



Dave Yost • Auditor of State





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

At the request of the Ohio Department of Education, and in cooperation with Northwest Local School District, the Auditor of State's Ohio Performance Team conducted a performance audit of the District due to the projected deficits in its five-year forecast. The functional areas assessed during the audit were financial management, human resources, facilities, transportation and food service. These areas were selected because they are important components of District operations that support its educational mission. Improvements in these areas can assist the District in improving its financial condition.

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".

Dave Yost  
Auditor of State

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## Table of Contents

Executive Summary .....	1
Purpose and Scope of the Audit.....	1
Performance Audit Overview .....	1
Audit Methodology.....	1
Summary of Recommendations .....	2
Financial Management.....	4
R1.1 Increase public access to financial information and policies .....	7
R1.2 Enter into a shared service agreement for Treasurer responsibilities.....	7
Human Resources .....	9
R2.1 Eliminate 10.0 FTE general education teaching positions.....	11
R2.2 Negotiate a reduction of regular classroom teacher planning time.....	11
R2.3 Eliminate 5.0 FTE classroom aide positions.....	13
R2.4 Eliminate 1.0 FTE assistant principal position.....	13
R2.5 Negotiate an increase in employee health care premium contributions.....	14
R2.6 Develop and enforce a formal sick leave policy .....	15
R2.7 Negotiate a salary freeze for classified staff .....	16
R2.8 Renegotiate select provisions of the classified collective bargaining agreement .....	17
Food Service .....	19
R3.1 Outsource food service operations .....	21
R3.2 Implement an ODE-approved indirect-cost rate plan .....	22
R3.3 Purchase food using a cooperative .....	22
Facilities.....	24
R4.1 Negotiate a reduction in custodial services .....	26
R4.2 Outsource grounds keeping duties .....	27
R4.3 Discontinue use of the modular classrooms at the middle school.....	28
Transportation.....	29
R5.1 Increase routing efficiency by increasing the time between bells.....	30
R5.2 Develop a formal program for maintaining and replacing buses .....	31
R5.3 Implement a fuel reconciliation policy.....	32
Appendix.....	33
Client Response .....	34

# **Executive Summary**

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

The Ohio Department of Education (ODE) requested this performance audit of the Northwest Local School District (NLSL or the District) with the goal of improving its financial condition. Funding for the audit was provided by the Ohio Department of Education.

## **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 a significant amount of data; conducted interviews with numerous individuals associated with the various divisions internally and externally; and reviewed and assessed available information. The performance audit involved significant information sharing with the District, including drafts of findings and recommendations related to the identified audit areas. The District provided verbal and written comments in response to various recommendations, which were taken into consideration during the reporting process.

In consultation with NLSL, the following Ohio school districts were identified as peers: Crestview Local School District (Columbiana County), Dawson-Bryant Local School District (Lawrence County), East Palestine City School District (Columbiana County), Greenfield Exempted Village School District (Highland County), Lynchburg-Clay Local School District (Highland County), Minford Local School District (Scioto County), Northwestern Local School District (Wayne County), Paint Valley Local School District (Ross County) and Preble Shawnee Local School District (Preble County). Where reasonable and appropriate, peer school 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: Ohio Department of Education (ODE), Ohio Administrative Code (OAC), Ohio Revised Code (ORC), Government Finance Officers Association (GFOA), State Employee Relations Board (SERB), Patient Protection and Affordable Care Act (PPACA), Ohio Department of Administrative Services (DAS), American Public Works Association (APWA), and National Food Service Management Institute (NFSMI).

The performance audit involved significant 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 Northwest Local School District for their cooperation and assistance throughout this audit.

### Summary of Recommendations

Recommendations	Savings
R1.1 Increase public access to financial information and policies	N/A
R1.2 Enter into a shared service agreement for Treasurer responsibilities	\$32,000
R2.1 Eliminate 10.0 FTE general education teaching positions	\$541,000
R2.2 Negotiate a reduction of regular classroom teacher planning time	\$308,000
R2.3 Eliminate 5.0 FTE classroom aide positions	\$164,000
R2.4 Eliminate 1.0 FTE assistant principal position	\$98,000
R2.5 Negotiate an increase in employee health care premium contributions	\$153,000
R2.6 Develop and enforce a formal sick leave policy	\$24,000
R2.7 Negotiate a salary freeze for classified staff	\$19,500
R2.8 Renegotiate select provisions of the classified collective bargaining agreement	\$14,000
R3.1 Outsource food service operations	N/A
R3.2 Implement an ODE approved indirect-cost rate plan	N/A
R3.3 Purchase food using a cooperative	\$22,000
R4.1 Negotiate a reduction in custodial services	\$210,000
R4.2 Outsource grounds keeping duties	\$25,000
R4.3 Discontinue use of the modular classrooms at the middle school	\$8,000
R5.1 Increase routing efficiency by increasing the time between bells	\$99,000
R5.2 Develop a formal program for maintaining and replacing buses	N/A
R5.3 Implement a fuel reconciliation policy	N/A
<b>Cost Savings Adjustments</b>	
Savings achieved from R2.2 are mutually exclusive of R2.1	(\$308,000)
Savings identified in R1.2 could not be achieved until FY 2015-16	(\$32,000)
Savings identified in R2.5 could not be achieved until FY 2015-16	(\$153,000)
<b>Total Cost Savings from Performance Audit Recommendations</b>	<b>\$1,224,500</b>

The following table displays annual year-end General Fund balances as projected by the District in its May 2013 financial forecast coupled with the financial impact of recommendations contained in this audit.

### Financial Forecast with Performance Audit Recommendations

	Forecast FY 2012-13	Forecast FY 2013-14	Forecast FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17
Total Revenues and Other Financing Source	\$15,772,745	\$15,524,575	\$15,547,015	\$15,569,752	\$15,592,810
Total Expenditure and Other Financing Uses	\$16,232,648	\$15,696,654	\$15,998,852	\$16,311,432	\$16,627,404
Results of Operations	(\$459,903)	(\$172,079)	(\$451,837)	(\$741,680)	(\$1,034,595)
Beginning Cash Balance	\$922,870	\$462,967	\$290,888	(\$160,948)	(\$902,628)
Ending Cash Balance	\$462,967	\$290,888	(\$160,948)	(\$902,628)	(1,937,223)
Outstanding Encumbrances	\$85,000	\$85,000	\$85,000	\$85,000	\$85,000
Fund Balance June 30 for Certification of Appropriations	\$377,967	\$205,888	(\$245,978)	(\$987,628)	(\$2,022,223)
<b>Fund Balance June 30 for Certification</b>	\$377,967	\$205,888	(\$245,978)	(\$987,628)	(\$2,022,223)
Cumulative Balance of Performance Audit Recommendations	N/A	\$1,224,500	\$2,449,000	\$3,858,500	\$5,268,000
<b>Revised Fund Balance</b>	<b>\$377,967</b>	<b>\$1,430,388</b>	<b>\$2,203,022</b>	<b>\$2,870,872</b>	<b>\$3,245,777</b>

Source: NLSD October five year forecast.

