

Best Practices

Performance Audits: How to Measure Up When the Economy Is Down



IN THIS ISSUE

- 1 Performance Audits
How to Measure Up When
the Economy Is Down
- 2 Letter from
Auditor of State
Mary Taylor, CPA
- 3 Report Federal
Stimulus Dollars
- 4 Spotlight:
Performance Audits Provide
Local Officials with a Roadmap
to Financial Success
- 5 School District
Self-Assessment Guide
- 6 Summit: Save the Date
- 6 Best Practices Online

By Emily Frazee - Public Affairs Staff Writer

Just as Ohio families are feeling the sting of a struggling economy, the communities they live in and the schools their children attend face growing pressures to balance budgets, maintain needed services and deal with plunging revenues. These problems are particularly difficult in communities where major employers have closed their doors or made dramatic reductions in employment.

“Our auditors are keeping an especially close watch on communities impacted by business closures and cutbacks,” Auditor of State Mary Taylor said. “We want to identify potential budget problems before they become unmanageable. Our Performance Audit section provides valuable recommendations to assist local governments and help them through difficult times.”

Taylor said the first step toward fiscal recovery is to identify the extent of the problem. In fact, state law provides a formula for quantifying an entity’s budget crisis against established criteria and outlines state involvement. For local governments, the budgetary problem may meet the statutory threshold to place the entity in the status of fiscal watch or fiscal emergency.

Continued on page 2



Dear Colleague,

This edition of *Best Practices* points to ways local governments and school systems can deal with some of the tough decisions today's difficult economic climate requires.

Fortunately for those faced with fiscal challenges, Ohio law provides guidelines to help ensure that the situation does not get worse. Our fall edition describes those procedures and details some recommendations to help cut costs or improve operational efficiencies through the Auditor of State's performance audits.

It is our hope that information in this edition of *Best Practices* is helpful as we all work to address these economic challenges.

Sincerely,

Mary Taylor, CPA
Ohio Auditor of State

How to Measure Up When the Economy Is Down

Continued from page 1

To determine whether an entity has fallen into either category, the Auditor of State will conduct a fiscal analysis to determine the severity of the financial situation. That analysis can be requested by a government entity's leadership or – in an urgent situation – the Auditor of State can initiate the process.

“If our analysis shows that a deficit in a local government's general fund, or in any other funds, exceeds one-twelfth of the total general fund budget, then the local government is placed on fiscal watch,” Taylor explained. “If the deficit exceeds one-sixth of the total general fund budget, the local government is placed in fiscal emergency. In the case of a fiscal emergency, a state commission is created to oversee the government's financial operations and develop a recovery plan,” she said.

The government will retain its designated fiscal status until a new Auditor of State's analysis determines the watch or emergency can be lifted.

Ohio school systems are not immune to the budgetary pressures facing other units of government, and their financial problems are also categorized with criteria set by state law. In the case of schools, designations of financial distress are rated as fiscal caution, fiscal watch or fiscal emergency. The Ohio Department of Education and the Auditor of State's office jointly work

to make fiscal watch and emergency designations. The two agencies then work with each affected school district to provide guidance and technical assistance to help prevent the financial condition from getting worse.

By law, Ohio schools fall into watch or emergency only after an analysis is conducted by Auditor Taylor's office. A fiscal watch is declared when the analysis shows that financial problems threaten a school's ability to operate. If the analysis reveals that the district is in a severe situation, then it is placed in fiscal emergency. When a fiscal emergency is declared, a commission must be created to assume the powers of the board of education (the commission decides what powers they want to assume) and develop a plan for recovery.

Any unit of government or public school system in Ohio can request a performance audit. In fact, since Auditor Taylor took office in 2007, more than 60 taxpayer-funded agencies have taken advantage of this service.

In both settings – governments and school districts – the fiscal distress designation is a legislative mechanism used to identify financial problems

as soon as possible and to provide the assistance needed to keep a bad situation from growing worse.

