



Dave Yost • Auditor of State





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To the residents, elected officials, management, and stakeholders of the Hillsdale Local School District,

At the request of the Ohio Department of Education, the Auditor of State's Ohio Performance Team conducted a performance audit of the District to provide an independent assessment of operations. Functional areas selected for operational review were identified with input from District administrators and were selected due to strategic and financial importance to the District. Where warranted, and supported by detailed analysis, this performance audit report contains recommendations to enhance the District's overall efficiency and effectiveness. This report has been provided to the District and its contents have been discussed with the appropriate elected officials and District management.

The District has been encouraged to use the management information and recommendations contained in the performance audit report. However, the District is also encouraged to perform its own assessment of operations and develop alternative management strategies independent of the performance audit report. The Auditor of State has developed additional resources to help Ohio governments share ideas and practical approaches to improve accountability, efficiency, and effectiveness.

**SkinnyOhio.org:** This website, accessible at <http://www.skinnyohio.org/>, is a resource for smarter streamlined government. Included are links to previous performance audit reports, information on leading practice approaches, news on recent shared services examples, the Shared Services Idea Center, and other useful resources such as the Local Government Toolkit. The Shared Services Idea Center is a searchable database that allows users to quickly sort through shared services examples across the State. The Local Government Toolkit provides templates, checklists, sample agreements, and other resources that will help local governments more efficiently develop and implement their own strategies to achieve more accountable, efficient, and effective government.

This performance audit report can be accessed online through the Auditor of State's website at <http://www.ohioauditor.gov> and choosing the "Search" option.

Sincerely,

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

Dave Yost  
Auditor of State

January 15, 2015

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# Executive Summary

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## **Purpose and Scope of the Audit**

The Ohio Department of Education (the Department) requested and funded this performance audit of the Hillsdale Local School District (HLSD or the District). The Department requested this performance audit with the goal of improving HLSD's financial condition through an objective assessment of the economy, efficiency, and effectiveness of the District's operations and management. See **Table 1** in **Background** for a full explanation of the District's financial condition.

The following scope areas were selected for detailed review and analysis in consultation with the District, including financial systems, human resources, facilities, and transportation. See **Appendix: Scope and Objectives** for detailed objectives developed to assess operations and management in each scope area.

## **Performance Audit Overview**

The United States Government Accountability Office develops and promulgates Government Auditing Standards that provide a framework for performing high-quality audit work with competence, integrity, objectivity, and independence to provide accountability and to help improve government operations and services. These standards are commonly referred to as generally accepted government auditing standards (GAGAS).

The Auditor of State's (AOS) Ohio Performance Team (OPT) conducted this performance audit in accordance with GAGAS. These standards require that OPT plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives. OPT believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

This performance audit provides objective analysis to assist management and those charged with governance and oversight 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.

## **Audit Methodology**

To complete this performance audit, auditors gathered data, conducted interviews with numerous individuals associated with the various divisions internally and externally, and reviewed and assessed available information. Assessments were performed using criteria from a number of sources including; peer comparison, industry standards, leading practices, statutory authority, and applicable policies and procedures.

In consultation with the HLSD, the following Ohio school districts were identified as peers: Allen East Local School District (Allen County), Berne Union Local School District (Fairfield County), Centerburg Local School District (Knox County), Colonel Crawford Local School District (Crawford County), Dalton Local School District (Wayne County), Hopewell-Loudon Local School District (Seneca County), Joseph Badger Local School District (Trumbull County), Mapleton Local School District (Ashland County), Mohawk Local School District (Wyandot County), and Springfield Local School District (Mahoning County).

Employee compensation and benefits can be impacted by factors outside District management's direct control, such as geographic location and surrounding district competition. For this reason, HLSD was compared to a select group of districts in Ashland, Richland, and Wayne Counties referred to as the surrounding districts. These districts include: Ashland City School District, Loudonville-Perrysville Exempted Village School District, Lucas Local School District, Madison Local School District, Northwestern Local School District, and Triway Local School District.

Where reasonable and appropriate, peer and surrounding districts were used for comparison. However, in some operational areas industry standards or leading practices were used for primary comparison. Sources of industry standards or leading practices used in this audit include: American Schools and Universities (AS&U), National Center for Education Statistics (NCES), DeJong and Associates, Inc.<sup>1</sup>, the Government Finance Officers Association (GFOA), the Kaiser Family Foundation, the National Association of State Directors of Pupil Transportation Services (NASDPTS), the National Clearinghouse for Educational Facilities (NCEF), the Ohio Department of Administrative Services (DAS), the Ohio Department of Education (ODE), the Ohio Revised Code (ORC), the Ohio School Boards Association (OSBA), and the State Employment Relations Board (SERB).

The performance audit involved information sharing with the District, including drafts of findings and recommendations related to the identified audit areas. Periodic status meetings throughout the engagement informed the District of key issues impacting selected areas, and shared proposed recommendations to improve operations. The District provided verbal and written comments in response to various recommendations, which were taken into consideration during the reporting process.

AOS and OPT express their appreciation to the elected officials, management, and employees of the Hillsdale Local School District for their cooperation and assistance throughout this audit.

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<sup>1</sup> DeJong and Associates, Inc. is a nationally recognized educational facilities planning firm that is utilized by the Ohio School Construction Commission and its affiliate commissions for enrollment projections and capacity calculations on new building construction projects for school districts in Ohio.

## Summary of Recommendations

The following table summarizes performance audit recommendations and financial implications, where applicable.

### Summary of Recommendations

Recommendations	Savings
<b>R.1 Close elementary building and adjust grade-level configuration</b>	\$242,900
<b>R.2 Realign Building and Grounds (B&amp;G) staff</b>	N/A
<b>R.3 Eliminate 5.0 FTE general education teaching positions</b>	\$230,500
<b>R.4 Eliminate 1.5 FTE educational service personnel (ESP) positions</b>	\$119,400
<b>R.5 Improve the cost-effectiveness of the health insurance program</b>	\$399,800
<b>R.6 Renegotiate severance payment provision</b>	\$50,500
<b>R.7 Revise administrative compensation plan for building principals</b>	N/A
<b>R.8 Reduce fuel expenditures through cooperative purchasing</b>	\$11,300
<b>R.9 Solicit quotes for bus maintenance on an annual basis</b>	N/A
<b>R.10 Develop a formal bus replacement plan</b>	N/A
<b>R.11 Complete T-1 reports as prescribed by ODE</b>	N/A
<b>Cost Savings Adjustments<sup>1</sup></b>	\$64,260
<b>Total Cost Savings from Performance Audit Recommendations</b>	<b>\$990,140</b>

<sup>1</sup> Cost savings from certain recommendations are mutually exclusive. The order in which these recommendations are implemented may impact other recommendations and, in turn, will influence total savings. Financial savings identified in R.5 were based on 79 plan participants. Should the District elect to implement all staffing reductions recommended in R.3 and R.4, the number of plan participants would be reduced to 72. An adjustment of \$64,260 was applied to account for this reduction of plan participants. Information concerning the individual financial implications is contained in the respective recommendations within the performance audit.

The following table shows the District's ending fund balances as projected in the District's May 2014 financial forecast. Included are annual savings identified in this performance audit and the estimated impact that implementation of the recommendations will have on the ending fund balances.