As shown in the table, NLSD has projected year-end General Fund deficits for FY 2014-15 through FY 2016-17. However, applying the financial implications of recommendations contained in this audit could result in positive General Fund balances in every year of the forecast period.

# Financial Management

## Background

### *Financial Status*

In accordance with Ohio Revised Code (ORC) § 3316.031, the Ohio Department of Education (ODE) declared NLSD to be in a state of fiscal caution in August 2012 as a result of its May 2012 five year forecast which projected a FY 2014-15 year-end deficit of approximately \$246,000. As a requirement of being placed in fiscal caution, the District submitted a recovery plan to ODE that outlines over \$975,000 in reductions resulting from personnel cuts; a decrease in building, grounds, and athletics budgets; selling of a building and a change in administrator benefits. In addition, NLSD projected salary reductions of over \$478,000 from employee retirements. Despite these cuts, the District estimated in its plan that it must further reduce spending by approximately \$301,000 to stay within its estimated revenues.

### *Revenues*

**Table 1-1** below shows the District's FY 2011-12 revenue per pupil compared to the peer district average.

**Table 1-1 FY 2011-12 Revenue Per Pupil Peer Comparison**

	NLSD		Peer Average		Difference	
Average Daily Membership (ADM)	1670		1361		22.7%	
<b>Local Revenue</b>	<b>\$1,162</b>	<b>11.7%</b>	<b>\$2,780</b>	<b>29.2%</b>	<b>(\$1,618)</b>	<b>(17.5%)</b>
State Revenue	\$7,634	76.6%	\$5,485	62.5%	\$2,149	14.1%
Federal Revenue	\$1,163	11.7%	\$832	8.4%	\$331	3.3%
<b>Total Revenue</b>	<b>\$9,959</b>	<b>100.0%</b>	<b>\$9,097</b>	<b>100.0%</b>	<b>\$862</b>	<b>N/A</b>

Source: ODE ilrc reports

**Table 1-1** displays a reliance on State and federal funding by NLSD. Of the District's total funding, it received 11.7 percent from local sources and 76.6 percent from State sources. These funding levels contrast greatly from the peer districts which averaged 29.2 percent and 62.5 percent from local and State sources, respectively. This funding structure signifies that NLSD relies more on less predictable State and federal sources of funding. Local funding is almost entirely reliant on local tax levies; however, the District does not plan to put a levy on the ballot.

On an annual basis, ODE calculates the Local Tax Effort Index,<sup>1</sup> the ability of a district to generate local revenue. **Table 1-2** shows the local tax effort of NLSD compared to its peers.

**Table 1-2: FY 2011-12 Local Tax Effort Comparison**

	NLSD	Peer Average	Difference	% Difference
Assessed Valuation Per Pupil	\$57,065	\$89,314	(\$32,249)	(36.1%)
Median Income	\$28,017	\$29,223	(\$1,206)	(4.1%)
<b>Local Tax Effort Index</b>	<b>0.7</b>	<b>1.1</b>	<b>(0.4)</b>	<b>(38.4%)</b>

Source: ODE District profile report

As shown in **Table 1-2**, NLSD's assessed valuation per pupil is 36.1 percent below its peers, indicating a lower local tax base. NLSD's local tax effort index of 0.7 compared to the peer average of 1.1 highlights NLSD's reliance on State and federal funding and further verifies conclusions drawn from data in **Table 1-1**.

### Expenditures

**Table 1-3** shows NLSD's historical expenditures per pupil for FY 2008-09 through FY 2011-12.

**Table 1-3: Expenditures per Pupil**

	FY 2008-09	FY 2009-10	% Change	FY 2010-11	% Change	FY 2011-12	% Change
Pupils <sup>1</sup>	1,648	1,670	1.3%	1,709	2.3%	1,670	(2.3%)
Administrative	\$928	\$849	(8.5%)	\$870	2.5%	\$948	9.0%
Building Operations	\$2,608	\$2,737	4.9%	\$2,712	(0.9%)	\$2,678	(1.3%)
Staff Support	\$261	\$251	(3.8%)	\$266	6.0%	\$373	40.2%
Pupil Support	\$998	\$992	(0.7%)	\$994	0.2%	\$761	(23.4%)
Instructional	\$4,989	\$5,246	5.2%	\$5,263	0.3%	\$5,463	3.8%
<b>Total</b>	<b>\$9,784</b>	<b>\$10,075</b>	<b>3.0%</b>	<b>\$10,105</b>	<b>0.3%</b>	<b>\$10,223</b>	<b>1.2%</b>

Source: ODE

<sup>1</sup>Number of students used by ODE to calculate expenditures per pupil.

As shown in **Table 1-3**, the District increased expenditures per pupil over the period shown, an increase driven by rising instructional, staff support and administrative costs. While instructional costs increased due to an increase in salaries and benefits, the steep overall rise in staff support was caused by shifting special education and pre-school services to the South Central Ohio Education Service Center (SCOESC). The largest decrease in expenditures can be found in the pupil support category which was the result of the elimination of five part-time aides.

<sup>1</sup> Local Tax Effort Index reflects the extent of effort residents expend in support of their district in the form of local tax revenue. It calculates the residents' ability to pay by determining the relative position of each school district in the State in terms of the portion of residents' income devoted to supporting public education.

**Table 1-4** below compares NLSD's spending per pupil to its peers for FY 2011-12.

**Table 1-4: Expenditures per Pupil Comparison**

	NLSD	Peer Average	Difference	% Difference
Pupils <sup>1</sup>	1,670	1,361	309	22.7%
Administrative	\$948	\$1,066	(\$118)	(11.1%)
Building Operations	\$2,678	\$2,044	\$634	31.0%
Staff Support	\$373	\$176	\$197	111.9%
Pupil Support	\$761	\$795	(\$34)	(4.3%)
Instructional	\$5,463	\$5,020	\$443	8.8%
<b>Total</b>	<b>\$10,223</b>	<b>\$9,101</b>	<b>\$1,122</b>	<b>12.3%</b>

Source: ODE

<sup>1</sup>Number of students used by ODE to calculate expenditures per pupil.

As shown in **Table 1-4**, the District expended \$1,122 more per pupil than its peers in FY 2011-12; the main drivers being building operations, instructional costs and staff support. High building operations expenditures can be attributed to the care and upkeep of the grounds (see **R4.2**) while high instructional costs were due to the District having a greater number of teachers with higher pay schedules and more generous benefits (see **R2.1** and **R2.5**). Finally, the staff support expenditures were higher than the peer average due to the District's contract with SCOESC for special education and pre-school services.

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# Recommendations

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## **R1.1 Increase public access to financial information and policies**

The District maintains financial records and policies at its administrative offices. The files are hard copies and are not made available on its website for public use. In order to review any documents, individuals have to physically go to the administrative offices. This process is time consuming for stakeholders of the District and does not allow for an adequate level of transparency and accountability needed in public entities.

*Web Site Presentation of Official Financial Documents* (Government Finance Officers Association (GFOA), 2009) encourages "...governments to demonstrate accountability and transparency by making financial information of the highest quality readily accessible to citizens and other interested parties. A government's website is especially well suited for this purpose."