One way for a financially troubled local government or school district to address its fiscal issues is to participate in a performance audit. A well-proven financial assessment and management tool, the performance audit process examines how efficiently and effectively an entity's tax dollars are being used. Auditors measure the entity's performance against peer-group benchmarks and offer recommendations for cost savings and operational improvements.

"The Auditor of State has professional staff who can work hand-in-hand with any local government that is dealing with financial hardship," said Randy Cole, director of performance audits and local government services for Auditor of State Mary Taylor. "Our staff is equipped to offer the accounting and budgeting assistance that is needed for the most complex situations."

Any unit of government or public school system in Ohio can request a performance audit. In fact, since Auditor Taylor took office in 2007, more than 60 taxpayer-funded agencies have taken advantage of this service. "Each performance audit is designed to meet the specific needs of the client," Cole said.

"In the past two and a half years, the Auditor of State has made more than 2,205 cost-cutting or operational recommendations based

...governments and school systems can also partner with one another to save on purchases. Goods and services are generally less expensive when purchasing through a partnership or consortium.

on performance audits. In total, those recommendations could save an estimated \$106,337,773 annually for our clients," Cole said.

According to Betsy Bashore, the Auditor of State's assistant chief performance auditor, there are a number of ways for a government to save money when revenues are in decline. For example, when financial resources are tight, it may be a good time to freeze or downsize capital projects. Projects can resume when revenues are healthy again. Also, an economic downturn may be a good time to implement a hiring freeze. This helps correct the size of a government operation by slowly eliminating vacant positions. It also reduces the impact on staff morale.

Bashore said that neighboring units of governments should work together during times of financial hardship to explore whether combining operations and sharing resources can save money. "Think about sharing emergency dispatch services, ambulance coverage or school transportation services, for example," Bashore said.

Additionally, governments and school systems can also partner with one another to save on purchases. Goods and services are generally less expensive when purchasing through a partnership or consortium. "Just like families who clip coupons and keep on the lookout for sales,

Continued on page 6

Report Federal Stimulus Dollars

Ohio Auditor of State Mary Taylor is requiring all state and local government agencies to report any federal stimulus dollars they receive, as well as their expenditures of those funds, to her office.

Each organization is solely responsible for the accuracy and completeness of data submitted to the Ohio Stimulus Tracker.





SPOTLIGHT:

Performance Audits Provide Local Officials with a Roadmap to Financial Success

By Steve Faulkner – Public Affairs Staff Writer

The primary focus of John Burkhart's job as the director of business affairs for the Medina City School District is to be on constant watch for ways to improve efficiency and save taxpayers' money. After all, he manages the business operations of a busy 7,500-student school system, with oversight of custodial and food services, maintenance, transportation and other complex functions.

Soon after arriving in Medina two years ago, Burkhart contacted Auditor of State Mary Taylor's Performance Audit section for assistance. He is rather familiar with performance audits – and their benefits – having experienced the process in similar positions with the Olentangy Local School District in Delaware County and the Mansfield City School District in Richland County. In those earlier settings, Burkhart relied on the independence of state performance auditors to provide an

objective look at his ideas to cut costs and improve operational efficiency – recommendations that, at times, may not have been very popular with some administrators.

“It helps when the Auditor of State's office is standing there beside you when recommendations are made, because [performance auditors] have this global view of what is going on,” Burkhart said. “When you bring the Auditor of State into the district, some people get worried and they get concerned, but this isn't a group of

people coming here to criticize, this is a group that is here to help.”

The Medina City School District is unique in that it has already been through one performance audit experience and has implemented most, if not all, of the recommendations from that earlier audit, released in 2003 – long before Burkhart arrived on the scene. In fact, the district's current strategic plan relies heavily on recommendations outlined in the Auditor of State's initial performance audit of Medina City Schools, helping the district maintain a sustainable, accountable budget.