### Financial Forecast with Performance Audit Recommendations

	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
<b>Original Ending Fund Balance</b>	<b>\$1,075,876</b>	<b>\$454,376</b>	<b>(\$1,463,936)</b>	<b>(\$3,750,211)</b>
<b>Cumulative Balance of Performance Audit Recommendations</b>		<b>\$990,140</b>	<b>\$1,980,280</b>	<b>\$2,970,420</b>
<b>Revised Ending Fund Balance</b>	<b>\$1,075,876</b>	<b>\$1,444,516</b>	<b>\$516,344</b>	<b>(\$779,791)</b>

Source: Hillsdale Five Year Forecast for Fiscal Year 2014 (May 2014) and performance audit recommendations

While the performance audit recommendations are based on FY 2013-14 operations, implementation of all recommendations may not be possible until FY 2015-16, as some require contract negotiations and others would not be implementable until the start of a new fiscal year. As shown in the table, implementing the performance audit recommendations contained in this report would only allow the District to maintain positive fund balances through FY 2016-17. Furthermore, the savings identified are the result of substantial reductions that could hamper the District's ability to operate effectively, such as reducing general education and ESP teachers to State minimum levels in conjunction with closing one of three school buildings. Unless the

District is able to generate savings beyond those identified in this report, it may not be able to avoid the projected ending fund balance deficit in FY 2017-18.

# Background

## Financial Status

In June 2012, ODE declared HLSD to be in a state of fiscal caution in accordance with Ohio Revised Code (ORC) § 3316.03, due to anticipated deficits. In response to the fiscal caution designation, the HLSD Board of Education adopted a financial recovery plan which it submitted to ODE on December 11, 2013. Included in the financial recovery plan are proposed measures to alleviate the fund deficits, including a ten year, 1.25 percent earned income tax levy that was passed in November of 2013. Projected revenue enhancements from the earned income tax levy are approximately \$70,000 in FY 2013-14 (partial collection) and \$900,000 in FY 2014-15. When combined with proposed expenditure cuts, the plan projected positive fund balances for FY 2013-14 and FY 2014-15.<sup>2</sup>

School districts in Ohio are required to prepare and submit two five-year financial forecasts to ODE.<sup>3</sup> Information contained in these forecasts provide an important measure of the financial health of a district and serve as the basis for identifying conditions that lead to fiscal distress designations by AOS and ODE. **Table 1** summarizes the District's May 2014 five-year forecast and includes year-end General Fund balances.

**Table 1: Financial Condition Overview (May 2014)**

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Total Revenue	\$9,592,267	\$10,068,080	\$9,467,745	\$8,048,133	\$8,062,054
Total Expenditure	\$9,034,649	\$9,855,445	\$10,089,245	\$9,966,445	\$10,348,329
<b>Results of Operations</b>	<b>\$557,618</b>	<b>\$212,635</b>	<b>(\$621,500)</b>	<b>(\$1,918,312)</b>	<b>(\$2,286,275)</b>
Beginning Cash Balance	\$325,623	\$883,241	\$1,095,876	\$474,376	(\$1,443,936)
<b>Ending Cash Balance</b>	<b>\$883,241</b>	<b>\$1,095,876</b>	<b>\$474,376</b>	<b>(\$1,443,936)</b>	<b>(\$3,730,211)</b>
Estimated Encumbrances	\$40,000	\$20,000	\$20,000	\$20,000	\$20,000
<b>Ending Fund Balance</b>	<b>\$843,241</b>	<b>\$1,075,876</b>	<b>\$454,376</b>	<b>(\$1,463,936)</b>	<b>(\$3,750,211)</b>

Source: Hillsdale Five Year Forecast for Fiscal Year 2014 (May 2014)

As shown in **Table 1**, the District's May 2014 five-year forecast projects an ending fund balance deficit of \$3.7 million in FY 2017-18, slightly higher than the approximate \$3.5 million deficit the District projected in its October 2013 forecast. It is common practice that five-year forecasts exclude renewal levy revenue from the ending fund balance that is set to expire within the forecast period and is subject to re-approval by voters. This allows a school district to accurately present its financial condition should it not achieve levy passage. Accordingly, the District's

<sup>2</sup> The fiscal recovery plan projects a positive cash balance of \$140,429 by the end of FY 2013-14 and \$633,749 by the end of 2014-15.

<sup>3</sup> These forecasts are required to be submitted to ODE in May and October of each year.

May 2014 forecast does not include revenue from the combined operating renewal levy that subsequently failed passage on November 4, 2014. For this reason, total forecasted revenue declines after FY 2014-15. However, the forecast presented in Appendix C includes alternative ending fund balance estimates that assume passage of the renewal levy, should the District achieve passage at a later date within the forecast period.<sup>4</sup> Based on the estimated renewal levy revenue, the District would remain solvent throughout the forecasted period and maintain a positive fund balance of over \$2.3 million in FY 2017-18 if they are successful in passing the levy by November 2015.

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<sup>4</sup> Ballot eligibility for the combined operating renewal levy is valid through November 2015.

# Recommendations

## R.1 Close elementary building and adjust grade-level configuration

HLSD has three school facilities: Hillsdale Elementary School (grades K-4), Hillsdale Middle School (grades 5-8), and Hillsdale High School (grades 9-12). The functional capacity of each building was analyzed using methodology outlined in *Defining Capacity* (DeJong & Associates, Inc., 1999). A building's functional capacity is established based on the number of rooms that could be used for regular education instruction while excluding special education rooms, as these rooms have smaller student to teacher ratios and may not hold students for the full duration of a school day. **Table 2** shows each building's functional capacity and utilization rate for FY 2013-14.

**Table 2: FY 2013-14 Building Utilization Rates**

Building	FY 2013-14 Headcount	Functional Capacity	Utilization Rate
Elementary School	345	375	92.0%
Middle School	302	475	63.6%
High School	304	531	57.3%
<b>District Total</b>	<b>951</b>	<b>1,381</b>	<b>68.9%</b>

Source: HLSD & ODE

As shown in **Table 2**, the utilization rates for the middle school and high school were at 63.6 percent utilization and 57.3 percent utilization, respectively. Overall, the District is using only 68.9 percent of its functional capacity.

The District could achieve higher utilization and possible cost savings through the consolidation of its school buildings. By closing Hillsdale Elementary School and reallocating students to the Middle and High Schools, the District could achieve a District-wide utilization rate of 87.0 percent based on the FY 2017-18 enrollment projection of 897 students in relation to the Middle and High School's combined functional capacity of 1,031 students. Although the District's enrollment permitted the closure of the Elementary School, the District would not be able to implement a building closure in FY 2014-15 due to the associated planning requirements.

**Table 3** shows that HLSD would realize cost savings by closing the elementary building through a reduction in expenditures for duplicated personnel and facility costs. Further savings, such as one time sales revenue, could be obtained by selling the vacated building.

**Table 3: Building Closure Savings**

<b>Staffing</b>	<b>Savings</b>
1.0 FTE Principal	\$116,411
1.0 FTE Office/Clerical	\$28,134
<b>Total Staffing Savings</b>	<b>\$144,545<sup>1</sup></b>
<b>Facilities</b>	<b>Savings</b>
Avoidable Purchased Services	\$58,357
Supplies and Materials	\$16,285
Utilities	\$23,791
<b>Total Facility Savings</b>	<b>\$98,433<sup>2</sup></b>
<b>Total Savings From Building Closure</b>	<b>\$242,978</b>

Source: HLSD financial reports and NCEF

Note: Table 3 does not factor in potential relocation expenses.