Also, by having financial policies available on its website, an organization could strengthen its internal controls as employees would have ready access to the policies. *Documentation of Accounting Policies and Procedures* (GFOA, 2007), recommends the formal documentation of accounting policies and procedures. This formal documentation should be readily available for all employees. The use of a website to provide key financial data fulfills the goal of having policies readily available for employees to review and reference. Also, any changes or updates to the policies can be quickly added to the website as they arise, ensuring employees are following the most up-to-date policies and procedures.

Although the District's website includes useful information for teachers and staff, it has not been used to provide easy access to financial information or policies for citizens and employees. By making financial information available online, the District could increase transparency and accountability while improving its internal controls.

## **R1.2 Enter into a shared service agreement for Treasurer responsibilities**

Financial Implication: Outsourcing the functions of the Treasurer's position to SCOESC would save approximately **\$32,000**<sup>2</sup> in benefits.

The Treasurer's position experienced significant turnover during FY 2011-12 and FY 2012-13. During its most recent search for a treasurer, the District contracted with SCOESC for two weeks in February 2013 which is allowable under ORC § 3313.222.<sup>3</sup>

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<sup>2</sup> Based on the difference of the total compensation of the Treasurer (\$110,000) less the estimated amount paid to SCOESC (\$78,000).

<sup>3</sup> ORC § 3313.222 states that "...the boards of education of two or more school districts may, by agreement, jointly employ a treasurer to act as treasurer of each district and compensate him in accordance with the terms of such agreement."

*Alternative Service Delivery: Shared Services* (GFOA, 2007) publication "...recommends that governments examine the benefits of alternative service delivery that involves shared service efforts." In the collaboration process, the entities should consider cost allocations, financing, liability and legal basis of the relationship, service level agreements, time period covered, and termination clauses among other issues. In addition, a long-term review should also be part of the agreement in which the arrangement is reviewed to ensure both parties are benefiting from the shared services agreement.

Within the past decade, select Ohio school districts have signed agreements to share the services of one treasurer. Orrville City School District and Rittman Exempted Village School District have been sharing one treasurer since FY 2007-08. These districts were able to identify savings of \$270,000 within two years of signing the agreement. In FY 2011-12, Green LSD (Wayne County) was added to this agreement. With this addition, it is expected that all three school districts will benefit financially from sharing one treasurer. In a separate agreement, Cloverleaf Local School District and Medina City School District agreed to share the services of one treasurer starting in FY 2011-12. This agreement saved Cloverleaf LSD \$54,300 in salaries and benefits while providing Medina CSD with an additional revenue source.

Although outsourcing the functions of a treasurer is not common, this practice is on the rise. NLSD needs to consider all options to seek a reduction in expenditures in areas outside of instructional services due to its financial condition. Outsourcing the functions of a treasurer would allow NLSD to reduce expenditures without having a direct impact on the educational services received by its students.

# Human Resources

## Background

In FY 2011-12, employee salaries and benefits represented 76.5 percent of NLSD's total expenditures. Due to the large proportion of expenditures devoted to these two areas, the analysis of the human resources function focused primarily on salaries, staffing levels and insurance benefits.

### Staffing

Since the start of FY 2012-13, the District has reduced 4.0 FTE general education teachers, 2.0 FTE bus drivers and 1.5 FTE cooks. In addition, NLSD expects several more voluntary retirements through FY 2013-14. **Table 2-1** shows overall District staffing compared to the peers on both an FTE and per 1,000 student basis.

**Table 2-1: FY 2012-13 Staffing Comparison Summary (in FTEs)**

	NLSD		Peer Average	Difference	% Difference
Student Headcount	1,654		1,342	312	18.8%
	NLSD FTE Staff	FTE/1,000 Students	Peer Average Staff/1,000 Students	Difference /1,000 Students	Total FTE Difference Adjusted for Headcount
Administrative	10.0	6.0	6.4	(0.4)	(0.7)
Office/Clerical	9.0	5.4	7.6	(2.2)	(3.6)
General Education Teachers	82.0	49.6	49.4	0.2	0.3
All Other Teachers	15.0	9.1	10.2	(1.1)	(1.8)
Education Service Personnel (ESP)	12.0	7.3	7.6	(0.3)	(0.5)
Educational Support	1.0	0.6	1.8	(1.2)	(2.0)
Other Certificated	0.0	0.0	0.4	(0.4)	(0.7)
Non-Certificated Classroom Support	13.4	8.1	5.6	2.5	4.1
Sub-Total	142.4	86.1	88.9	(2.8)	(4.6)
Operations	43.1	26.1	28.0	(1.9)	(3.1)
All Other Staff	1.0	0.6	2.5	(1.9)	(3.1)
<b>Total Staff</b>	<b>186.5</b>	<b>112.8</b>	<b>119.4</b>	<b>(6.7)</b>	<b>(11.1)</b>

Source: ODE

As shown in **Table 2-1**, NLSD's total staffing was 11.1 FTEs lower than its peers. Furthermore, of the 11 staffing categories shown, the District was only materially higher than its peers in one category: non-certificated classroom support.

## Salaries

Because District employees are more likely to seek other employment in the vicinity, salary schedules were compared to schools surrounding NLSD. These districts include Adams County/Ohio Valley Local School District, Clay Local School District, Scioto Valley Local School District, Valley Local School District and Washington-Nile Local School District.

In order to analyze compensation, salary levels were compared based on beginning steps, average step increase and total compensation achievable over a 30 year career derived from salary schedules contained in the District's collective bargaining agreements. **Table 2-2** displays a comparison of bachelor's level teacher salaries for NLSD and the peers.

**Table 2-2: FY 2011-12 Bachelor's Degree Level Salary Comparison**

	NLSD	Surrounding District Average	Difference	% Difference
Beginning Salary (Step 0)	\$31,487	\$32,177	(\$690)	(2.1%)
Number of Step Increases	16	15.6	0.4	2.6%
Average \$ Step Increase	\$1,104	\$1,284	(\$180)	(14.0%)
Average % Step Increase	3.1%	3.1%	(0.0%)	(0.0%)
Total % Salary Increase	63.1%	61.9%	1.2%	1.9%
<b>Total Career Compensation</b>	<b>\$1,315,722</b>	<b>\$1,363,044</b>	<b>(\$47,322)</b>	<b>(3.5%)</b>

Source: NLSD and surrounding districts

As shown in **Table 2-2**, the District's salary schedule is comparable to its surrounding districts based on total career compensation that was only 3.5 percent lower than the surrounding districts. Specifically, NLSD had higher beginning salary, steps, and a greater number of step increases that were mitigated with lower average step increases, thereby resulting in a similar level of total compensation. Similar results were attained when comparing master's level salary schedules. Due to total career compensation that was similar to the peer average, no recommendations pertaining to certificated salaries were warranted.

Salary levels of classified employees are examined in **R2.7**. In addition, benefits for all employees are analyzed in **R2.5**.

# Recommendations

## R2.1 Eliminate 10.0 FTE general education teaching positions

**Financial Implication:** Eliminating 10.0 FTE regular teachers would save approximately **\$541,000<sup>4</sup>** in salaries and benefits annually.

