SPECIAL REPORT | SEPT. 19, 2018

SCHOOL DISTRICT PERFORMANCE AUDITS

FINANCIAL TOOLS FOR MANAGING THE FUTURE

Dave Yost
Ohio Auditor of State

Dave Yost
Ohio Auditor of State

88 E. Broad St.
Columbus, OH 43215
800-282-0370
614-466-4490
www.ohioauditor.gov

Cover photo illustration:
Photos by Ohio Auditor of State's office

Dave Yost
Ohio Auditor of State

SPECIAL REPORT

A message from the Auditor

When I ask Ohio's teachers and public school officials to describe the challenges they face, their responses often boil down to this: they are continuously being asked to do more with less.

For most districts, the solution to this dilemma is to cut back on inefficient spending, enabling them to restore their financial viability and direct more resources to classrooms. But finding ways to save money can be a tall order, especially for districts that are already battling deficits and running on bare-bones resources.

The good news is that my office can help. Since 2011, the Auditor of State's Ohio Performance Team (OPT) has advised 80 school districts in how to save more than $138 million.

Through data-driven performance audits, OPT continually formulates innovative cost-saving strategies to improve just about every area of operations – building maintenance, food purchasing and bus routing, just to name a few.

As this report points out, however, cost savings are just one of the many benefits these audits can provide. They also inform decision-making, while offering transparency, credibility, stability and a vital line of communication between districts and their communities.

I encourage all school leaders to consider the benefits of a performance audit in respect to their own districts. Better yet, reach out to our performance auditors and get their take. Their contact information is listed at the end of this report.

I also would like to extend my gratitude to all school employees and officials for their continued efforts and sacrifices made on behalf of Ohio's students. It is my hope that this report proves to be an informative resource in their quest to improve public education both locally and across the state.