<sup>1</sup> Savings from staffing reductions were estimated using the least senior employee salaries and benefits.

<sup>2</sup> Savings from reduced facility expenditures were estimated based on cost proportions outlined in *Closing a School Building* (National Clearinghouse for Educational Facilities (NCEF), 2010).

**Financial Implication:** By closing Hillsdale Elementary School, the District could save approximately **\$242,900**, annually, through expenditure reductions for purchased services, supplies and materials, utilities, and the elimination of 1.0 administrator FTE<sup>5</sup> and 1.0 office/clerical FTE.

## **R.2 Realign Building and Grounds (B&G) staff**

HLSD employs one maintenance supervisor that oversees maintenance for the entire District, as well as supervises the staff of seven custodians. Total staffing for Building & Grounds (B&G) equated to 6.8 FTEs (inclusive of grounds, maintenance, and custodial duties).

The District's facilities operations were evaluated against selected peer school districts, recommended practices, and operational standards from applicable sources, including the American School and University (AS&U) Magazine and the National Center for Education Statistics (NCES). AS&U reports average square footage and acreage maintained by building and grounds (B&G) staff annually. This data was averaged for the last five years of available data and used to establish the following benchmarks: 95,000 square feet of building space per maintenance FTE and 40.2 acres maintained per grounds FTE. For custodial staffing, NCES data was used for comparison purposes. This data holds that under level 3 efforts,<sup>6</sup> school custodians were found to clean, on average, approximately 28,000 to 31,000 square feet per FTE. Based on this range, the midpoint of 29,500 was used as a benchmark. **Table 4** compares HLSD's B&G staffing levels to these benchmarks or FY 2012-13.

<sup>5</sup> An FTE is defined by the ratio between the amount of time normally required to perform a part-time assignment and the time normally required to perform the same assignment full-time as defined in *FY 2013 EMIS Reporting Manual* (ODE, 2013). One FTE is equal to the number of hours in a regular working day for that position, as defined by the district.

<sup>6</sup> Level 3 cleaning is the common practice for most school facilities.

**Table 4: B&G Department Staffing Need**

<b>District Staffing</b>	
Total FTE Ground Staffing	0.7
Total FTE Maintenance Staffing	1.1
Total FTE Custodian Staffing	5.0
<b>Total FY14 B&amp;G FTE Staffing</b>	<b>6.8</b>
<b>District Statistics</b>	
Acreage Maintained	133.0
Square Footage Maintained	142,770
Square Footage Cleaned	142,770
<b>Staffing Benchmarks and District Need</b>	
AS&U Five Year Avg. Acres per FTE Groundskeeper	40.2
<b>Calculated FTE Groundskeeping Need</b>	<b>3.3</b>
AS&U Five Year Avg. Sq. Ft. per FTE Maintenance	94872
<b>Calculated FTE Maintenance Need</b>	<b>1.5</b>
NCES Level 3 Cleaning Median Sq. Ft. per FTE	29500
<b>Calculated FTE Custodian Need</b>	<b>4.8</b>
<b>Total B&amp;G Staffing Need</b>	<b>9.6</b>
<b>Current Staffing Compared to Calculated Need</b>	
<b>Grounds Staffing Difference</b>	<b>(2.6)</b>
<b>Maintenance Staffing Difference</b>	<b>(0.4)</b>
<b>Custodian Staffing Difference</b>	<b>0.2</b>
<b>Total B&amp;G Staffing Difference</b>	<b>(2.8)</b>

Source: HLSD, NCES, and AS&U Magazine

As shown in **Table 4**, HLSD staffing levels were in alignment with, or below, the industry benchmarks. Based on the District's most recent year building configuration, a reduction in personnel was not warranted.

However, if the District were to close the Elementary School (see **R.1**), staffing levels for custodians would be 1.4 FTE over the benchmark, but the total B&G staffing levels would be 1.7 FTEs below the benchmarks. Therefore, the District should assess its staffing needs in the event that building configurations change and realign staff to meet the District's need for grounds, maintenance, and custodial duties.

### **R.3 Eliminate 5.0 FTE general education teaching positions**

General education teachers instruct students in a regular classroom environment. Ohio Administrative Code (OAC) § 3301-35-05 requires the ratio of general education teachers to students to be a least 1.0 FTE classroom teacher for every 25 regular students district-wide. This category excludes teaching staff in other areas such as gifted, special education, and education service personnel (ESP) teachers<sup>7</sup>. **Table 5** presents three options for staffing reductions in which the District would continue to operate within State requirements for general education teacher staffing levels based on FY 2013-14 data.

<sup>7</sup> ESP teachers include K-8 art, music, and physical education teachers.

**Table 5: General Education Teacher Comparison**

General Education FTEs				41.0
Regular Student Population				898.5
Staffing Ratio (Students :Teachers)				21.9:1
<b>Options</b>	<b>Staffing Ratio by Option (Students:Teachers)</b>	<b>Proposed Staffing for each Option</b>	<b>Difference Above / (Below)</b>	<b>Annual Savings</b>
Option 1: Peer Average	18.5:1	48.6	(7.6)	N/A
Option 2: 10% Above State Minimum	22.5:1	39.9	1.1	\$49,435
Option 3: State Minimum	25:1	35.9	5.1	\$235,118

Source: HLSD, peer districts, and OAC

As illustrated in **Table 5**, the District's student to teacher ratio is higher than the peer average. Although HLSD is staffed efficiently in comparison to the peer average, its financial condition warrants the consideration of two other options for reducing general education teachers. The selection of an appropriate course of action is ultimately District management's responsibility based on the needs and desires of the stakeholders in its community. Those decisions must be balanced, however, with their fiduciary responsibility to adapt to the financial realities in the District and maintain a solvent operation.

The savings realized if the District were to implement Option 3, when coupled with the rest of the recommendations in this report, would still not be sufficient to bring the five-year forecast back into balance. It would, however, have the greatest impact on the District's financial condition. HLSD should be cognizant that it is not a common practice in Ohio to operate at or near State minimums, however, the District may need to make significant staffing reductions to address potential deficits if savings cannot be identified and achieved in areas of operation not identified in this audit.

**Financial Implication:** Eliminating 5.0 FTE general education teaching positions would save approximately **\$230,500** in salaries and benefits, annually. These savings were calculated using the five lowest full-time teacher salaries in FY 2013-14 and include an average benefit ratio of 36 percent.<sup>8</sup> Estimated savings could increase if the reduction occurs through retirement or voluntary separation of higher salaried staff.

#### **R.4 Eliminate 1.5 FTE educational service personnel (ESP) positions**

ESP positions include K-8 art, music, and physical education teachers; counselors; librarians; social workers; and visiting teachers. In FY 2013-14, HLSD employed 6.3 FTE ESP staff, which included 1.4 FTE art teachers, 1.6 FTE music teachers, 1.8 FTE physical education teacher, 1.0 FTE counselor, and 0.5 FTE librarians. OAC § 3301-35-05 requires that school districts employ a minimum of 5.0 FTE ESP for every 1,000 students in the regular student population. **Table 6** presents three options for staffing reductions in which the District would continue to operate within State requirements for ESP.

