. If its fuel tracking measures demonstrate it is paying a higher price for fuel, it should consider purchasing its motor vehicle fuel through a consortium, or the State term contract available through the Ohio Department of Administrative Services (DAS).

WMLSD has a dedicated fuel tank which is kept on the maintenance contractor's lot. According to the Director of Special Services, the tank is refilled about twice per week, and the District is invoiced monthly. The District has contracted with the same fuel vendor, which also supplies fuel to other districts in the area, for the past 10 years. In FY 2007-08, the District spent approximately \$142,000 on fuel.

The Director of Special Services has periodically obtained quotes from other providers, although this has occurred infrequently throughout her tenure. The Director of Special Services also watches local prices and sometimes calls other area districts to determine what the vendor is charging them. However, she does not formally benchmark her prices against other districts.

The DAS Office of State Purchasing uses a bidding process to enter into a contract through which State agencies, local governments, and school districts may purchase gasoline and diesel fuel. DAS opens its fuel contract to a competitive bidding process every three years. The DAS contract provides a benchmark against which the fuel prices WMLSD has received from its vendor can be compared.

Table 5-6 shows the comparison between WMLSD's fuel prices and the DAS prices for sample periods in FY 2007-08 and 2008-09.

Table 5-6: DAS Fuel Price Comparison

Week	Gallons Purchased	WMLSD Avg. Price per Gallon	DAS Avg. Price per Gallon	Difference
2/9/2009	525	\$2.04	\$1.87	\$0.17
11/6/2008	325	\$2.81	\$2.70	\$0.11
9/2/2008	475	\$3.97	\$3.97	(\$0.00)
1/8/2008	600	\$3.30	\$3.30	(\$0.00)
9/4/2007	399	\$2.82	\$2.86	(\$0.04)
Average Price Difference (per Gallon)				\$0.05

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

Based on the sample of weeks shown in **Table 5-6**, WMLSD's fuel prices exceeded the DAS prices for some periods, and were in line or below the DAS prices for other periods. There is no consistent pattern within this small sample, but WMLSD's prices did average about 5 cents per gallon (1.6 percent) more for the weeks tested. While this difference is not material, WMLSD could use this information as a starting point for tracking and benchmarking its fuel costs. Based on the District's average fuel expenditures from FY 2005-06 through FY 2007-08, for every 5 cents per gallon the District is able to save, it could expect to save an average of \$2,000 per year.

By regularly measuring its fuel prices against a benchmark, WMLSD may find that purchasing through a consortium such as the DAS State contract would allow it to experience material savings in its fuel expenditures. At a minimum, the District should incorporate measures to track its fuel costs and regularly solicit bids from multiple suppliers – perhaps on a three-year schedule similar to the one used by DAS – to ensure it is getting the best fuel prices available.

Contract Oversight

R5.6 WMLSD should examine the different rate structures available for its maintenance contract and consider renegotiating the contract to include a rate structure more beneficial to the District.

WMLSD has a three-year contract for bus maintenance services. The contract covers 18 buses, and includes a monthly charge of \$180.25 per bus and a charge per mile traveled of \$.15 to \$.30 (depending on the age of the bus). These charges cover all preventive and corrective maintenance (mechanical repairs deemed necessary to maintain the safe and efficient operation of the vehicles).

Miami East LSD in Miami County uses the same contractor for bus maintenance services. Miami East LSD's contract covers 21 buses, with a monthly charge per bus of \$247.81. The contract covers preventive maintenance only. Under the contract, corrective maintenance is billed at \$52 per hour for labor and parts are billed at 30 percent above the Contractor's actual cost. Any individual repair over \$500 requires pre-approval from the District.

Table 5-7 compares WMLSD maintenance and repair costs with Miami East LSD's maintenance and repair costs and the peer district average for FY 2007-08.

Table 5-7: Maintenance & Repair Expenditure Analysis

	WMLSD	Peer Average	Miami East LSD	% Difference vs. Peer Average	% Difference vs. Miami East LSD
Total Maintenance and Repair Costs	\$172,043	\$155,442	\$104,930	10.7%	64.0%
Per Yellow Bus Rider	\$110.14	\$100.19	\$95.05	9.9%	15.9%
Per Active Bus	\$9,557.94	\$7,455.07	\$7,495.00	28.2%	27.5%
Per Routine Mile	\$0.54	\$0.46	\$0.37	17.9%	45.3%

Source: ODE T-2 reports

Note: Peer costs include salaries for mechanics and mechanic helpers.

As shown in **Table 5-7**, WMLSD's total maintenance and repair costs and costs per rider, per active bus, and per routine mile are above those of Miami East LSD and, in most of the categories, the peer average. Miami East LSD's maintenance and repair costs per routine mile are \$.17 (45.3 percent) less than those of WMLSD. Although the Treasurer indicated that the District's maintenance and repair costs will be lower for FY 2008-09 and FY 2009-10, the reduced costs are due to the District's reduced level of service (i.e., fewer buses and miles traveled), rather than to any changes or increased efficiency in the maintenance of its buses. Furthermore, the reduced costs, estimated to be \$125,000 per year, will still be projected to exceed Miami East LSD's costs. Finally, a historical comparison of WMLSD's and Miami East LSD's maintenance and repair costs demonstrated that WMLSD's costs have been significantly higher than those of Miami East LSD for the past three fiscal years.