Sincerely,

Dave Yost

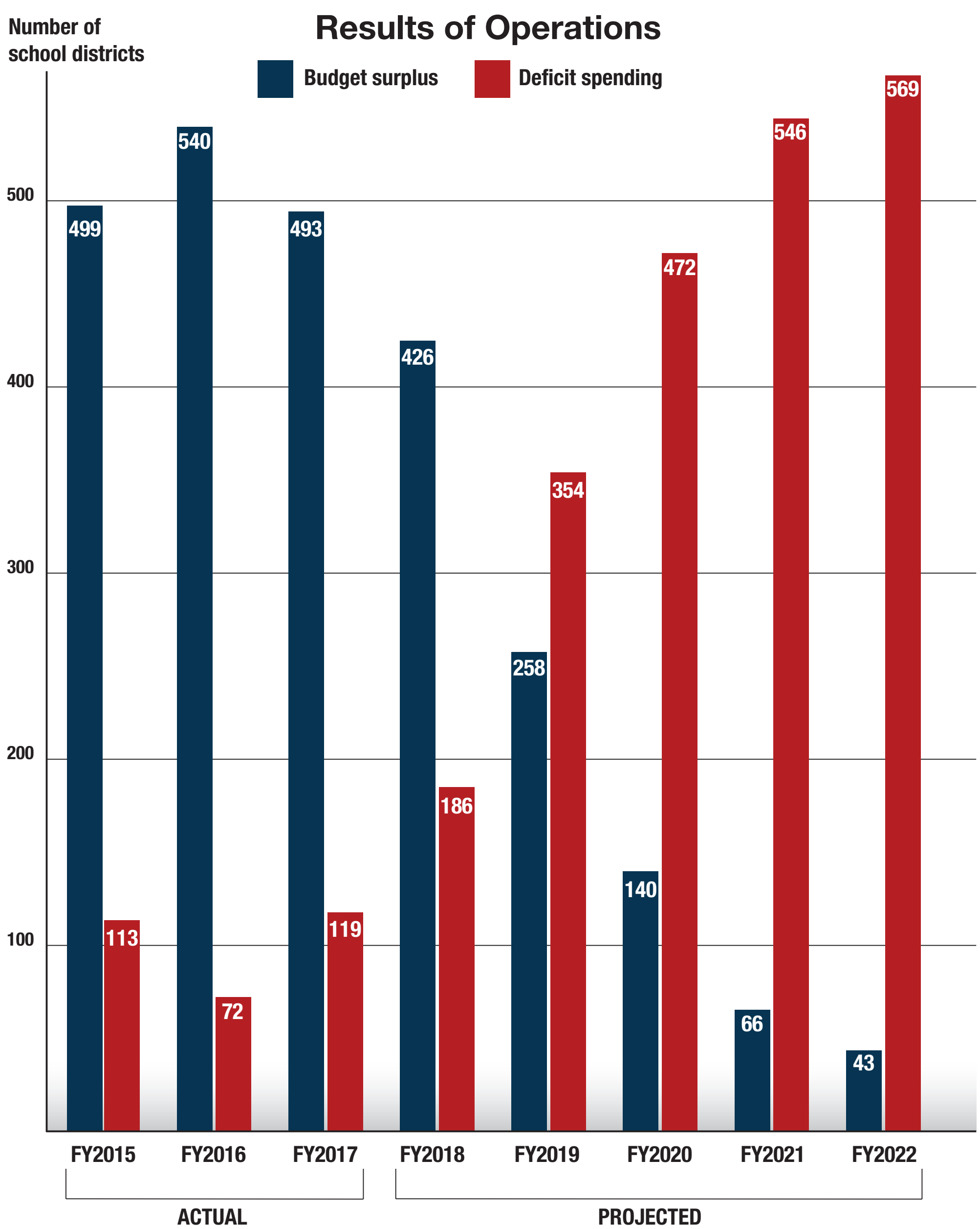
Dave Yost

Introduction

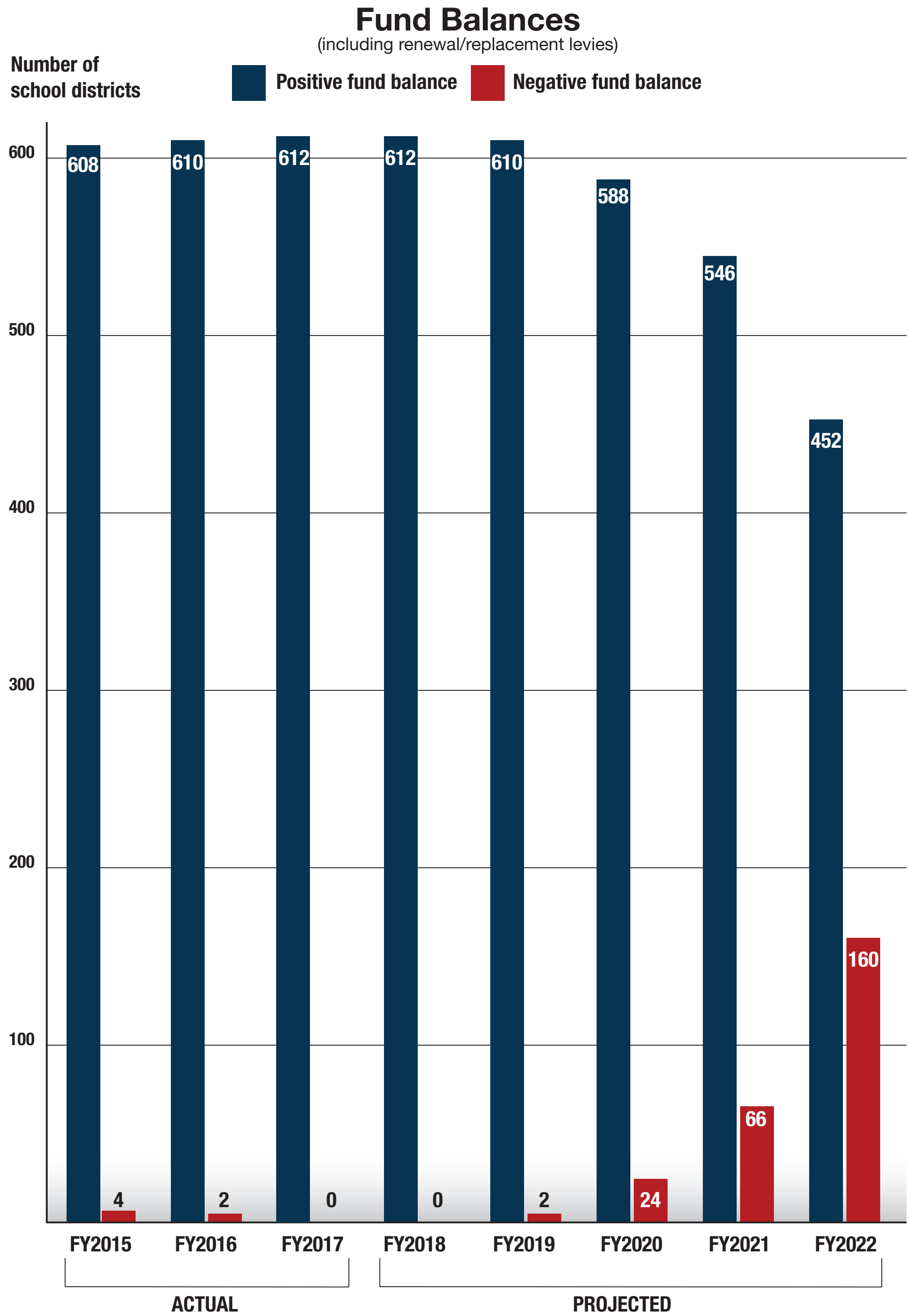
Ohio's public school districts do not have it easy. In addition to the chief responsibility of providing a fruitful learning experience to students, district leaders simultaneously juggle an array of financial and operational management duties.

Although many in these roles likely see the value in exploring opportunities for heightened efficiency and cost savings, some administrators may not have the time to devote to researching these improvements.

However, districts that fail to do so can quickly find themselves peering over the edge of a financial cliff. Unplanned layoffs, programming cuts and desperate levy



Introduction, cont.



attempts are among the consequences some districts encounter when they do not act proactively to identify cost savings.

The Auditor of State's Ohio Performance Team (OPT) has helped pull dozens of struggling school districts out of the red with the aid of a performance audit – an objective, data-driven analysis of operations designed to help entities find and eliminate unnecessary spending, and improve efficiency and decision-making.

Since 2011, the team has proposed more than $138 million in savings recommendations to 79 of Ohio's public school districts and one joint vocational school district[1]. Several of those districts requested performance audits to head off financial trouble, but the majority were already experiencing fiscal distress, a predicament more districts will likely face in the near future.

Of the state's 612 public school districts, 569 (93%) are projected to spend more money than they generate over the next five years, according to their May 2018 financial forecasts. More than half of these districts have carryover balances that will keep them in the black through the period, but the forecasts show that at least 148 are projected to finish fiscal year 2022 with deficit fund balances. That number increases to 207 districts when excluding levies that will need voter approval.

To turn the financial tide, it is crucial for district officials to plan for the future and formulate long-term financial strategies. A performance audit from the Auditor of State's office is a valuable resource that can help school districts steer clear of financial dangers and achieve the objectives of their students, staff and communities.

---

1 OPT has completed 86 performance audits of 80 public school districts/JVSD; Six of the districts each received a pair of audits; One of the 80 districts dissolved in 2015.

OPT recommendations

Since 2011, OPT's recommendations to school districts have yielded an impressive return on investment: an average of $22.50 in savings possibilities for every $1 spent to audit[2].

Listed below are examples of the hundreds of wide-ranging recommendations offered during performance audits of Ohio's school districts:

2014

» Switzerland of Ohio Local School District
Purchasing lunch items in bulk instead of individual, pre-packaged food could save $180,500 per year for the Switzerland of Ohio Local School District (Monroe County).