<sup>8</sup> The average benefit percentage is calculated by dividing the District's total employee retirement and insurance benefits by the total personal service expenditures in FY 2013-14.

**Table 6: Educational Service Personnel (ESP) Comparison**

Educational Service Personnel FTEs					6.3
Regular Student Population					898.5
Staffing Ratio (ESP per 1,000 students)					0.7
<b>Options</b>					
	<b>Staffing Ratio by Option (ESP per 1,000 Students)</b>	<b>Proposed Staffing for each Option</b>	<b>Difference Above / (Below)</b>	<b>Annual Savings</b>	
Option 1: Peer Average	8.2	7.4	(1.1)	N/A	
Option 2: 20% Above State Minimum	6	5.4	0.9	\$73,160	
Option 3: State Minimum	5	4.5	1.8	\$144,705	

Source: HLSD, peer districts, and OAC

The analysis presented in **Table 6** shows that the District is staffed efficiently in comparison to the peer average. Based on HLSD's projected financial condition, however, the District may need to implement the reduction of teachers beyond the peer average. The selection of an appropriate course of action is ultimately District management's responsibility based on the needs and desires of the stakeholders in their community. Staffing decisions must be balanced, however, with their fiduciary responsibility to adapt to the financial realities of the District and maintain a solvent operation.

Although Option 3 would not bring the District's five-year forecast back into balance when coupled with the other recommendations in this report, it would provide HLSD with the greatest financial impact. While it is not a common practice in Ohio to operate at or near State minimums, the District may need to make significant staffing reductions to address the deficits as projected in its five-year forecast.

**Financial Implication:** Eliminating 1.5 FTE ESP positions would save approximately **\$119,400** in salaries and benefits, annually. These savings were calculated using the lowest full-time ESP position salary in FY 2013-14 and include an average benefit ratio of 36 percent.<sup>9</sup> Estimated savings could increase if the reduction occurs through retirement or voluntary separation of higher salaried staff.

### **R.5 Improve the cost-effectiveness of the health insurance program**

**Prior to making any changes to health insurance, the District should review the Patient Protection and Affordable Care Act to ensure that intended results will be achievable under the new legislation.**

The District offers employees single and family medical insurance coverage through its self-insured program. **Table 7** illustrates how the District's annual health insurance cost per covered employee and corresponding annual expenditure in FY 2013-14 compared to the State Employment Relations Board (SERB) benchmark for self-insured entities.

<sup>9</sup> The average benefit percentage is calculated by dividing the District's total employee retirement and insurance benefits by the total personal service expenditures in FY 2013-14.

**Table 7: Health Insurance Cost Comparison**

	<b>HLSD</b>	<b>SERB</b>	<b>Difference</b>	<b>% Difference</b>
Total Number of Plan Participants	79	N/A	N/A	N/A
Average Annual Cost per Employee	\$16,265	\$12,598	\$3,677	29.2%
<b>Annual Expenditure</b>	<b>\$1,284,935</b>	<b>\$995,242</b>	<b>\$289,693</b>	<b>29.1%</b>

Source: HLSD and SERB

As shown in **Table 7**, the District's annual health insurance cost per covered employee was significantly higher in comparison to the SERB average. Further, the District's annual health insurance expenditure was considerably higher than the potential SERB cost based on the District's total number of plan participants and employee contribution rates in FY 2013-14.

High comparative costs were the result of costly provisions included in the insurance plan. The District's in-network annual deductibles for single and family plans were \$150 and \$325, respectively. Additionally, the District's annual co-insurance maximum out-of-pocket amounts for in-network single and family plans were \$950 and \$1,500, respectively. In comparison, the *21<sup>st</sup> Annual Report on the Cost of Health Insurance in Ohio's Public Sector* (State Employment Relations Board, 2013) shows that approximately 36% of single plans and 37% of family plans in Ohio School Districts and ESCs had in-network deductibles higher than those of the District. This SERB data also indicated that the median in-network out-of-pocket maximum for Ohio School District and ESC family plans was \$1,000, or \$500 less than those provided by HLSD.

**Table 8** shows the District's total FY 2013-14 health insurance cost employee contribution rates in comparison to regional SERB survey data.

**Table 8: Insurance Premium Employee Contribution Comparison**

	<b>Percent of Premium Contributed</b>		<b>Difference</b>	<b>% Difference</b>
	<b>HLSD</b>	<b>SERB<sup>1</sup></b>		
Singe Plan	<0.1%	11.2%	(11.1%)	N/A
Family Plan	10.0%	11.0%	(1.0%)	N/A
<b>Annual Expenditure less Contributions</b>	<b>\$1,284,935</b>	<b>\$1,142,705</b>	<b>\$142,230</b>	<b>12.4%</b>

Source: HLSD and SERB

<sup>1</sup> Akron/Canton regional average.

The District's classified and certificated collective bargaining unit contracts contain provisions that stipulate employee health care benefits and limits. The current health care premium employee contribution rate for single plans is \$1.00 per month (less than one tenth of 1 percent of the premium), while employees enrolled in a family plan contribute 10 percent of the premium. As illustrated in **Table 8**, the District's insurance premium employee contribution rates in FY 2013-14 were lower than the SERB Akron/Canton regional average. Further, the District's annual premium expenditure after employee contribution deductions was higher than the potential SERB cost based on the SERB regional averages for single and family plans, and the District's FY 2013-14 expenditures.

Financial Implication: The District could save approximately **\$399,800<sup>10</sup>** by simultaneously reducing the annual cost per employee and increasing employee contributions to the SERB regional averages. Implementing only one of these changes could result in savings of approximately **\$289,600** by lowering annual insurance costs per employee to the SERB average or approximately **\$142,200** by increasing employee contributions to the SERB average.

## **R.6 Renegotiate severance payment provision**

According to the District's collective bargaining agreement for certificated employees, a bargaining unit member with ten or more years of active service is entitled to payment of one-fourth of his/her accrued but unused sick leave at the time of retirement. The maximum payment under this contract is for 50 unused sick leave days. Further, if the employee notifies the Board in writing of his/her retirement prior to March 15 of that year, the employee receives an additional 10 days of severance pay. An additional 40 days of severance pay is also granted to those employees who retire in the first year of eligibility. The District's collective bargaining agreement for classified employees states that the total severance payment benefit cannot exceed the value of 60 days of accrued but unused sick leave. During FY 2012-13, 15 employees retired, 10 of which received payment for 30 or more sick leave days, totaling \$220,700.

According to Ohio Revised Code (ORC) § 124.39(B), an employee of a political subdivision covered by the ORC, and with ten or more years of service with the State, is to be paid one-fourth the value for any accrued but unused sick leave credit, up to 30 days. Reducing severance payments to one-fourth of an employee's accrued but unused sick leave to a maximum of 30 days will assist in lowering the District's potential liability associated with future severance payments.

Financial Implication: The District could save approximately **\$50,500** annually by reducing its severance payments to the ORC minimum based on the average total annual severance payment made for FY 2011-12 through FY 2013-14.