It should be noted that there may be other differences in the transportation operations of WMLSD and Miami East LSD, such as the age and condition of their respective fleets, which contribute to the cost disparity. However, under its current rate structure, WMLSD is paying for repairs on each bus every month, regardless of whether they are actually needed or used. While this rate structure allows the District to avoid unexpected expenses when buses require immediate repairs, it may result in higher overall costs to the District. By renegotiating its contract so that it only pays for repairs when they are needed, WMLSD could achieve significant cost savings.

Financial Implication: If WMLSD could reduce its per-mile maintenance and repair costs to the level of Miami East LSD by renegotiating the rate structure in its maintenance contract, it could potentially save \$47,000 per year in maintenance and repair costs.

Financial Implications Summary

The following table is a summary of estimated annual cost savings from the recommendations contained in this section.

Financial Implications for Transportation

Recommendations	Estimated Annual Cost Savings
R5.4 Eliminate at least 3 buses to achieve the efficiency level of the peers.	\$92,000
R5.6 Renegotiate the maintenance contract rate structure.	\$47,000
Total Estimated Savings/Costs	\$139,000

Source: AOS recommendations

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District Response

The letter that follows is West Muskingum Local School District's (WMLSD) 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.

In its response, WMLSD notes that it cannot make many of the suggested reductions for a variety of reasons. Although the District may wish to maintain its current practices, financial circumstances dictate that changes to operations must be considered. Any potential changes to business-side operations, such as custodial staff or transportation, should be considered first as the effects and requirements of HB 1 remain unclear at this time. Regardless, WMLSD will have to continue to identify substantial savings in order to maintain its operations, absent an influx of new revenue.



West Muskingum Local Schools

West Muskingum High School - West Muskingum Middle School
Hopewell Elementary - Falls Elementary

ADMINISTRATIVE CENTER

4880 West Pike, Zanesville, OH 43701
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August 21, 2009

Mary Taylor, Auditor of State
88 East Broad Street
5th Floor
Columbus, OH 43215

Dear Auditor Taylor,

The West Muskingum Local School District wishes to thank the auditor's office in preparing the performance audit. We appreciate the fact that we were compared to the best of the best. We strive to be a low cost yet high performing district. Providing a good education in a safe environment at a reasonable cost is our highest priority. We have reviewed the auditor's report and have attached our response to the list of potential monetary savings items identified in the audit report. We have also highlighted some key statements from the performance audit and provided a list of significant actions that West Muskingum has already taken in an effort to stay in the black and yet remain a high performing district. It is our goal to continue to look for cost savings measures while maintaining a strong educational program for our students.

Respectfully submitted,

Sharon L. Smith
Superintendent
West Muskingum Local Schools
4880 West Pike
Zanesville, OH 43701

BOARD OF EDUCATION

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Audit Recommendation	Estimated Annual Savings	District Response
Eliminate 27 teaching positions	\$1,281,000	This would eliminate 23% of our teaching staff. This would seriously compromise our educational program for our students. Also, we would make cuts for one year only to reinstate them the following year in order to be in compliance with new state budget requirements (i.e. kindergarten, lower class size). However with declining enrollment we will continue to monitor class sizes in order to maintain reasonable teacher-student ratios.
Eliminate 1 para-professional position	\$20,000	This para-pro is with a special education student who requires an aide. We will use federal stimulus money to offset this cost for FY 2010. This will be part of the federal stimulus supplant rule.
Sub-total Instructional Staff	\$1,301,000	
Eliminate 3 bus routes	\$92,000	These routes would most likely come from the Hopewell area as these buses are not filled to capacity due to the distance between pick-ups. The typical Hopewell route runs 45 minutes to 1 hour each way. To make this reduction, the routes would run 1 to 1.5 hours each way. This would mean our Hopewell students would be spending much more time riding the bus than our Falls students. We will review all of our routes for possible reductions however due to declining enrollment.
Eliminate 2 custodial positions	\$71,000	We will review this recommendation. West Muskingum often blurs the line between maintenance and custodial duties. We were found to be understaffed in maintenance so we may need to move a person from custodial to maintenance duties.
Discontinue providing employee pick-up	\$71,000	This refers to the administrator's share of retirement that is paid by the board. Our administrative salaries are some of the lowest in Muskingum County. It will be difficult to retain or recruit administrators if we can't stay somewhat competitive with school districts in our area. (Example: West M High School Principal's Salary Plus Pick-up = \$84,150. Average High School Principal's Salary Plus Pick-up (if paid by the district) in the remaining 5 county school districts = \$92,807. West M pays \$8,657 below the average.)
Reduce supplies and material expenditures	\$17,000	We will review our maintenance supply expenditures for further reductions. In FY08 our costs were higher than normal because we readied our old high school building for elementary students when we closed Dillon & Richey elementary buildings.
Allocate more costs to the cafeteria fund	\$46,000	The board will consider this recommendation; though it may require a raise in lunch prices to keep our cafeterias solvent. Even with rising food costs, West M has not raised the price of student lunches for over 3 years due to the strong fiscal management of our cafeterias.
Implement an energy conservation program	\$13,000	The district implemented its own energy conservation program in FY09 and saved over \$170,921 in utility costs over FY08.
Increase dental insurance contributions	\$17,000	We will have the insurance committee review this recommendation. This is a negotiated item with our bargaining units. The structure of our plan has allowed West M to contain costs and pay less than SERB averages.
Increase medical insurance contributions	\$78,000	We will have the insurance committee review this recommendation. This is a negotiated item with our bargaining units. The structure of our plan has allowed West M to contain costs and pay less than SERB averages.
Renegotiate the fleet maintenance contract	\$47,000	We will review this recommendation and work with our fleet maintenance company. We bid this out every few years.
Sub-total Other	\$452,000	
Total	\$1,753,000	