General education teachers instruct students in a regular classroom environment. Ohio Administrative Code (OAC) § 3301-35-05 requires the district-wide ratio of general education teachers to students to be at least 1 FTE classroom teacher for every 25 students in the regular student population. This category excludes teaching staff in other areas such as gifted, special education, and education service personnel (ESP). **Table 2-3** below compares the District's regular teacher staffing to this State minimum requirement.

**Table 2-3: FY 2011-12 Regular Teacher Comparison to State Minimums**

General Education Teachers FTEs	75.0
Regular Student Population	1,286
Regular Student to Regular Teacher	17.1
State Minimum Required Regular Teachers (25:1)	51.4
<b>Regular Teachers Above State Minimum Requirements</b>	<b>23.6</b>

Source: NLSD

Note: This analysis excluded 137 regular elementary students that the District has identified as academically challenged and the 7 FTE teachers assigned to these students.

As shown in **Table 2-3**, the District employs 23.6 FTE regular education teachers more than the level required by OAC § 3301-35-05. If the District eliminates 10.0 regular education teacher FTEs, it would have a student-to-teacher ratio of 20:1, a level approximately 20 percent above the State minimum requirement.

It is not a common practice in Ohio for districts to operate at or near State minimums. Therefore, prior to reducing regular education teachers, NLSD should strongly consider achieving savings in all other areas of its operations. If the District determines further educational staffing reductions are necessary, it should consult with ODE to ensure it maintains compliance with State requirements and strongly consider the effect these reductions will have on the education level it provides.

## R2.2 Negotiate a reduction of regular classroom teacher planning time

**Financial Implication:** Reducing planning time to State minimum levels could allow the District to eliminate 6.0 FTE regular education teachers for a savings of **\$308,000<sup>5</sup>** annually.

<sup>4</sup> Based on the salaries and benefits of the 10 least senior teachers in FY 2011-12.

<sup>5</sup> Based on the salaries and benefits of the 6 least senior teachers in FY 2011-12.

The collective bargaining agreement between the Northwest Local School District Board of Education (the Board) and the Northwest Local Education Association was reviewed to identify provisions that deviate from peer levels, recommended practices, and/or State minimum requirements. This review identified one area for consideration: teacher planning time. According to the contract, the District uses block scheduling at the middle and high school that consists of four 75 minute periods in the school day. In contrast, the peer districts have between seven and nine periods with an average length of 47 minutes.

According to *Block Scheduling: A Catalyst for Change in High Schools* (Candy and Rettig, 1995), among the benefits of block scheduling are the reduction of class changes during the day, a reduction in the duplication of efforts between teachers, and a schedule allowing teachers to teach fewer classes each day.

Block scheduling reduces the amount of time teachers can teach on a daily basis. For example, out of a seven hour and fifteen minute day, NLSD teachers are afforded between 70 and 75 minutes (one instructional period) of planning time. When including the 30 minute lunch period provided, NLSD teachers spend approximately 24 percent of a school day either planning or at lunch. In comparison, teachers at the peer districts spend an average of 16 percent of a school day on planning and lunch, resulting in a higher proportion of a teacher's work day devoted to instructional time.

**Table 2-4** compares NLSD's teacher planning periods each week to the minimum required by ORC § 3301-35-05.

**Table 2-4: NLSD Planning Time Converted to Teacher FTEs**

<b>Grades K-5</b>	
Planning Minutes per Week	375
ORC Minimum Planning Minutes per Week	200
Annual Minutes in Excess of Minimum (183 days/36.6 wks)	6,405
Conversion to Hours	106.8
Teachers	33
Total Annual Hours	3,522.8
Annual Hours Worked per FTE Teacher	1,326.8
<b>Converted to FTE</b>	<b>2.7</b>
<b>Grades 6-12</b>	
Planning Minutes per Week	350
ORC Minimum Planning Minutes per Week	200
Annual Minutes in Excess of Minimum (183 days/36.6 wks)	5,490
Conversion to Hours	91.5
Teachers	49
Total Annual Hours	4,483.5
Annual Hours Worked per FTE Teacher	1,326.8
<b>Converted to FTE</b>	<b>3.4</b>
<b>Total FTEs</b>	<b>6.1</b>

Source: NLSD

As shown in **Table 2-4**, the District has to employ six additional teacher FTEs to cover the contractually required planning time in excess of State minimums. If moving from a 4 block schedule to a 7 block schedule proves infeasible, the District should still negotiate a reduction in teacher planning time to the ORC minimum of 200 minutes per week. Half of the peer districts restrict planning time to ORC minimums resulting in the average planning time allowed for all peers of 215 minutes per week for teachers in grades K through 5 and 212 minutes per week for teachers in grades 6 through 12.

### R2.3 Eliminate 5.0 FTE classroom aide positions

Financial Implication: Eliminating 5.0 FTE classroom aides will save approximately **\$164,000<sup>6</sup>** annually.

**Table 2-5** shows the District's non-certificated aides compared to the peer average.

**Table 2-5: Teaching Aide Staffing Comparison**

Students	1,654
Teaching Aides	13.0
Teaching Aides per 1,000 Students	7.9
Peer Average per 1,000 Students	4.4
Difference	3.5
FTE Teaching Aides Needed	7.3
<b>Teaching Aide FTEs Above the Peers</b>	<b>5.7</b>

Source: NLSD and peer districts

As shown in **Table 2-5**, NLSD has 5.7 FTE teaching aides in excess of the peer average. Should the District reduce five teaching aides, it would still be staffed at a level above its peers.

### R2.4 Eliminate 1.0 FTE assistant principal position

Financial Implication: Reducing staffing by 1.0 FTE assistant principal will save approximately **\$98,000<sup>7</sup>** annually.

**Table 2-6** compares NLSD to the peer administrative staffing levels.

**Table 2-6: Administrative Comparisons**

	NLSD	Peer Average	Difference
<b>Assist. Principal</b>	2.0	0.7	1.3
<b>Principal</b>	3.0	3.1	(0.1)

Source: NLSD and Peer Districts

According to ORC § 3301-35-05, any school building with 15 or more teachers must have the service of a full time principal but assistant principals are not required. As shown in **Table 2-6**, NLSD employees 1.3 more assistant principal FTEs than the peer average signifying it could eliminate staffing in this area. After reducing 1.0 FTE assistant principal position, the District

<sup>6</sup> Based on the salaries and benefits of the 5.0 FTE least senior aides.

<sup>7</sup> Based on the salaries and benefits of the least senior assistant principal.

would be in line with the peer average while still maintaining an assistant principal that may be able to split duties between school buildings.

## R2.5 Negotiate an increase in employee health care premium contributions

**Financial Implication:** Increasing the employee contribution towards health insurance premiums for all employees paying less than 15 percent could save the District **\$153,000** annually beginning in FY 2015-16.

NLSD is a member of the Scioto Health Plan (SHP), a consortium of surrounding school districts that purchases medical insurance. As of January 2013, 149 employees were participating in the healthcare plan. In FY 2011-12, the District paid approximately \$2.3 million for health insurance and approximately \$200,000 for life, vision and dental. Policies concerning the type of plans the District offers and the percentage of premiums paid by employees are set through its collective bargaining agreements.