» Mechanicsburg Exempted Village School District
Eliminating one bus route and sharing student transportation costs with a nearby district could save the Mechanicsburg Exempted Village School District (Champaign County) $68,700 each year.

2016

» Gallipolis City School District
Decreasing energy usage to the benchmark set by the U.S. Environmental Protection Agency's (EPA) Energy Star program could generate $143,300 in annual savings for the Gallipolis City School District (Gallia County).

» Cincinnati City School District
Increasing the class size limit for grades K-3 to the peer average of 27 students could save the Cincinnati City School District (Hamilton County) $7 million per year by reducing classroom overload compensation to staff.

» Hubbard Exempted Village School District
Implementing a two-year step freeze in certified salary schedules could reduce costs by $194,900 over the two-year period for the Hubbard Exempted Village School District (Trumbull County).

2017

» Delaware City School District
Closing an underused administrative building at the Delaware City School District (Delaware County) or repurposing it to make it self-supporting would trim expenses by $363,700 per year.

» James A. Garfield Local School District
Conforming health insurance costs to peer benchmarks by opting for a less costly plan and increasing employee premium contributions could save the James A. Garfield Local School District (Portage County) $681,300 annually.

2018

» Madison-Plains Local School District
Aligning the subsidy of extracurricular activities to the levels of peers could cut annual costs by $180,200 for the Madison-Plains Local School District (Madison County).

2 Excludes performance audits that did not seek to identify financial savings.

Recommendation process

Audit recommendations posed by the Ohio Performance Team are born out of a careful analysis of a district's operations, with special attention given to how they measure up to peers, industry standards and best practices. Through these comparisons, auditors zero in on areas of disparity that might indicate an inefficient practice.

Along with industry standards and best practices, performance auditors evaluate the practices of peer districts to provide the context for a deeper analysis.

For example, a performance audit of the Walnut Township Local School District (Fairfield County) determined that the district paid in-house custodial costs of $2.43 per square foot during fiscal year 2014.

However, a study of maintenance and operations costs by *American School and University*, a trade magazine that highlights industry best practices, reported that the standard cost of outsourced custodial services was $1.55 per square foot, 88 cents cheaper than the district paid for in-house services.

With benchmarks like this, performance auditors can project how a school district could benefit from applying a best practice to its own operations. In this case, OPT recommended the Walnut Township Local School District outsource its custodial services to save $109,200 per year – more than a third of its original annual cost.

Along with industry best practices, performance auditors evaluate the practices of peer districts to provide the context for a deeper analysis.

"Comparing operations with those of neighboring districts is an effective first step to gauge how well a district is performing," Auditor Dave Yost said. "This process provides the context for our auditors to tailor their recommendations to a district's unique financial condition."

OPT selects peers through a well-rounded quantitative and qualitative analysis that takes into account input from a variety of sources, including the audit recipient. Peers are chosen from a pool of local and statewide districts that share some of the same characteristics and achieve greater or equal levels of academic performance at lower costs.

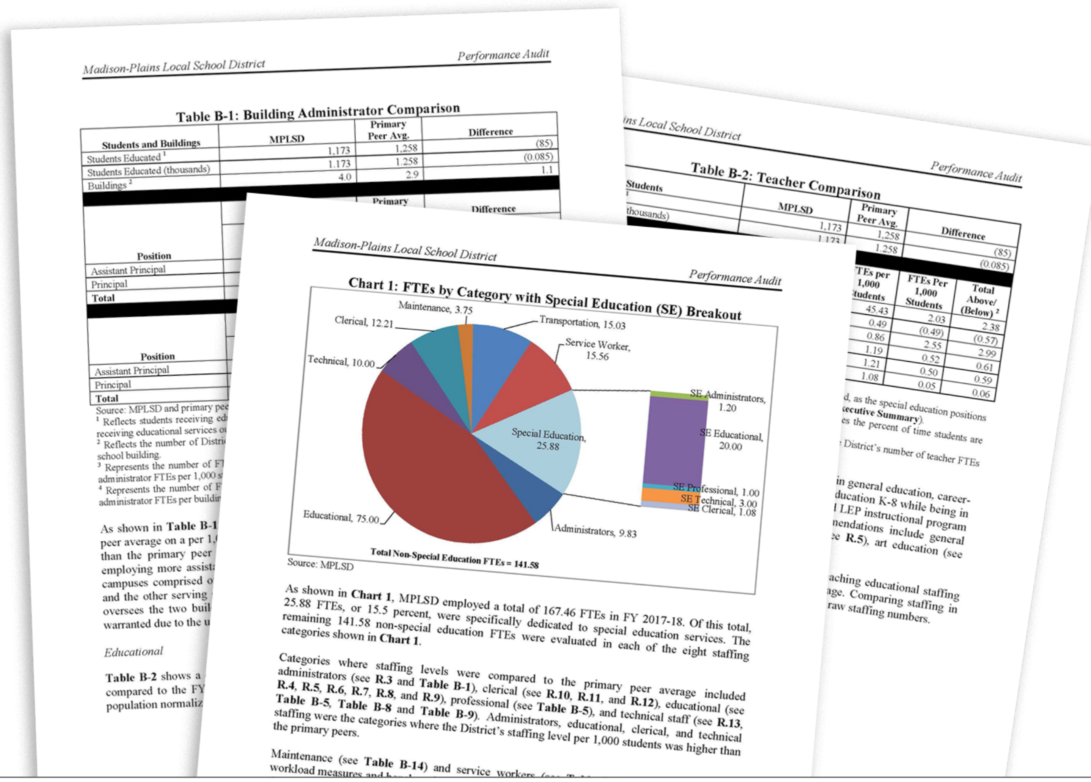
Auditors applied this strategy while studying the costs of building operations and maintenance supplies paid by the Austintown Local School District (Mahoning County). Austintown's practice was to purchase the supplies from local vendors through reverse auctions. However, OPT determined that this practice caused the district to pay 15.6 percent more per square foot than its peers did.