## **R.7 Revise administrative compensation plan for building principals**

On March 15, 2011 the HLSD Board of Education passed its administrative salary and benefit compensation plan for building principals. This schedule determined a building principal's salary by multiplying a base salary by factors that account for such items as contracted days, job assignment, education level, experience, and prior performance evaluations. In addition to a base salary, HLSD building principals receive other benefits such as STRS employee pension pick-up, fully paid insurance benefits, and an annual Board-paid annuity of \$8,700 after two years of employment.

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<sup>10</sup> The total financial implication of \$399,800 is not equal to the sum of \$289,600 and \$142,200 because the prescribed savings of \$142,200 associated with increasing employee contribution rates to the SERB average assumes no reduction in the District's FY2013-14 health insurance expenses. Applying the SERB employee contribution rates to a lower total health insurance expenditure, however, would yield a decreased employee contribution amount and lower total achievable savings.

**Table 9** compares the District’s building principal compensation levels to the surrounding districts.

**Table 9: Building Principal Compensation Comparison**

	<b>HLSD</b>	<b>Peer Average</b>	<b>Difference</b>	<b>% Difference</b>
Contract Days	224	221	3	1.4%
Base Salary	\$88,661	\$74,712	\$13,949	18.7%
Additional Compensation	\$14,392	\$8,823	\$5,569	63.1%
Total Compensation Package <sup>1</sup>	\$103,053	\$83,535	\$19,518	23.4%
<b>Total Compensation Per Day</b>	<b>\$460</b>	<b>\$378</b>	<b>\$82</b>	<b>21.7%</b>

Source: HLSD, Madison LSD, Lucas LSD, Loudonville-Perrysville EVSD, and Triway LSD

<sup>1</sup> Hillsdale LSD, Lucas LSD, and Loudonville-Perrysville EVSD provide fully paid medical, dental, and vision insurance. Madison LSD and Triway LSD require a 7 percent employee contribution for medical, dental, and vision insurance premiums.

As shown in **Table 9**, HLSD building principals earn approximately 23 percent more than the peer average on an annual basis, and approximately 21 percent more on a daily rate basis. The District’s compensation is higher in comparison to the peers due to its high base salary and additional compensation items, which include the Board-paid annuity and STRS employee contribution.<sup>11</sup>

Based on this comparison, there is a potential for savings but, according to ORC § 3319.02 (C), compensation reductions for school administrators must be part of a uniform, district-wide plan. As such, the District should revise its compensation plan in order to adjust compensation levels to those provided by similar, surrounding district peers. Implementing these changes will reduce the total cost of building principal contracts and ensure that these levels of compensation are in line the surrounding district and other HLSD administrative salaries.

**R.8 Reduce fuel expenditures through cooperative purchasing**

**Table 10** shows the District’s FY 2012-13 transportation costs in comparison to the peer average.

**Table 10: Transportation Cost Ratio Comparison**

	<b>HLSD</b>	<b>Peer Average</b>	<b>Difference</b>	<b>% Difference</b>
Per Yellow Bus Rider	\$1,105	\$846	\$259	30.6%
Per Active Bus	\$53,339	\$46,470	\$6,869	14.8%
Per Routine Mile	\$4.35	\$3.52	\$0.83	23.6%

Source: HLSD and peer district transportation data as reported to ODE

As shown in **Table 10**, the District spent considerably more for transportation services in FY 2012-13 in comparison to the peers. The District’s high transportation costs are attributable to the lack of competitive price shopping for fuel and bus maintenance (see **R.9**) and lack of a formal bus replacement policy (see **R.10**).

<sup>11</sup> STRS employee contribution expenditures are dependent upon base salaries. Therefore, HLSD’s higher STRS employee contribution is higher than the peers due to its higher base salary.

The District no longer solicits bids when purchasing fuel as it found that the same vendor had continuously been awarded its fuel contracts. The Cooperative Purchasing Program (CPP) through the Ohio Department of Administrative Services (DAS) offers Ohio political subdivisions, including school districts, the benefits and cost savings of procuring goods and services through State contracts. The administrative fee for joining the CPP is \$100 for school districts. According to ORC § 125.04(C), a school district may purchase fuel from a private vendor instead of through participation in the CPP if it can do so at a lower price. In addition, a district must maintain sufficient evidence that it has achieved lower pricing through the private contract.

A cost comparison between the District's fuel purchasing price and the CPP contract price was performed using a 3 month sample of FY 2012-13 data. This comparison showed that, on average, the District paid \$0.22 and \$0.38 more per gallon than the CPP contract price for gasoline (87 octane) and diesel fuel (#2 clear), respectively. **Table 11** summarizes the potential cost savings of purchasing fuel through the CPP using these price comparison differences.

**Table 11: Fuel Savings Analysis**

Fuel Type	Gallons <sup>1</sup>	Cost Differential/Gallon	Total Savings
<b>FY 2012-13</b>			
Gasoline (87 octane)	4,368	\$0.22	\$961
Diesel (#2 clear)	27,484	\$0.38	\$10,444
<b>Total</b>	<b>31,852</b>	<b>NA</b>	<b>\$11,405</b>
<b>FY 2013-14<sup>2</sup></b>			
Gasoline (87 octane)	3,040	\$0.22	\$669
Diesel (#2 clear)	19,133	\$0.38	\$7,271
<b>Total</b>	<b>22,173</b>	<b>NA</b>	<b>\$7,940</b>

Source: HLSD & DAS

<sup>1</sup> The FY 2012-13 and FY 2013-14 respective totals of 31,852 and 22,173 gallons purchased, as provided by the District, did not specify individual totals for gasoline and diesel fuel types. Therefore, the gasoline and diesel totals were estimated based on the proportion of fuel types purchased during the 3 month sample used.

<sup>2</sup> The FY 2013-14 figures represent partial year totals from July 1, 2013 through May 1, 2014.

As shown in **Table 11**, the District paid an estimated \$11,405 more for fuel in FY 2012-13 than it could have using the a CPP contract.

The District should use a competitive bidding process for fuel purchases. In addition to a reduction in expenditures, competitive bidding would ensure compliance with ORC § 125.04(C). The District should consider the Cooperative Purchasing Program; however, it may continue to use a different source for fuel if it can provide sufficient evidence that it can achieve a lower price than the CPP fuel contract.

**Financial Implication:** The District could save approximately **\$11,300** by purchasing fuel through the Cooperative Purchasing Program based on FY 2012-13 data, net of administrative fees.

## **R.9 Solicit quotes for bus maintenance on an annual basis**

The District does not perform bus maintenance and repairs in-house. Instead, it contracts these services out to a local vendor. In FY 2012-13, the District expended \$12,779 per active bus for

repairs and maintenance compared to a peer average of \$6,205, a 105.9 percent difference. The District attributes high maintenance costs to an aging fleet and the need to contract out all bus maintenance. However, HLSD has not competitively bid out bus maintenance services. According to the Transportation Supervisor, although the District received one quote for minor maintenance services in 2011, the current vendor remained the most cost effective provider.

According to *Competitive bidding* (Ohio School Boards Association, 2011), the purchase of school buses requires competitive bidding to remain in compliance with ORC § 3313.172 and 3327.08. While maintenance services do not require competitive bidding, it is a leading practice to gather quotes from at least three sources to ensure that a district is getting the best price. Because the District does not solicit three or more quotes for bus maintenance on a regular basis; it is at risk of overspending on bus maintenance costs. Therefore, the District should actively solicit three or more quotes for bus maintenance in order to ensure it is receiving the best value.