**Table 2-7** provides a detailed illustration of FY 2012-13 insurance premiums, including District and employee contributions and annual costs to the District.

**Table 2-7: FY 2012-13 Monthly Insurance Premiums and Contributions**

Family Plans						
	Employee Share		District Share		Number Enrolled	Annual District Expenditures
<b>Certificated (pre 2010)</b>	\$123.48	7.0%	\$1,640.52	93.0%	65	\$1,279,605
<b>Certificated (post 2010)</b>	\$141.12	8.0%	\$1,622.88	92.0%	4	\$77,898
<b>Classified</b>	\$88.20	5.0%	\$1,675.80	95.0%	44	\$884,822
<b>Administrative</b>	\$176.40	10.0%	\$1,587.60	90.0%	6	\$114,307
Individual Plan						
<b>Certificated (pre 2010)</b>	\$46.83	7.0%	\$622.17	93.0%	14	\$104,524
<b>Certificated (post 2010)</b>	\$53.52	8.0%	\$615.48	92.0%	2	\$14,771
<b>Classified</b>	\$33.45	5.0%	\$635.55	95.0%	12	\$91,519
<b>Administrative</b>	\$66.90	10.0%	\$602.10	90.0%	2	\$14,450
<b>Total</b>					<b>149</b>	<b>\$2,581,896</b>

Source: NLSD

As shown in **Table 2-7**, the weighted average employee contribution was 6.4 percent per enrollee for family plans and 7.5 percent per enrollee for individual plans. In FY 2012-13, the Board renegotiated collective bargaining agreements for both certificated and classified employees. Under the new collective bargaining agreements in effect through FY 2014-15, the employee's share of insurance premiums will incrementally increase to 10 percent for certificated employees and 8.5 percent for classified employees by the end of the agreement.

**Table 2-8** compares employees' share for medical insurance premiums to peer districts and recognized benchmarks.

**Table 2-8: Premiums Compared to Benchmarks**

	NLSD	Benchmark <sup>1</sup>	Difference
<b>Certificated Single</b>	10.0%	14.2%	(4.2%)
<b>Certificated Family</b>	10.0%	18.1%	(8.1%)
<b>Classified Single</b>	8.5%	14.2%	(5.7%)
<b>Classified Family</b>	8.5%	18.1%	(9.6%)

Source: NLSD, peer school districts, State Employment Relations Board's 20<sup>th</sup> Annual Report on the Cost of Health Insurance in Ohio's Public Sector and 2012 Kaiser Family Foundation and Health Research and Educational Trust (2012)

<sup>1</sup>The mean of the peer average, and SERB and Kaiser Family Foundation surveys.

According to [www.Healthcare.gov](http://www.Healthcare.gov), the 2010 Patient Protection and Affordable Care Act (PPACA) places limits on changes in employer provided health insurance plans, including limiting changes in the employee share of premiums. Because the law will not be fully in effect until 2014, it is not yet clear how changes brought about by the PPACA will affect existing insurance plans. For this reason, the District should continue to monitor insurance expenditures but wait until after the PPACA is fully enacted before making major changes to health insurance contributions. The most recent collective bargaining agreement is effective through FY 2014-15. At that time, the District should consider both recognized benchmarks and PPACA regulations when negotiating new employer insurance premiums.

## **R2.6 Develop and enforce a formal sick leave policy**

**Financial Implication:** Reducing sick leave usage to the Ohio Department of Administrative Services (DAS) average would save approximately **\$24,000<sup>8</sup>** annually in substitute expenses.

In FY 2011-12, NLSD certificated staff used an average of 10.5 days of sick leave while classified staff used an average of 11.5 days. This utilization rate was 2.8 days per employee higher than the DAS average for certificated staff and 3.4 days per employee higher for classified staff.

According to *Sick Leave Abuse: A Chronic Workplace Ill?* (International Personnel Management Association, 2002), determining if and why employees overuse or abuse leave policies is important. Just as an employer analyzes turnover, organizations should also look at sick leave trends. Doing so would help determine if sick leave is higher in one department, or under a particular supervisor, and if workplace policies and procedures affect absences. Finding the root causes of the problem helps address core issues. Methods for monitoring sick leave abuse vary from one organization to another, but the following provides common guidelines all employers can follow to manage sick leave effectively:

- Recognize the problem and intervene early before it escalates. Managers need to enforce leave policies and take appropriate action.
- Find out why the employee is abusing leave. Talk to employees who are abusing leave and see if their behavior stems from personal problems.

<sup>8</sup> Based on the number of sick days above DAS standards for each worker multiplied by the substitute rate for that position.

- Learn to say “No.” Employers should not let employees get away with abusing leave policies.
- Use procedures, regulations, practices and knowledge to benefit management as well as the employees.
- Document everything to learn from past mistakes.

NLSD does not have effective control measures to ensure sick leave abuse does not occur. By developing a sick leave policy that incorporates controls and elements of best practices, the District will be better equipped to monitor and potentially reduce sick leave usage.

### **R2.7 Negotiate a salary freeze for classified staff**

Financial Implication: Implementing a freeze on base and step schedule increases for classified staff for FY 2014-15 would generate annual savings of **\$19,500**.

**Table 2-9** shows career compensation for each classified position over a 30 year career.

**Table 2-9: FY 2011-12 Total Cost for 30 years Comparison**

	NLSD	Surrounding District Average	Difference	% Difference
<b>Aide</b>	\$1,136,449	\$884,393	\$252,056	28.5%
<b>Bus Driver</b>	\$552,438	\$539,119	\$13,318	2.5%
<b>Bus Mechanic</b>	\$1,168,003	\$640,802	\$527,201	82.3%
<b>Custodian</b>	\$1,138,425	\$919,487	\$218,938	23.8%
<b>Maintenance</b>	\$1,204,070	\$651,859	\$552,211	84.7%
<b>Cook</b>	\$713,983	\$557,585	\$156,398	28.0%
<b>Head Cook</b>	\$737,032	\$602,738	\$134,294	22.3%
<b>Secretary</b>	\$838,422	\$691,217	\$147,205	21.3%

Source: NLSD and peer district CBAs

As shown in **Table 2-9**, NLSD’s career compensation for classified staff was higher than the surrounding district average for every staffing category. Higher career compensation can be caused by higher starting salary levels, greater step increases or a combination of both. After comparing the District’s classified salaries to the surrounding districts, it was determined the higher level of classified compensation at NLSD was caused by higher starting salaries. **Table 2-10** displays starting salary levels for each classified position in comparison to the peer average.

**Table 2-10: FY 2011-12 Starting Salary Comparison**

	NLSD	Surrounding District Average	Difference	% Difference
<b>Aide</b>	\$15.72	\$12.74	\$2.98	23.4%
<b>Bus Driver</b>	\$17.10	\$17.22	(\$0.12)	(0.7%)
<b>Bus Mechanic</b>	\$16.30	\$15.19	\$1.11	7.3%
<b>Cook</b>	\$15.93	\$12.77	\$3.16	24.7%
<b>Custodian</b>	\$15.93	\$13.58	\$2.35	17.3%
<b>Maintenance</b>	\$16.85	\$15.53	\$1.32	8.5%
<b>Head Cook</b>	\$16.50	\$13.97	\$2.53	18.1%
<b>Secretary</b>	\$17.01	\$14.29	\$2.72	19.0%

Source: NLSD and Peer District CBAs

As shown in **Table 2-10**, with the exception of the bus driver classification, all starting salaries were significantly higher than the surrounding district average. These positions averaged starting salary levels 14.7 percent higher than the surrounding district average.