Statements from the Audit Report

The West Muskingum Local School District would like to highlight some key statements from the performance audit.

From the Executive Summary:

"The District's (West Muskingum) expenditures per pupil were lower than the peer average even though it had higher percentages of students in poverty and with special needs. These groups are generally considered more costly to educate."

"Enhanced local revenue or additional savings not identified in this report would provide the District a greater range of choices to avoid deficits. Conversely, failure to implement cost savings strategies may require WMLSD to make additional reductions in mission critical service areas, such as educational personnel."

"On June 24, 2009, the Board approved a new collective bargaining agreement with the West Muskingum Education Association that would be retroactive from July 1, 2008 through June 30, 2011. This new agreement includes no increase in the base salary for FY 2008-09 through FY2010-11."

From Financial Systems:

"The district has not passed a levy generating new operating money since 1984, which has resulted in a lower effective millage rate when compared with the peers."

"...the District (West Muskingum) is at the 20mill floor with an effective rate of 20 for both residential (class I) and business (class II). This is below the peer average of 22.8 and 25.0 mills respectively."

When writing about the five year forecast the auditors wrote "AOS (Auditor of State) analyzed the District's assumptions and methodologies and found that they were sound, well-documented and appropriate"

"WMSLD's budgeting and forecasting process and sharing of financial information were comparable to recommended practices."

From Human Resources:

"..... WMLSD's special education expenditures per special education student were \$2,001 below the peer average."

"Auditors noted that WMLSD's Board operations and special education programs meet or surpass industry standards and recommended practices."

West Muskingum – Significant Actions

The items listed below are significant actions taken by West Muskingum in an effort to remain a low cost, high performing district.

1. Despite having a higher percentage of students in poverty and a larger percentage of special education students than the peer average, West Muskingum's expenditures per pupil were \$194 below the peer average. When you factor out federal funds, West Muskingum's expenditures per pupil were \$551 below the peer average.
2. West Muskingum has acted proactively in addressing the deficits of the district. In FY 2005 the district started making budget reductions, which in the last five years have totaled over \$3.5 million. These reductions included:
 - Eliminating administrative positions
 - Reducing the number of para-professional positions, which included staffing for the elementary and middle school libraries
 - Eliminating teaching positions
 - Eliminating a secretarial position
 - Eliminating busing for high school students and cutting other routes
 - Reducing building budgets
 - Eliminating all district funding for extra-curricular programs, including sports
 - During the 2008-2009 school year, the district took the drastic measure of making mid-year cuts to the teaching staff in order to end the year with a positive balance.
3. West Muskingum has negotiated a zero percent raise on the base in the 08-09, 09-10 and 10-11 school years for teaching and administrative staff and a zero percent raise in the 08-09 and 09-10 school years for the classified staff.
4. During the 07-08 school year, the district closed two elementary buildings, combined the attendance into one building, sold one property and demolished the smaller building to conserve costs.
5. During the 08-09 school year, the district implemented energy savings measures which resulted in a reduction in utility costs of \$170,921 over the prior year.
6. During the 08-09 school year, the district reduced its transportation costs by 36% over the prior year.
7. The District insurance rates were below the SERB (State Employment Relations Board) averages for southeastern Ohio. West Muskingum chose to address long term cost containment in its health insurance through the structure of its plan. The district utilizes a PPO and has structured its plan to encourage its use. In 2009, the district had a 98% PPO utilization rate. In addition, the structure of the plan encourages the use of generic medications through a tiered prescription system.

Even though in some instances the district's employee contributions are below the SERB average, the structure of the plan has been very effective in keeping district costs low compared to SERB averages. If West Muskingum had the same premiums and employee contributions as the SERB average, the district would have paid \$249,000 more in medical insurance costs. Conversely, by focusing on the plan structure to contain costs, the district saved over \$249,000 as compared to the SERB average.