This disparity helped auditors target their analysis, which concluded that Austintown could save $34,000 per year by purchasing through a consortium, a practice used by some of the district's peers, or through the Ohio Department of Administrative Services to ensure competitive pricing.

The process of formulating these recommendations is not as straightforward as it may seem. Performance audits often require months of meticulous research, data collection and analysis from an experienced team of auditors before OPT finalizes its recommendations.

Benefits

Performance audits of school districts aim to advise officials and the community in mapping out the most efficient, cost-effective routes to their desired outcomes. For almost all audit recipients, those outcomes are linked to fiscal health. However, the benefits of performance audits extend far beyond financial savings and operational improvements.



A Communication Tool

Effectively communicating the complex challenges that school districts face can be a challenge in itself. With this in mind, OPT strives to help district officials take their unique, highly complicated problems and break them down into easily digestible messages for the public.

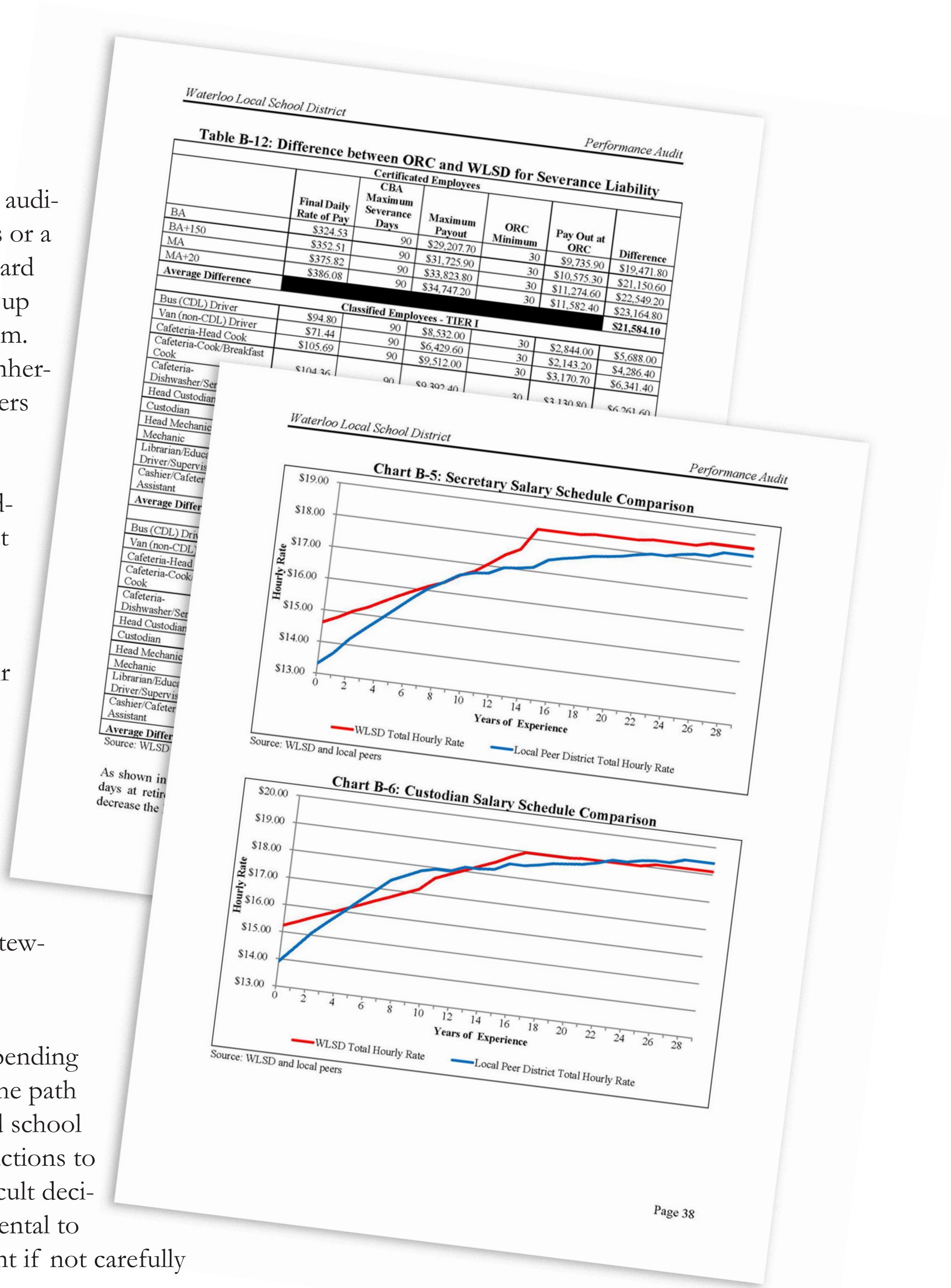
For example, every performance audit report includes an easy-to-follow "Background" section detailing the district's financial outlook, the challenges at hand, and the historical context needed to grasp the situation.

Through their years of experience, OPT's performance auditors have grown accustomed to the diverse questions and concerns raised by constituents. This knowledge enables OPT to help district officials address many of these matters outright with clear, informative reporting that saves them valuable time needed to focus on achieving their goals.

Continued on next page

Benefits, cont.

Continued from previous page



Credibility and Transparency

The Auditor of State's performance auditors do not approach projects with bias or a political agenda. Instead, they rely on hard data and proven best practices to draw up the most practical solutions to a problem.

The independence and objectivity inherent to OPT is imparted to district leaders when they are open to considering the team's data-driven advice during decision-making processes. This lends credibility to officials by demonstrating that their decisions are based on evidence rather than political considerations.

At the same time, performance audits reinforce to a community that their leaders are committed to transparency.

"Nothing says 'we have nothing to hide' like the willingness to have a team of auditors come in and evaluate your operations," Auditor Yost said. "This display of transparency shows citizens that their leaders are doing everything in their power to be good stewards of the public's dollars."