When compared to the surrounding district average, the District's classified pay schedules start at a higher hourly wage which increases overall costs for salaries. The District should negotiate a lower starting salary and fewer pay steps for classified employees or a freeze in pay for a set number of years until wages become more in line with the surrounding districts.

## **R2.8 Renegotiate select provisions of the classified collective bargaining agreement**

**Financial Implication:** Adjusting call-in pay could save the District **\$14,000<sup>9</sup>** annually, assuming the District brings overtime in-line with the peer average.

The collective bargaining agreement between the Board and the Ohio Association of Public School Employees/AFSCME/AFL-CIO Local #376 was reviewed to identify provisions that deviate from peer levels, recommended practices, and/or State minimum requirements. This review identified the following areas for consideration:

- **Annual attendance bonus:** NLSD provides an annual attendance bonus of \$600. Five of eight peer districts did not provide a bonus while the three peer contracts<sup>10</sup> that contained a bonus had a range of \$100 to \$500.
- **Vacation pay out:** NLSD pays employees up to 25 vacation days upon retirement. No peer contracts had a similar provision.
- **Call-in pay:** NLSD pays employees a minimum of two hours overtime for call-in pay on weekends and holidays. Five<sup>11</sup> of eight peer contracts did not offer a call-in pay clause. Four<sup>12</sup> of these peers averaged lower overtime expenditures in FY 2011-12.

<sup>9</sup> Based on the difference between the peer average overtime expenditures and NLSD overtime expenditures for FY 2011-12.

<sup>10</sup> Dawson-Bryant LSD, East Palestine CSD and Paint Valley LSD.

<sup>11</sup> Dawson-Bryant LSD, East Palestine CSD, Greenfield EVSD, Minford LSD and Preble Shawnee LSD.

<sup>12</sup> East Palestine CSD, Greenfield EVSD, Minford LSD, Northwestern LSD, and Paint Valley LSD.

In FY 2011-12, the District's overtime expenditures for maintenance and custodial duties exceeded the peer average by 133 percent (approximately \$14,000). A contributing factor to higher overtime pay is the call-in provision clause of the classified contract. Negotiating this provision out of the contract could reduce NLSD's high overtime expenditures.

# Food Service

## Background

In FY 2011-12 the Food Service Fund operated with a deficit of approximately \$41,000. As a result of this deficit, the District eliminated 4 part-time cooks and a part-time cafeteria aide in October 2012. Total salary costs for these eliminated positions were approximately \$40,000 from the Food Service Fund and \$10,000 from the General Fund. For FY 2012-13, the District's three fully functioning kitchens were staffed with 3.0 FTE head cooks and 7.0 FTE cooks who worked 5 hours per day. In addition, some administrative duties of the food service function are completed by a principal and secretary.

**Table 3-1** shows historical revenues and expenditures for the Food Service Fund.

**Table 3-1: FY 2009-10 through FY 2011-12 Food Service Fund**

	FY 2009-10	FY 2010-11	% Change	FY 2011-12	% Change	3 Year Change
<b>Total Revenue</b>	\$788,898	\$814,071	3.2%	\$837,176	2.8%	6.1%
<b>Total Expenditures</b>	\$817,901	\$810,158	(0.9%)	\$878,299	8.4%	7.4%
<b>Results of Operations</b>	<b>(\$29,003)</b>	<b>\$3,913</b>	<b>113.5%</b>	<b>(\$41,123)</b>	<b>(1,151.0%)</b>	<b>(41.8%)</b>

Source: NLS D

As shown in **Table 3-1**, a steep rise in total expenditures in FY 2011-12 resulted in an operating deficit of over \$41,000. This deficit, however, does not display the true results of food service operations as total expenditures contained in the table do not include indirect expenditures associated with the cafeteria aide<sup>13</sup>, custodial, maintenance, human resources, Treasurer and utility costs (see **R3.2**). Had the District included these expenditures, the Fund would have reported an estimated deficit of \$114,000 in FY 2011-12.

In order to identify high cost areas of meal production, **Table 3-2** compares the average cost to produce a meal at NLS D to its peers.

<sup>13</sup> Cafeteria aide was part of the reduction in force enacted in October 2012. Total pay for FY 2011-12 was approximately \$10,000.

**Table 3-2: FY 2011-12 Food Service MR 70 Report Compared to Peers**

	NLSD	Peer Average <sup>1</sup>	Difference	% Difference
<b>Total Lunch</b>	<b>\$3.64</b>	<b>\$3.13</b>	<b>\$0.51</b>	<b>16.3%</b>
Labor	\$1.07	\$1.01	\$0.06	5.9%
Benefits	\$0.92	\$0.80	\$0.12	15.0%
Food Usage	\$1.20	\$1.08	\$0.12	11.1%
Supplies	\$0.08	\$0.09	(\$0.01)	(11.1%)
Purchased Services	\$0.23	\$0.13	\$0.10	76.9%
Depreciation	\$0.14	\$0.01	\$0.13	1,300.0%
<b>Donated Food</b>				
	\$0.29	\$0.26	\$0.03	11.5%
<b>Total Hours</b>	12,351	11,601	750	6.5%
<b>Hourly Labor Cost</b>	\$20.51	\$15.23	\$5.28	34.7%
<b>Hourly Lunches</b>	19.23	15.56	3.67	23.6%
<b>Hourly Lunch Revenue</b>	\$49.87	\$40.07	\$9.80	24.5%

Source: NLSD and peer districts

<sup>1</sup>Peers consist of Crestview LSD, Dawson-Bryant LSD, East Guernsey LSD, Greenfield EVSD, Minford LSD, Northwestern LSD, and Preble Shawnee LSD.

As shown in **Table 3-2**, NLSD's FY 2011-12 cost per meal was higher than the peer average. In order to reduce meal costs, the District should target the food usage, labor, and benefits line items each of which were higher than the peer average and collectively represent about 87 percent of the total cost per meal. A decrease in meal costs could occur through the outsourcing of the food service operation (see **R3.1**) or indirectly through a reduction in wage levels (see **R2.7**) or benefit compensation (see **R2.5**) of food service employees.