### **R.10 Develop a formal bus replacement plan**

While the District replaced a bus in FY 2012-13, the purchase was not the result of guidance outlined in a formal bus replacement policy. The District does use an informal practice by which it typically replaces a bus every two years, if funding is available. Based on this continued practice, the District has dedicated funding for bus replacement in its May 2014 five-year forecast.

The average age of the District's active bus fleet was 9 years; however, it had 2 active buses that were 15 or more years old. Additionally, in 3 years, it will potentially have 5 active buses that are 15 or more years old.

According to *School Bus Replacement Considerations* (National Association of State Directors of Pupil Transportation Services, ((NASDPTS)) 2002), the anticipated lifetime of a conventional bus under normal operating conditions is 12 to 15 years. Furthermore, the report states that a life cycle cost study performed in South Carolina found that buses with high annual mileage accumulations should be replaced based on mileage, instead of age. Thus, the state of South Carolina has set a bus replacement benchmark of a 15 year or 250,000 mile cycle.

The District should develop a formal bus replacement policy based on anticipated life cycle criteria and replacement costs. Adopting the 15 year and/or a 250,000 mile life cycle could reduce the District's high maintenance costs, as a younger fleet tends to have less maintenance costs (see **R.9**).

### **R.11 Complete T-1 reports as prescribed by ODE**

ODE provides annual pupil transportation payments to school districts that are calculated based on ridership data. Districts self-report this data (bus ridership and mileage) to ODE using the T-1 Form. Corresponding payments by ODE are dependent upon a district's reporting accuracy.

Districts are required to record and report daily ridership and mileage to ODE based on data obtained during the first full week in October of each year. As a part of its reporting process,

HLSD provides its bus drivers with sheets to record the ridership and mileage, which are turned in to the Transportation Supervisor. The Transportation Supervisor reviews these sheets and reports the information to ODE.

**Table 12** provides a summary of the ODE requirements for ridership and mileage reporting (T-1 Form) in comparison to the District’s reporting practices in FY 2013-14.

**Table 12: T-1 Reporting Practices Comparison**

ODE Requirement	HLSD Practice	Result
<b>Ridership</b>		
<p>Ridership data should be reported as the average number of students on the bus each day during the first full week in October.</p> <p>Students should only be counted once on their first conveyance to school and those that are not present on the bus may not be counted, even if they are a regular rider.</p>	<p>Absent students not listed on the bus driver sheets were added to the count while filling out the T-1 Form.</p>	<p>A comparison between bus driver records and the T-1 Report data for ridership yielded a 3.3 percent variance. This may directly impact the District’s transportation funding due to inaccurate T-1 data reporting.</p>
<b>Mileage</b>		
<p>Mileage should be reported for the “total number of daily miles for morning and afternoon public, nonpublic, and community school students, driven from the time the bus leaves storage, completes regular routes, and returns to storage.”</p> <p>Mileage to be reported also “includes noon kindergarten miles, all daily vocational miles, shuttle miles and other trips necessary for the daily attendance of children in their educational program.”</p>	<p>Bus drivers are instructed to log the mileage of the morning route only. The morning route mileage is then doubled to calculate the daily mileage.</p>	<p>This may directly impact its transportation funding due to inaccurate T-1 Report data.</p>

Source: HLSD and ODE

Since the District did not submit T-1 data as prescribed by ODE, its transportation funding may be directly impacted. The District should adopt and follow a policy by which it only counts students that are present on the bus each day during the count week. In addition, the policy should ensure that the District records the actual daily miles for transporting its students, not an estimate.

## Appendix A: Scope and Objectives

Generally accepted government auditing standards require that a performance audit be planned and performed so as to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on audit objectives. Objectives are what the audit is intended to accomplish and can be thought of as questions about the program that the auditors seek to answer based on evidence obtained and assessed against criteria.

In consultation with the ODE and the District, OPT identified the following scope areas for detailed review: financial systems, human resources, facilities, and transportation. Based on the agreed upon scope OPT developed objectives designed to identify improvements to economy, efficiency, and/or effectiveness. **Table A-1** illustrates the objectives assessed in this performance audit and references the corresponding recommendation when applicable. Seven of the fifteen objectives did not yield a recommendation (see **Appendix B** for additional information including comparisons and analyses that did not result in recommendations).

**Table A-1: Audit Objectives and Recommendations**

Objective	Recommendation
<b>Financial Systems</b>	
What is the District's financial history and current financial status?	N/A
What is the District's financial forecasting process?	N/A
What impact will the performance audit recommendations have on forecasted revenues and/or expenditures?	N/A
<b>Human Resources</b>	
Is the District's EMIS data sufficiently reliable for use?	N/A
Are the District's salaries comparable to the peers?	R.7
Are the District's CBA provisions comparable to the peers?	R.5, R.6
Are the District's benefits comparable to industry standards?	R.5
Are staffing levels comparable to the peers and State minimum requirements?	R.3, R.4
<b>Facilities</b>	
Is the District's square footage and acreage data reliable for use?	N/A
Is the District's maintenance and operations staffing level comparable to best practices?	R.2
Are the District's buildings being utilized to levels consistent with best practices?	R.1
<b>Transportation</b>	
Are the District's T-reports sufficiently reliable for use?	R.11
Is the District's fuel purchasing practice resulting in efficient pricing?	R.8
Is the District's fleet condition maintained efficiently?	R.9, R.10

# Appendix B: Additional Comparisons

## Staffing

**Table B-1** illustrates FTE staffing levels per 100 students at HLSD in comparison to the peer average. Staffing data was from FY 2012-13 as reported to ODE through the Education Management Information System (EMIS). Staffing levels are presented on a per 100 student basis as they are partially dependent on the number of students served. In addition, presenting staffing data in this manner decreases variances attributable to the size of the peers. Adjustments were made to the District’s EMIS data to reflect accurate staffing at the time of the assessment.

**Table B-1: HLSD Staffing Comparison**

	HLSD		Peer Avg.	Difference	
Students <sup>1</sup>	954		935	19	
Students per 100	9.5		9.4	0.1	
	HLSD		Peer FTEs Per 100 Students	Difference Per 100 Students	Total FTEs Above (Below) <sup>2</sup>
	FTEs	FTEs Per 100 Students			
Administrative	5.0	0.5	0.7	(0.2)	(1.9)
Office/Clerical	5.0	0.5	0.6	(0.1)	(1.0)
General Education Teachers	41.0	4.3	5.0	(0.7)	(6.7)
All Other Teachers	1.5	0.2	1.1	(0.9)	(8.6)
Education Service Personnel (ESP)	6.3	0.7	0.8	(0.1)	(1.0)
Educational Support	6.0	0.6	0.4	0.2	1.9
Other Certificated	0.0	0.0	0.1	(0.1)	(1.0)
Non-Certificated Classroom Support	0.0	0.0	0.5	(0.5)	(4.8)
Other Professional and Technical Staff	2.0	0.2	0.3	(0.1)	(1.0)

Source: ODE

Note: The District’s operational staffing, including bus drivers, custodians, maintenance workers, and food service employees are not included in the peer comparison. Where applicable, these areas were assessed based on industry and operational standards.