Stability for Students

A large portion of school district spending is earmarked for staffing. As a result, the path to fiscal health for a severely distressed school district almost always necessitates reductions to staffing and programming. These difficult decisions – while essential – can be detrimental to students and their learning environment if not carefully planned to minimize negative effects.

For instance, staff layoffs can mean the loss of a favorite teacher. Cuts to programming or extracurricular activities can shut the door on scholarships and cause friends and classmates to pursue opportunities elsewhere.

By accurately forecasting for the future, performance audits help eliminate the need to make drastic, knee-jerk decisions.

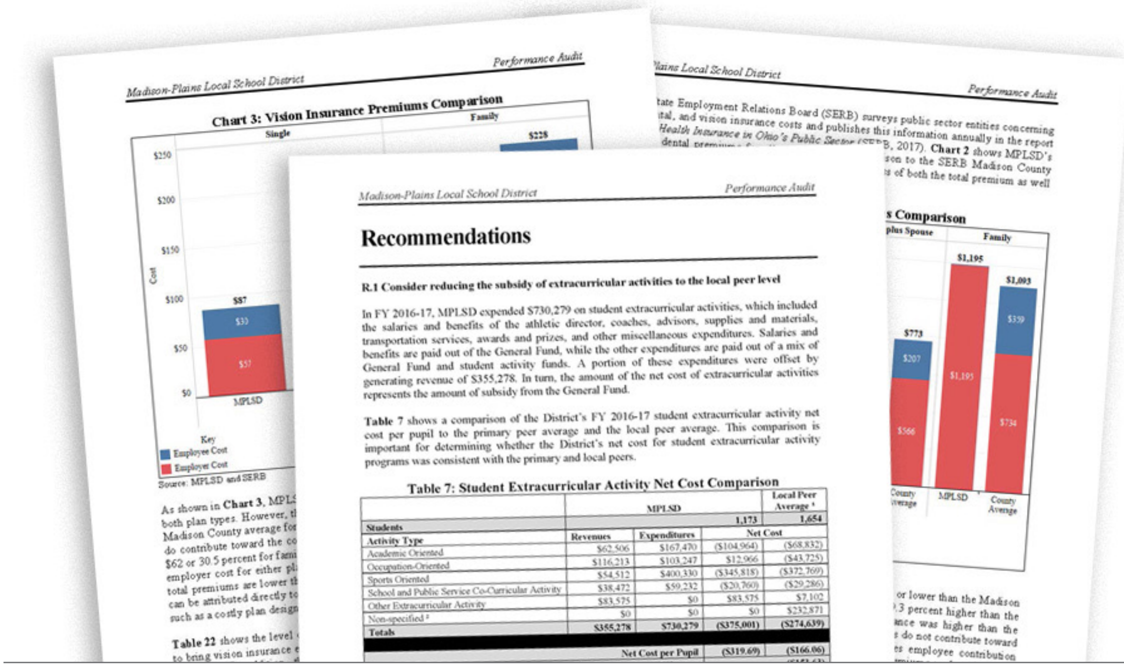
"It's hard to maintain a stable learning environment when your financial health is on the decline," Auditor Yost said. "Having a roadmap for the years ahead enables districts to make incremental adjustments as needed over time, sparing students the shock of a sudden blow caused by a logjam of unresolved financial challenges."

SCHOOL DISTRICT PERFORMANCE AUDITS

Fiscal distress vs. requested

Of the 86 performance audits of school districts completed since 2011, about 91 percent of recipients were audited in an effort to alleviate fiscal distress. The remaining 9 percent were audited in response to requests from district officials.

Both types of performance audits share many similarities but differ slightly. In neither case are school districts required to implement the recommendations of a performance audit.



Selection

One notable difference is the manner in which a school district is selected for an audit. Not every school district facing fiscal distress receives a performance audit. OPT, in consultation with the Ohio Department of Education, reviews the list of districts showing signs of fiscal distress and selects those that could benefit the most from a performance audit. This service is paid for by the Auditor of State.

On the other hand, requested performance audits are usually prompted by a simple phone call from district officials. If OPT and the interested parties agree that a performance audit could benefit the district, they proceed with an audit.

Scope

The two types of performance audits also differ in the way the audit scope – or focus