While the district is not currently experiencing financial difficulties, Burkhart has taken a proactive approach to ensuring financial

accountability and transparency to the community. That is why he asked the Auditor of State to return to Medina to conduct a new performance audit.

“We need another performance audit to help identify our spending at a much deeper level than what we currently track. Having the Auditor of State’s performance team endorse what we do, goes a long way to rally the community behind our mission, which is to educate students in a cost effective manner,” Burkhart said. “We’re not too proud to ask for help.”

Auditor of State Mary Taylor’s Performance Audit section serves as a valuable resource for state and local government offices across Ohio, like Medina City Schools, which are seeking to improve operations, identify cost savings and produce sustainable, balanced budgets. By definition, performance audits report on the efficiency and effectiveness of government operations through peer comparisons and benchmarking to industry standards.

Medina is one of only a couple of Ohio public school districts [Bashore] knows of that are using performance management principles to drive district spending.

Earlier this year, Taylor’s office officially kicked off the new performance audit of the Medina City School District, including a thorough examination

of district spending. The new report should be completed later this year.

According to Betsy Bashore, assistant chief auditor in Auditor of State Mary Taylor’s Performance Audit section, Medina is one of only a couple of Ohio public school districts she knows of that are using performance management principles to drive district spending. Administrators measure results and prioritize educational programs, then look at the effect

their spending decisions have on the financial and academic bottom line. Board members and other decision makers use the information to evaluate which programs are working and which programs fail to produce results. Funding can then be funneled into successful and effective programs.

“The Medina City School District is on the leading edge regarding its

Continued on page 7

Auditor of State’s Self-Assessment Guide Available to Improve Financial Efficiency

Last year, Auditor of State Mary Taylor provided Ohio’s public school districts with a self-assessment guide designed to improve financial efficiency. The Auditor of State’s School District Self-Assessment Guide is a tool public school officials can use to improve operations, identify cost savings and make better use of existing resources.

“This valuable information is available to school officials as a part of my commitment to provide Ohio’s local governments and school systems with the tools they need to properly safeguard tax dollars,” Taylor said. “If used properly, this information will help public school officials improve operational efficiency and reduce spending while providing quality educational services to students and taxpayers.”

The Auditor of State’s School District Self-Assessment Guide focuses on improving the efficiency and effectiveness of four critical service areas: Financial Systems,

Human Resources, Facilities and Transportation. The 63-page document was developed by the Auditor of State’s Performance Audit section in response to a growing demand from Ohio’s public school treasurers and administrators for information on ways to measure operational performance, set goals and track progress.

To request a copy of the Auditor of State’s School District Self-Assessment Guide, please call the Auditor of State’s Performance Audit Section at 800-626-2297. A downloadable copy of the Self-Assessment Guide is available online at www.auditor.state.oh.us. ■

Best Practices

Now Available Online

If you have the ability, we encourage you to sign up for the online version of *Best Practices* by emailing bestpractices@auditor.state.oh.us.

However, we will continue to distribute *Best Practices* by mail if that is your preference.

Also, in our effort to eliminate duplicate and outdated addresses, please take a moment to update your contact information at bestpractices@auditor.state.oh.us.

Questions? Contact the Auditor of State's Public Affairs Division at 614-644-1111

How to Measure Up When the Economy Is Down

Continued from page 3

government should make sure that they are getting all the possible discounts they can," Bashore said. "Use vendor discounts, like those for volume purchases and for timely payment. And never pay late fees on bills."

Performance audit specialists in the Auditor of State's office are available to counsel Ohio government agency and school officials about cost-saving strategies and other ways to improve operational efficiency and effectiveness, especially in light of the current economic downturn. To schedule an appointment with Ohio Auditor of State performance audit staff, call 1-800-282-0370 or e-mail crcole@auditor.state.oh.us. ■

Save the Date: Thursday, November 19, 2009
More information and registration details will be coming soon.