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

<sup>2</sup> Represents the number of FTEs that, when added or subtracted, would bring the District’s number of employees per 100 students in line with the peer average.

As shown in **Table B-1**, staffing levels were below the peer average in each position category, with the exception of educational support. While higher, the educational support staffing level offsets the lower general education teacher staffing level to some degree. This aspect of the District’s staffing configuration is cost-effective in comparison to the peers, as educational support salaries are generally lower than general education teacher salaries. Despite general education and ESP teacher staffing levels being lower than the peer average, comparisons were made to Ohio Administrative Code (OAC) state minimum levels due to the District’s projected financial condition (see **R.3** and **R.4**).

*Salaries*

Wages for certificated and classified employees were compared to surrounding district averages using FY 2012-13 pay schedules contained in the respective collective bargaining agreements. **Table B-2** shows the career compensation that the District should expect to pay a certificated employee and a classified employee over the duration of a 30 year career in comparison to the surrounding district average.

**Table B-2: Career Compensation Comparison**

	<b>HLSD</b>	<b>Surrounding District Average</b>	<b>Difference</b>	<b>% Difference</b>
<b>Certificated</b>				
Bachelor's Degree	\$1,356,997	\$1,370,322	(\$13,325)	(1.0%)
Master's Degree	\$1,575,309	\$1,614,517	(\$39,208)	(2.4%)
<b>Classified<sup>1</sup></b>				
Cafeteria Cook	\$866,632	\$866,204	\$428	0.0%
Clerical	\$904,113	\$960,587	(\$56,474)	(5.9%)
Custodian	\$932,776	\$967,268	(\$34,492)	(3.6%)
Bus Driver	\$968,282	\$1,109,872	(\$141,590)	(12.8%)

Source: HLSD and surrounding districts of Ashland CSD, Loudonville-Perrysville EVSD, Lucas LSD, Madison LSD, Northwestern LSD, and Triway LSD.

<sup>1</sup> Lucas LSD and Triway LSD were excluded from the classified analysis.

As shown in **Table B-2**, career compensation for HLSD certificated staff was below the peer averages for both classifications of teaching positions. Classified salary schedules were also analyzed, and all were found to be at, or below, the peer averages. While career compensation was below the peer average overall, it is important to note that some HLSD step schedules were higher than the peer average. For instance, the tenured steps of the Bachelor's pay schedule were higher than the peer average. Similarly, the Master's pay schedule was lower in total over the course of 30 years; however, the highest tenured step in the Master's Plus 30 Years pay schedule was 14.8% higher than the peers. Any future adjustments to step schedules should be targeted so as not to increase the gap between specific HLSD pay schedules and peer averages.

*Facilities*

**Table B-3** shows the District's FY 2012-13 facilities expenditures in comparison to the peer average.

**Table B-3: Facilities per Square Foot Comparison**

	<b>HLSD</b>	<b>Peer Average</b>	<b>Difference</b>	<b>% Difference</b>
Salaries and Wages	\$1.71	\$1.19	\$0.52	43.7%
Employee Benefits	\$0.72	\$0.54	\$0.18	33.3%
Purchased Services (Excluding Utilities)	\$0.29	\$0.64	(\$0.35)	(54.7%)
Utilities	\$1.05	\$1.14	(\$0.09)	(7.9%)
Water & Sewage	\$0.08	\$0.09	(\$0.01)	(11.1%)
Sub-Total Energy	\$0.96	\$1.04	(\$0.08)	(7.7%)
Electric	\$0.54	\$0.83	(\$0.29)	(34.9%)
Gas	\$0.42	\$0.21	\$0.21	100.0%
Other Energy Sources	\$0.00	\$0.00	(\$0.00)	N/A
Supplies & Materials	\$0.48	\$0.30	\$0.18	60.0%
Capital Outlay	\$0.01	\$0.30	(\$0.29)	(96.7%)
Other Objects	\$0.00	\$0.02	(\$0.02)	(100.0%)
<b>Total Expenditures per Square Foot</b>	<b>\$4.26</b>	<b>\$4.13</b>	<b>\$0.13</b>	<b>3.1%</b>

Source: ODE and peers

Note: Peer districts include Allen East LSD, Berne Union LSD, Centerburg LSD Colonel Crawford LSD, Dalton LSD, Hopewell-Loudon LSD, Joseph Badger LSD, Mapleton LSD, Mohawk LSD, and Springfield LSD.

As shown in **Table B-3**, the District's facilities expenditures are marginally higher than the peer average due to higher spending in the following areas: salaries and wages, employee benefits, gas, and supplies and materials. OPT examined the pay schedules and found the wages to be comparable over the course of a 30 year career. However, we noted that the staff are long tenured, which contributed to this expense exceeding the peer average. OPT issued a verbal comment to address the higher supplies and materials expenditures.

# Appendix C: Five-Year Forecast

**Table C-1: HLSD May 2014 Five-Year Forecast**

Line	Actual			Forecasted				
	2011	2012	2013	2014	2015	2016	2017	2018
1.010 General Property (Real Estate)	4,026,042	4,048,493	4,139,485	4,113,100	4,136,784	3,162,965	2,138,147	2,162,147
1.020 Tangible Personal Property Tax	10,073		487					
1.030 Income Tax				87,842	906,356	1,433,429	1,443,892	1,430,813
1.035 Unrestricted Grants-in-Aid	3,513,092	3,545,935	3,660,472	3,753,364	3,724,090	3,724,090	3,724,090	3,724,090
1.040 Restricted Grants-in-Aid	60,996	60,996	60,996	75,713	75,700	75,700	75,700	75,700
1.045 Restricted Federal Grants-in-Aid - SFSF	301,968	216,614						
1.050 Property Tax Allocation	925,078	662,866	536,052	541,240	538,000	386,511	230,804	233,804
1.060 All Other Operating Revenue	391,028	417,604	452,022	502,978	431,000	432,000	434,000	434,000
1.070 Total Revenue	9,228,277	8,952,508	8,849,514	9,074,237	9,811,930	9,214,695	8,046,633	8,060,554
2.010 Proceeds from Sale of Notes			650,000	500,000				
2.040 Operating Transfers-In	33,604	34,631	654,086	2,566	254,650	251,550		
2.050 Advances-In	24,023	13,738	10,666					
2.060 All Other Financial Sources	4,569	15,747	2,158	15,464	1,500	1,500	1,500	1,500
2.070 Total Other Financing Sources	62,196	64,116	1,316,910	518,030	256,150	253,050	1,500	1,500
2.080 Total Revenues and Other Financing Sources	9,290,473	9,016,624	10,166,424	9,592,267	10,068,080	9,467,745	8,048,133	8,062,054
3.010 Personnel Services	5,466,855	5,706,248	5,401,230	4,805,492	4,600,210	4,725,910	4,759,075	4,801,234
3.020 Employees' Retirement Insurance Benefits	2,009,578	2,108,820	1,959,492	2,137,338	2,116,960	2,255,110	2,544,760	2,880,210
3.030 Purchased Services	1,033,913	1,246,017	1,055,228	1,238,915	1,333,775	1,320,600	1,339,550	1,356,375
3.040 Supplies and Materials	439,997	459,055	317,338	401,330	602,800	616,625	628,900	645,550
3.050 Capital Outlay	77,972	14,552	2,044	1,700	235,000	205,000	235,000	205,000
4.020 Debt Service: Principal-Notes			650,000		250,000	250,000		
4.050 Debt Service: Principal - HB 264 Loans	27,500	30,000						
4.060 Debt Service: Interest and Fiscal Charges	6,104	4,631	4,086	2,566	4,650	1,550		
4.300 Other Objects	289,152	344,017	396,372	444,592	457,400	462,900	459,160	459,960
4.500 Total Expenditures	9,351,071	9,913,340	9,785,790	9,031,933	9,600,795	9,837,695	9,966,445	10,348,329
5.010 Operational Transfers - Out	33,604	34,631	654,086	2,566	254,650	251,550		
5.020 Advances - Out	13,738	10,666						
5.030 All Other Financing Uses			77	150				
5.040 Total Other Financing Uses	47,342	45,297	654,163	2,716	254,650	251,550		
5.050 Total Expenditure and Other Financing Uses	9,398,413	9,958,637	10,439,953	9,034,649	9,855,445	10,089,245	9,966,445	10,348,329
6.010 Excess Rev & Oth Financing Sources over/(under) Exp & Oth Financing	(107,940)	(942,013)	(273,529)	557,618	212,635	(621,500)	(1,918,312)	(2,286,275)
7.010 Beginning Cash Balance	1,649,105	1,541,165	599,152	325,623	883,241	1,095,876	474,376	(1,443,936)
7.020 Ending Cash Balance	1,541,165	599,152	325,623	883,241	1,095,876	474,376	(1,443,936)	(3,750,211)
8.010 Outstanding Encumbrances	19,673	46,315	47,431	40,000	20,000	20,000	20,000	20,000
10.010 Fund Balance June 30 for Certification of Appropriations	1,521,492	552,837	278,192	843,241	1,075,876	454,376	(1,463,936)	(3,750,211)
11.020 Property Tax - Renewal or Replacement						1,219,934	2,439,868	2,439,868
11.300 Cumulative Balance of Replacement Renewal Levies						1,219,934	3,659,802	6,099,670
12.010 Fund Bal June 30 for Cert of Contracts, Salary Sched, Oth Obligations	1,521,492	552,837	278,192	843,241	1,075,876	1,674,310	2,195,866	2,349,459
15.010 Unreserved Fund Balance June 30	1,521,492	552,837	278,192	843,241	1,075,876	1,674,310	2,195,866	2,349,459