Continued on next page

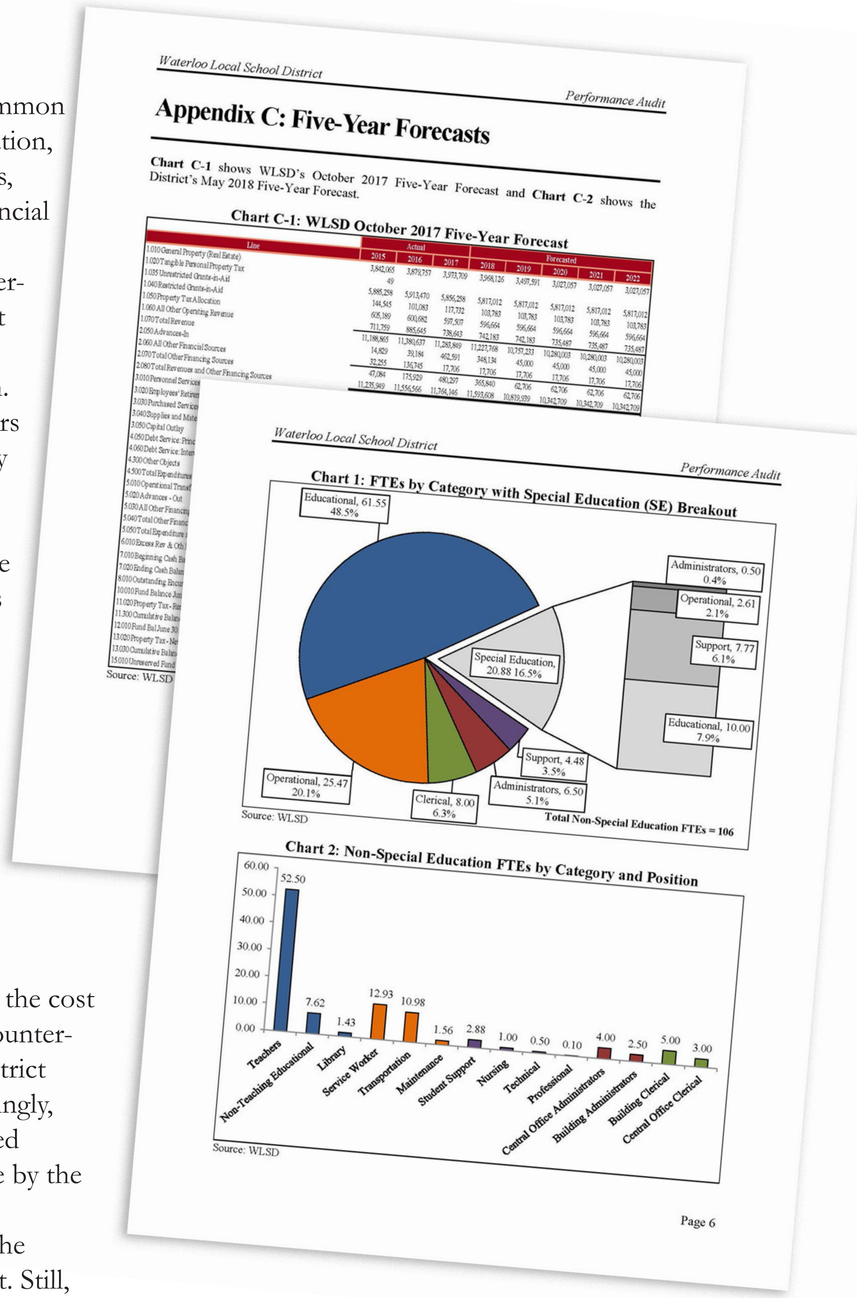
Fiscal distress vs. requested

Continued from previous page

areas of the audit – is determined. Common scope areas include: student transportation, food service, staffing, benefits, facilities, purchasing, fleet maintenance and financial management.

The objective of all fiscal distress performance audits is the same: to present the options needed to get the district out of the red and back to fiscal health. With this in mind, performance auditors determine the scope for these audits by targeting areas of high spending. Of course, OPT also takes into account feedback from the district to ensure the scope is informative and valuable to its operations.

In requested performance audits, districts have flexibility to customize the audit scope to fit their unique objectives. Consequently, some requested performance audits lack cost-saving recommendations because the audit scopes do not concentrate on financial savings.



Cost

Another difference to note involves the cost of a performance audit. It would be counterintuitive to send the bill to a school district already mired in fiscal distress. Accordingly, performance audits of fiscally distressed districts are paid for by a fund set aside by the Auditor of State's office.

Districts in good fiscal health bear the costs of a requested performance audit. Still, a financial assistance option in the form of a low-interest loan is available to districts that qualify. District officials can contact OPT to learn more (contact information is provided at the conclusion of the report).

Why a performance audit?

Questions districts should consider when determining if a performance audit could be beneficial:

1. What are my district's sources of revenue?
- How does this compare to other similar districts?
- How does this compare to higher performing, lower spending districts?
- How does this compare to neighboring districts?

2. How does my district's per-pupil spending break down operationally (e.g. administrative, classroom, support, etc.)?
- How does this compare to other similar districts?
- How does this compare to higher performing, lower spending districts?
- How does this compare to neighboring districts?

3. Has my district's growth in expenses been outpacing revenue growth?
- To what extent is this trend sustainable?
- To what extent is this interplay shown directly on the five-year forecast?

4. To what extent is my district's spending discretionary?
- What methods have been used to determine appropriate spending levels for discretionary expenses?

5. How does my district's operational spending compare to industry standards and leading practices?

6. How do I know I am getting the best price for the goods and services my district procures?

7. Are there programs or services that my district would like to provide but is putting off because of budget concerns?

8. Does my district have the right mix and number of personnel?

9. If contracting for services, is my district getting a cost-effective deal relative to alternative service delivery methods?