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# Recommendations

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## R3.1 Outsource food service operations

In order to gauge the possible benefits of outsourcing food service operations, FY 2011-12 food service revenues and expenditures for NLSD were compared to the original peer set as well as two other peer sets consisting of districts that have outsourced operations. This analysis included the following sets of comparative districts and results (see **Table A-1** of the **Appendix**):

- **Original Peers:** Included in this set were the original peers for the overall performance audit, all of which maintain food service operations in-house. Comparing NLSD to these peers showed that it operated with a 9.9 percent deficit while the peers operated with a 1.3 percent surplus.<sup>14</sup>
- **Outsource Food Service (State-wide):** Included in this set were East Palestine City School District (Columbiana County) and Sugar Creek Local School District (Greene County) which represent districts State-wide that outsource food service operations. These districts were found to have operated with a 2.9 percent surplus while NLSD operated with a 4.9 percent deficit.<sup>15</sup>
- **Outsource Food Service (Regional):** Included in this set were Green LSD (Scioto County), Lynchburg-Clay Local School District (Highland County), and Wheelersburg Local School District (Scioto County) which represent those local to NLSD that outsource food service operations. These districts were found to have operated with a 5.7 percent surplus while NLSD operated with a 4.9 percent deficit.

In all three food service comparisons, NLSD incurred a significant Food Service Fund deficit while all comparative sets operated with a Fund surplus of at least 1.3 percent. The largest difference in operations occurred in local districts that outsourced its food service operations.

*Fiscal First Aid Quick Reference: Outsourcing* (GFOA, 2010), shows that outsourcing is a way to put the advantages of private firms to work in the public sector. The success of an outsourcing initiative can be measured in a number ways:

- Costs are reduced. Has the organization experienced a net reduction in its costs?
- Service quality is maintained. Is the vendor living up to the objectives outlined in its contract?
- Customers are satisfied. Are the recipients of the outsourced service satisfied?

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<sup>14</sup> ODE Lunch Per Meal Cost and Labor Report (MR 70) was used for this comparison.

<sup>15</sup> District financial detail reports were used for this comparison and the comparison to local districts that outsource food service operations.

Outsourcing food service operations has been a successful method for reducing Food Service Fund deficits in several school districts. For example, all peers used in this analysis that currently outsource food service operations reported having deficits when using in-house operations. NLSD should consider exploring options to outsource food service operations as a result of the deficits it has incurred.

### **R3.2 Implement an ODE-approved indirect-cost rate plan**

The District does not have an approved indirect-cost rate plan. As a result, costs associated with the Treasurer, human resources function, custodial, maintenance, payroll, etc., are not being charged to the Food Service Fund. Instead, only the costs directly associated with meal preparation are charged. An approved indirect-cost rate plan would allow the District to transfer and properly account for indirect expenditures from the General Fund used to support the programs receiving federal monies. In addition, it could help to provide the Board with a better understanding of the costs associated with the Food Service Fund and other special revenue funds, allowing the District to make better operational decisions.

Pursuant to authority granted by the US Department of Education, school districts may apply to the Ohio Department of Education (ODE) to recover restricted indirect costs from federal grant programs. Indirect cost recovery is not additional grant revenue, but represents an amount removed from an approved program. Furthermore, according to the *2014 Indirect Cost Recovery Plan for Ohio School Districts* (ODE, 2013), the purpose of preparing an indirect-cost rate proposal is to develop the mechanism that will allow the recovery of those fiscal costs associated with the treasurer and human resource offices that are not directly related to the administration of federal grants and projects. An executed indirect-cost rate plan helps reimburse districts for expenditures spent providing support for applicable federal projects.

Should the District implement this plan, it is estimated that it could shift about \$73,000<sup>16</sup> annually from the Food Service Fund to the General Fund. A more accurate cost rate could be established subsequent to the Treasurer filing an ODE Indirect-Cost Rate Plan on a monthly basis.

### **R3.3 Purchase food using a cooperative**

Financial Implication: Reducing the District's food expenditures to the peer average cost per meal, would reduce District expenditures by about 10 cents per meal, or **\$22,000** annually based on FY 2011-12 expenditures.

In FY 2011-12, NLSD served approximately 220,000 lunches spending \$1.20 per lunch served on food. In comparison, the peers spent an average of \$1.08 per lunch on food, 10 percent less than NLSD.

According to the Idaho State Department of Education's publication *Meeting the Challenge of Rising Food Costs for Healthier School Meals*, strategies for controlling costs include purchasing

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<sup>16</sup> In FY 2011-12 the Food Service Fund was 5.15 percent of the General Fund. Based on 5.15 percent of the following functions: Treasurer, human resources, custodial, secretary, maintenance, trash and utilities.

food with the use of cooperatives which helps maximize purchasing power by combining bids with neighboring school districts to purchase larger quantities at lower prices. Green Local School District (Scioto County) noticed significant savings after partnering with a food purchasing cooperative.

The District does not use cooperatives to purchase food. As a result, the District may be paying more than necessary for food. Consortiums offer lower prices due to volume discounts they receive based on the buying power of the entire cooperative. During the course of the audit, the District contacted a cooperative which stated it could potentially save \$33,000 annually using its purchasing.

# Facilities

## Background

The District operates three school buildings on a 72.5 acre campus. The high school (grades 9-12) and elementary (K-5) buildings were built in 1992, while the middle school (grades 6-8) was built in 1959. The three buildings total approximately 243,700 square feet. The District employs 3.0 full time equivalent (FTE) first shift custodians and 6.0 FTE second shift custodians as well as 1.0 FTE grounds keeper and 1.0 FTE maintenance worker. The District has completed House Bill 264 projects on each building to improve energy efficiency.

**Table 4-1** illustrates the District's historical facilities expenditures.

**Table 4-1: NLSD Historical Facilities Expenditures**

	FY 2009-10	FY 2010-11	% Change	FY 2011-12	% Change
Salaries and Wages	\$583,002	\$569,206	(2.4%)	\$534,632	(6.1%)
Employee Benefits	\$332,274	\$335,965	1.1%	\$323,115	(3.8%)
Utilities	\$594,570	\$652,782	9.8%	\$628,730	(3.7%)
Electric	\$360,583	\$376,532	4.4%	\$378,859	0.6%
Other Energy Sources	\$199,078	\$241,929	21.5%	\$216,435	(10.5%)
Water & Sewer	\$34,910	\$34,321	(1.7%)	\$33,436	(2.6%)
Purchased Services <sup>1</sup>	\$161,504	\$105,787	(34.5%)	\$157,697	49.1%
Supplies and Materials	\$124,616	\$116,711	(6.3%)	\$84,372	(27.7%)
Capital Outlay	\$73,582	\$151,620	106.1%	\$43,080	(71.6%)
<b>Total Expenditures</b>	<b>\$1,869,549</b>	<b>\$1,932,071</b>	<b>3.3%</b>	<b>\$1,771,626</b>	<b>(8.3%)</b>

Source: NLSD

<sup>1</sup> Excludes utilities

As shown in **Table 4-1**, the District's total facilities expenditures decreased 5.2 percent between FY 2009-10 and FY 2011-12. This was largely due to an 8.3 percent decrease in total expenditures NLSD was able to achieve in FY 2011-12, a year in which the District was able to reduce expenditures in every cost category with the exception of electric and purchased services.

Facilities expenditures are largely a function of the size of the buildings. Therefore it is useful to analyze facilities expenditures on a per square foot basis. **Table 4-2** shows NLSD's expenditures per square foot compared to the peers.