Source: ODE

## **Client Response**

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



# HILLSDALE SCHOOLS

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**Hillsdale Elementary School**  
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Hayesville, Ohio 44838  
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December 18, 2014

Mr. David Yost  
Auditor of State  
88 East Broad Street  
Fifth Floor  
Columbus, Ohio 43215-3506

Dear Auditor Yost:

On behalf of the Hillsdale Local School District, we would like to thank the Auditor of State's Ohio Performance Team for conducting a very thorough and professional performance audit of our school district. We appreciate the opportunity to respond to the recommendations outlined in the audit report.

We would first like to note that the recommendations were made based on data from FY 2013-14 and do not include potential renewal levy revenue. Without passage of the renewal levies by November 2015, the district has a projected deficit of approximately \$3.7 million in FY 2017-18. As the district has already sustained significant losses in programs and opportunities for students due to cuts made at the end of the 2012-13 school year, it is imperative that voters approve the renewal levies so the district can become financially solvent and provide students with the education they deserve. We also note that the recommendations were made based on comparison to state minimum requirements or to districts identified as peer districts in the areas of Finances, Human Resources, Facilities, and Transportation. Food Service was not examined due to its solvency in FY 2013-14.

R.1 is to close the elementary building and adjust grade-level configuration. While we recognize the cost savings that would result in a building closure, we would have to look at selling a building to truly see a savings. If building closure were to become a possibility, this decision would not be made without a thorough evaluation of the condition of each building in determining which building to close and without extensive discussion and community input as part of such a significant change.

R.2 is to realign building and grounds staff. As your report indicates that our current staffing levels are in alignment with or below the industry standards, changes in staffing may be warranted only if a building were to close, which is not part of our current plan.

R.3 is to eliminate 5.0 FTE general education teachers. As previously mentioned, the district made significant staff reductions in 2012-13, resulting in cuts to and losses of valuable and

popular programs, including agriculture, industrial technology, and family and consumer sciences. Eliminating 5 more teaching positions would place us at or near state minimum staffing levels and would be devastating to our students who have already sustained great curricular losses. Additionally, as noted in your report, the district is staffed efficiently compared to the peer average. Further cuts would be a great detriment to our students.

R.4 is to eliminate 1.5 FTE educational service personnel, which would include the areas of music, art, physical education, media, and guidance. These valuable curricular areas were also greatly impacted in 2013, so additional cuts would also be detrimental to our students. Currently, our band instructor is shared with the middle school and high school. Our choral music instructor is shared with all three buildings. An art instructor is shared with the middle school and high school and teaches two classes at the high school with Art II, III, and IV combined. As schools transition from STEM programming to STEAM (Science, Technology, Engineering, Mathematics, and Arts), additional cuts to the arts would negatively impact our students. While we restored the middle school guidance position cut in 2013, the need in this area remains great in the areas of counseling, test coordination, and scheduling. Our libraries are all covered with aides instead of a certified library media specialist as our certified media specialist is being used to teach the computer skills necessary for the high-stakes testing our students are facing in the present school year.

R.5 is to improve the cost-effectiveness of the health insurance program. To address cost-effectiveness, a committee composed of certified and classified staff as well as administrators and the school treasurer has been meeting regularly since September and will have some recommendations developed in the coming months. Additionally, through the negotiations process, the employee contribution for certified staff has increased. We will continue to explore cost-saving measures related to health insurance.

R.6 is to renegotiate severance payment provision. The enhanced severance clauses have been removed from the contract in the most recent negotiations.

R.7 is to revise administrative compensation plan for building principals. The superintendent is currently working on developing a compensation plan for the building principals that is in line with peer districts.

R.8 is to reduce fuel expenditures through cooperative purchasing. We will examine the possibility of cooperative purchasing to determine if this would be a savings for the district.

R.9 is to solicit bus maintenance quotes on an annual basis. By reviewing our maintenance bills, we have determined that the costs are in line with the work being performed. Our aging bus fleet has greatly contributed to the maintenance expense.

R.10 is to develop a formal bus replacement plan. The Board of Education recently approved a 5-year forecast that includes the purchase of 1 bus per year.

R.11 is to complete T-1 reports as prescribed by ODE. Districts self-report bus ridership and mileage data to ODE. The report's recommendation relates to procedural issues that have not

cost the district money. These procedural issues have been addressed and corrected for the 2014-15 school year.

Again, we appreciate the work of the Performance Team in providing our district with recommendations as we work daily to operate efficiently and responsibly while seeking to provide the best possible education for our students. Thank you for your efforts.

Sincerely,

Handwritten signatures of Steven Dickerson, Marjorie Travis, and David Bartter.

Steven Dickerson  
Superintendent

Marjorie Travis  
Treasurer/CFO

David Bartter  
Board of Education President

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# Dave Yost • Auditor of State

HILLSDALE LOCAL SCHOOL DISTRICT

ASHLAND COUNTY

## CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
JANUARY 15, 2015