10. Are my district's enterprise operations self-sustaining?
- Are they on track to be self-sustaining in the future?

SCHOOL DISTRICT PERFORMANCE AUDITS

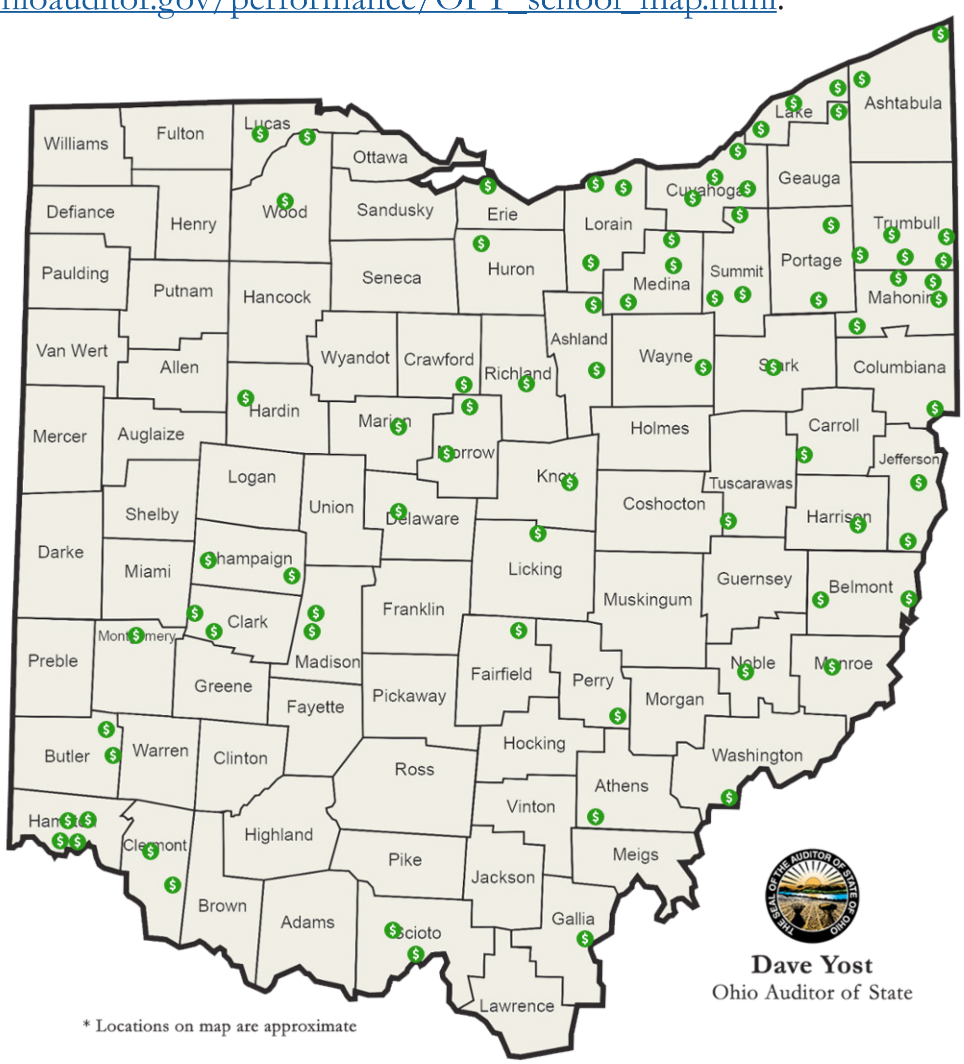
Conclusion

Many of Ohio's public school districts are confronting uncertainty in the funding of their operations. It is imperative for district officials to take stock and manage their risks by planning for the years ahead. Performance audits available from the Auditor of State's Ohio Performance Team aid in identifying cost savings and operational improvements, and improving an entity's overall financial condition. These audits accurately map a path for the future, allowing school leaders to focus on their core mission – education.

School districts can learn more by contacting OPT at (614) 387-6295 or Performance@ohioauditor.gov.

Visit http://skinnyohio.org/see-it to access two searchable databases housing savings ideas and recommendations made to school districts and other public entities.

To view an interactive map of school districts' performance audits since 2011, go to https://ohioauditor.gov/performance/OPT_school_map.html.



Dave Yost
Ohio Auditor of State

* Locations on map are approximate

SCHOOL DISTRICT PERFORMANCE AUDITS
2011-18

Date	School District	County	Type	Savings identified	ROI
3/31/11	Harrison Hills CSD	Harrison	Fiscal Distress	$2,103,100	$30.21
4/5/11	Youngstown CSD	Mahoning	Requested	$6,371,000	$85.27
5/5/11	Delaware CSD (2011)	Delaware	Requested	$1,246,000	$37.46
7/7/11	Auburn JVSD	Lake	Requested	$310,200	$5.65
7/7/11	Graham LSD	Champaign	Fiscal Distress	$1,407,500	$25.54
11/15/11	Parma CSD (2011)	Cuyahoga	Fiscal Distress	$5,365,000	$89.45
12/8/11	Portsmouth CSD	Scioto	Fiscal Distress	$1,868,450	$27.51
2/14/12	Madison LSD (2012)	Lake	Fiscal Distress	$1,328,400	$22.78
3/13/12	London CSD	Madison	Fiscal Distress	$1,352,100	$24.62
5/31/12	Black River LSD	Medina	Fiscal Distress	$355,000	$4.87
6/7/12	Buckeye LSD	Medina	Fiscal Distress	$1,768,700	$28.69
6/12/12	Upper Scioto Valley LSD	Hardin	Fiscal Distress	$686,900	$9.32
8/9/12	North Fork LSD	Licking	Fiscal Distress	$1,090,100	$15.23
9/18/12	Warrensville Heights CSD*	Cuyahoga	Requested	$0	$0.00
11/27/12	Marion CSD	Marion	Requested	$3,831,000	$68.54
11/29/12	Indian Creek LSD	Jefferson	Fiscal Distress	$1,753,754	$29.29
12/11/12	Cuyahoga Heights LSD	Cuyahoga	Fiscal Distress	$736,182	$13.16
2/28/13	Niles CSD (2013)	Trumbull	Fiscal Distress	$1,364,500	$21.64
3/5/13	Monroe LSD	Butler	Fiscal Distress	$740,000	$13.41
4/23/13	Nordonia Hills CSD	Summit	Fiscal Distress	$878,300	$12.31
5/16/13	Cloverleaf LSD	Medina	Fiscal Distress	$330,700	$4.56
5/21/13	Barnesville EVSD*	Belmont	Requested	$0	$0.00
7/11/13	East Knox LSD	Knox	Fiscal Distress	$434,000	$7.75
7/25/13	Coventry LSD (2013)	Summit	Fiscal Distress	$253,500	$3.66
9/5/13	Northwest LSD	Scioto	Fiscal Distress	$1,224,500	$20.36
10/8/13	Willoughby-Eastlake CSD	Lake	Fiscal Distress	$1,724,000	$24.63
10/22/13	Caldwell EVSD	Noble	Fiscal Distress	$613,800	$10.87
12/24/13	West Clermont LSD	Clermont	Fiscal Distress	$4,192,500	$58.94
2/11/14	Perkins LSD (2014)	Erie	Fiscal Distress	$1,462,800	$22.61
3/18/14	Conotton Valley Union LSD	Carroll	Fiscal Distress	$275,490	$4.63
3/20/14	Galion CSD	Crawford	Fiscal Distress	$654,254	$7.62
4/1/14	Tecumseh LSD	Clark	Fiscal Distress	$1,117,581	$14.89
5/8/14	Mechanicsburg EVSD	Champaign	Fiscal Distress	$767,600	$13.15
6/17/14	Ledgemont LSD (Dissolved)	Geauga	Fiscal Distress	$815,400	$12.16
6/17/14	Rossford EVSD	Wood	Requested	$3,757,400	$55.14
8/12/14	Switzerland of Ohio LSD	Monroe	Fiscal Distress	$2,137,300	$35.73
8/21/14	Brookfield LSD	Trumbull	Fiscal Distress	$249,200	$3.11
8/28/14	Clearview LSD	Lorain	Fiscal Distress	$887,900	$14.22
9/11/14	Lockland LSD	Hamilton	Fiscal Distress	$732,900	$11.12
1/6/15	Southern LSD	Perry	Fiscal Distress	$781,300	$12.34
1/15/15	Hillsdale LSD	Ashland	Fiscal Distress	$925,880	$14.67
1/15/15	Mansfield CSD	Richland	Fiscal Distress	$4,790,500	$51.57
1/29/15	Clermont Northeastern LSD	Clermont	Fiscal Distress	$888,400	$14.28