Auditor of State Mary Taylor, CPA Presents

Summit on Local Government Sustainability Strategies and Solutions in a Time of Fiscal Crisis

November 19, 2009

9am-4pm
Columbus Athenaeum
32 North 4th Street
Columbus, OH 43215-3603

Participants are eligible to receive 5.5 hours towards CPE. Cost for participation in the summit is \$15 per person and includes lunch.

Sign up now.
On-line registration at
www.auditor.state.oh.us

Summit topics will include:

- The Outlook: Optimism or Out-of-Luck? When Government Should Expect a Revenue Turn-Around
- Transfers and Advances: What's Allowable and What's Not
- Putting Your Financial Statement to Work – Discovering a "Hidden" Management Tool
- Leading Practices = Sustainable Results – Gaining Efficiencies Today to Eliminate Problems Tomorrow
- Forecasting – The How's and Why's of an Essential Skill
- What Do We Do Now? A Fiscal Watch and Fiscal Emergency Survival Guide
- Commission on Local Government Reform and Collaboration
- The Fund For Our Economic Future – Efficient Gov Now Projects
- Indicators for Fiscal Distress

Performance Audits Provide Local Officials with a Roadmap to Financial Success

Continued from page 4

approach to prioritizing spending. District officials seek to be very transparent about where the money is spent and how they fund certain programs – and they want to capitalize on this process to improve educational programs,” Bashore said. “Our performance audit will help them achieve their goals of accountability and transparency. The decisions district officials make using their performance information should help them produce a long-term, sustainable budget.”

...performance audits are available and recommended for all levels of Ohio government, including cities, counties, state agencies and universities.

A long-term, sustainable budget is also a goal of Lancaster City Schools Superintendent Denise Callahan. Today, her district’s budget is balanced and even maintaining a small surplus that is carried over from year to year. However, that has not always been the case. In 2005, Lancaster City Schools qualified for a state funded, comprehensive performance audit through a provision enacted in the state budget bill that year. Subsequently, on January 31, 2006, the state placed Lancaster City Schools in fiscal caution soon after a serious budget deficit was projected.

Callahan used the Auditor of State’s performance audit of the district’s operations – released in August 2006 – as a blueprint for making the tough decisions necessary to get Lancaster City Schools back on track financially.

“The performance audit was something we truly wanted because we have to be efficient and we have to live within our means,” Callahan said. “We eliminated programs that were not self-supporting and those are tough decisions.”

The Lancaster City School District was removed from fiscal caution on April 4, 2008, and Callahan credits the recommendations outlined in the performance audit for helping the district reach that milestone. In fact, she applauds the Auditor of State’s public release of all final audit results as a way to enhance transparency.

“The performance audit is a great tool because it’s posted on the Auditor of State’s Web site and those who are interested can go in and read it. That’s a little scary for school boards and superintendents because it does point out inefficiencies but at the same time it forces us to address them,” Callahan said.

Performance audits are a valuable resource Auditor of State Mary Taylor offers, not only to the state’s public school districts, but to any state or local government office in Ohio. In fact, performance audits are available and recommended for all levels of Ohio government, including cities, counties, state agencies and universities. ■

Help Mary Taylor Fight Fraud

Every year, Auditor of State Mary Taylor exposes millions of public dollars – *your tax dollars* – which would have been lost to fraud, waste or misuse.

You can help fight this abuse by reporting any suspicions of fraud to the Auditor of State’s toll-free hotline or special fraud-report Web site.

Make Your
Tax Dollars Count
Report Government Fraud

866-FRAUD-OH
(866-372-8364) toll-free



fraudohio.com



Ohio Auditor of State
Mary Taylor, CPA

88 East Broad Street, 5th Floor
Columbus, OH 43215
800-282-0370

www.auditor.state.oh.us

REPORT FRAUD
SPECIAL INVESTIGATIONS UNIT
866-FRAUD-OH

fraudohio.com

We welcome your feedback. If you would like to recommend topics for future editions or have examples of *Best Practices* to share, please e-mail us at bestpractices@auditor.state.oh.us