SCHOOL DISTRICT PERFORMANCE AUDITS
2011-18

Date	School District	County	Type	Savings identified	ROI
2/3/15	Cardington-Lincoln LSD	Morrow	Fiscal Distress	$708,800	$8.70
3/3/15	Shadyside LSD	Belmont	Fiscal Distress	$628,300	$9.31
3/17/15	Monroeville LSD	Huron	Fiscal Distress	$735,900	$16.34
4/7/15	Richmond Heights LSD	Cuyahoga	Fiscal Distress	$78,800	$1.26
4/9/15	Middletown CSD	Butler	Fiscal Distress	$2,899,700	$44.98
4/21/15	Springfield LSD	Lucas	Fiscal Distress	$2,625,500	$48.34
5/12/15	Bowling Green CSD	Wood	Requested	$705,100	$11.17
6/16/15	Northmor LSD	Morrow	Fiscal Distress	$349,000	$4.94
6/23/15	Sheffield-Sheffield Lake CSD	Lorain	Fiscal Distress	$2,449,300	$35.10
7/2/15	Walnut Township LSD	Fairfield	Fiscal Distress	$1,008,200	$15.21
7/14/15	Newcomerstown EVSD	Tuscarawas	Fiscal Distress	$858,900	$12.18
9/24/15	Greenon LSD	Clark	Fiscal Distress	$354,000	$5.01
12/8/15	Newton Falls EVSD	Trumbull	Fiscal Distress	$193,100	$2.70
1/26/16	Brunswick CSD	Medina	Fiscal Distress	$2,049,800	$23.18
3/22/16	Wellington EVSD	Lorain	Fiscal Distress	$71,400	$1.11
3/29/16	Gallipolis CSD	Gallia	Fiscal Distress	$1,022,900	$12.70
4/12/16	Bethel-Tate LSD	Clermont	Fiscal Distress	$751,700	$10.06
6/7/16	Canton CSD	Stark	Fiscal Distress	$2,634,200	$29.12
7/19/16	Coventry LSD (2016)	Summit	Fiscal Distress	$1,860,000	$22.79
8/30/16	Northmont CSD	Montgomery	Fiscal Distress	$2,201,900	$27.35
9/2/16	Cincinnati CSD	Hamilton	Fiscal Distress	$11,322,800	$104.77
10/13/16	Madison LSD (2016)	Lake	Fiscal Distress	$990,900	$16.25
10/18/16	Austintown LSD	Mahoning	Fiscal Distress	$1,449,000	$12.24
10/25/16	Hubbard EVSD	Trumbull	Fiscal Distress	$1,115,100	$17.17
11/29/16	Beaver LSD	Columbiana	Fiscal Distress	$315,100	$3.84
1/3/17	Dalton LSD	Wayne	Fiscal Distress	$627,750	$11.47
3/30/17	Parma CSD (2017)	Cuyahoga	Fiscal Distress	$6,003,586	$52.57
4/18/17	Perkins LSD (2017)	Erie	Fiscal Distress	$1,720,000	$20.45
5/11/17	Alexander LSD	Athens	Fiscal Distress	$1,449,200	$20.03
5/11/17	Norton CSD	Summit	Fiscal Distress	$195,300	$2.68
5/18/17	Finneytown LSD	Hamilton	Fiscal Distress	$2,275,400	$36.26
5/25/17	Delaware CSD (2017)	Delaware	Fiscal Distress	$4,587,800	$45.80
7/13/17	Conneaut Area CSD	Ashtabula	Fiscal Distress	$147,900	$1.47
8/17/17	West Branch LSD	Mahoning	Fiscal Distress	$2,195,300	$29.76
9/26/17	James A. Garfield LSD	Portage	Fiscal Distress	$1,491,750	$19.36
2/27/18	Buckeye LSD	Jefferson	Fiscal Distress	$1,871,000	$19.17
2/27/18	Poland LSD	Mahoning	Fiscal Distress	$1,640,400	$18.46
3/15/18	Madison-Plains LSD	Madison	Fiscal Distress	$1,789,600	$20.32
4/3/18	Niles CSD (2018)	Trumbull	Fiscal Distress	$3,364,600	$45.30
6/26/18	Geneva Area CSD	Ashtabula	Fiscal Distress	$272,200	$3.06
6/28/18	Belpre CSD	Washington	Fiscal Distress	$641,400	$7.56
7/31/18	Waterloo LSD	Portage	Fiscal Distress	$1,591,400	$23.64
8/21/18	Howland LSD	Trumbull	Fiscal Distress	$3,419,900	$33.73
TOTAL				**$138,236,977**	

*Financial savings were not an audit objective

Dave Yost
Ohio Auditor of State

88 E. Broad St.
Columbus, OH 43215
800-282-0370
614-466-4490
www.ohioauditor.gov