**Table 4-2: FY 2011-12 Facility Expenditures per Square Foot Comparison**

	NLSD	Peer Average	Difference	% Difference
Square Feet Maintained	242,923	258,595	(15,672)	(6.1%)
<b>Salaries and Wages</b>	<b>\$2.20</b>	<b>\$1.78</b>	<b>\$0.42</b>	<b>23.6%</b>
<b>Employee Benefits</b>	<b>\$1.33</b>	<b>\$0.83</b>	<b>\$0.50</b>	<b>60.2%</b>
<b>Utilities</b>	<b>\$2.59</b>	<b>\$1.43</b>	<b>\$1.16</b>	<b>81.1%</b>
Electric	\$1.56	\$1.05	\$0.51	48.6%
Gas	\$0.00	\$0.23	(\$0.23)	(100.0%)
Other Energy Sources	\$0.89	\$0.07	\$0.82	1,171.4%
Water & Sewer <sup>1</sup>	\$0.14	\$0.10	\$0.04	40.0%
Purchased Services (Excluding Utilities)	\$0.65	\$1.00	(\$0.35)	(35.0%)
Supplies and Materials	\$0.35	\$0.55	(\$0.20)	(36.4%)
Capital Outlay	\$0.18	\$0.11	\$0.07	63.6%
Other Objects	\$0.00	\$0.02	(\$0.02)	(100.0%)
<b>Total Expenditures</b>	<b>\$7.30</b>	<b>\$5.72</b>	<b>\$1.58</b>	<b>27.6%</b>

Source: ODE

<sup>1</sup> Crestview LSD and Northwestern LSD were excluded as these districts use well water and Paint Valley LSD was excluded as it purchases water from the village.

In total, the District's expenditures per square foot exceeded the peers by 27.6 percent. Salaries and wages, employee benefits and utilities make up 83.8 percent of these expenditures; therefore, the District should target these areas for reductions. NLSD's higher expenditures for salaries and benefits can be attributed to higher starting salaries (see **R2.7**) and payment of a higher proportion of insurance premiums (see **R2.5**) compared to its peers. Expenditures on electricity exceeded the peers due to the District's use of electricity instead of natural gas for heating. According to the United States Energy Information Agency, generating one million British Thermal Units (BTUs) in a furnace or boiler using electricity costs \$34.97 compared to natural gas which would cost \$8.79. The District noted they do not have natural gas in the area but are researching alternative energy sources.

The NLSD's water and sewer expenses, which were 35.4 percent higher than the peer average, were another driver of utility costs. Because the District's buildings are in a rural area without access to a municipal sewer system, it incurs additional expenses associated with operating a septic system that include the cost of system maintenance and employment of a licensed operator.

# Recommendations

## R4.1 Negotiate a reduction in custodial services

**Financial Implication:** Reducing annual hours worked and outsourcing evening and summer custodians would save **\$210,000**<sup>17</sup> annually.

NLSD custodians work 260 days per year and are assigned shifts in either the morning or afternoon. The total cost for custodial services including salaries and benefits was \$570,340 in FY 2011-12.

Outsourcing custodial services is a successful method of reducing facility expenditures used by select districts in Ohio. Wyoming City School District and Mariemont City School District (Hamilton County) are two such districts that vary in the functions that are outsourced. Wyoming CSD outsources only its evening custodial duties at the elementary buildings, while Mariemont CSD outsources evening and summer custodial services for multiple buildings. **Table 4-3** compares the custodial expenditures per square foot of these two school districts to NLSD.

**Table 4-3: Cost of Custodians per Square Foot Compared**

	NLSD	Average of Outsourcing Districts	Difference	% Difference
Evening Custodians	\$1.52	\$1.04	\$0.48	46.2%
Summer Custodians	\$0.73	\$0.21	\$0.52	247.6%

Source: NLSD, Wyoming CSD and Mariemont CSD

Assuming NLSD could achieve rates similar to the average of the two outsourcing districts shown in **Table 4-3**, evening custodial services would cost \$252,000. Furthermore, a cost of approximately \$0.21 per square foot would result in summer custodial costs of approximately \$50,000.

According to the ORC § 124.14(A), local governments are not responsible for paying the benefits of workers who are employed by an independent contractor, thereby reducing wages and benefits. In *Determining the Cost of Contract Service Delivery*, it is recommended that a government budgets 10 percent of the price of a contract for contract administration costs (Mackinac Center for Public Policy (MCP), 1993). Therefore, the total savings should be reduced by \$25,000 for outsourcing evening custodians and \$5,000 for outsourcing summer custodians to cover administrative costs.

In FY 2013-14, the District anticipates several retirements among the custodial staff. As a result, contracting should be considered as an alternative to replacing retiring staff members.

<sup>17</sup> Based on the difference between the custodial salaries and benefits for summer services and the estimated cost of a summer custodial contract.

Outsourcing evening custodial services would allow the District to reduce 6.0 FTE evening custodians and also decrease the length of the remaining custodial contracts to 178 days.

#### R4.2 Outsource grounds keeping duties

Financial Implication: Outsourcing grounds keeping duties would reduce expenditures by **\$25,000<sup>18</sup>** annually. In addition, one-time revenue of **\$12,500** could be attained by selling its existing grounds equipment.

The District assigns 1.0 FTE custodian to grounds keeping duties. These duties include mowing the grounds, mower maintenance, marking the football field and disbursing the commodities to the kitchens. The District's maintenance worker also assists the grounds keeper one day a week during the mowing season. The District recently spent approximately \$26,000 for two mowers and also maintains a tractor with a front-end loader. Other expenses associated with grounds keeping include a cellular phone, the cost of mower maintenance and the cost of fuel.

**Table 4-4** illustrates the cost of maintaining the school grounds in-house versus outsourcing.

**Table 4-4: Grounds Keeping Cost Comparison: In-House vs. Outsourcing**

	<b>NLSD</b>	<b>Contractor</b>	<b>Difference</b>
Total Expenditures <sup>1</sup>	\$65,858	\$40,373	(\$25,484)
Weekly Expenditures	\$2,171	\$1,331	(\$840)
<b>Cost per Acre</b>	<b>\$29.95</b>	<b>\$18.36</b>	<b>(\$11.59)</b>

Source: NLSD and private contractor

<sup>1</sup>Based on subtracting the estimated cost for the grounds keeping contract from the cost of mowing related expenses.

As shown in **Table 4-4**, NLSD could contract its grounds keeping services for an estimated \$18.36 per acre or \$1,331 per week for 30 weeks annually, a cost 63.1 percent lower than in-house costs. Furthermore, upon outsourcing its grounds keeping function, the District should consider either selling its equipment or negotiating a lower contract rate for the contractor's use of District equipment. These savings can be fully realized if the District shifts the unloading of commodities to the day shift custodian and uses volunteers to paint the football field.<sup>19</sup>

<sup>18</sup> Based on the difference between the current mowing-related expenses and the estimated cost for outsourcing this function.

<sup>19</sup> Green Local School District (Scioto County) uses parent volunteers to paint the football field.

### R4.3 Discontinue use of the modular classrooms at the middle school

**Financial Implication:** Discontinuing the use of the modular classrooms would save **\$8,000**<sup>20</sup> annually.

The District uses two modular structures at the middle school. Each modular unit is 1,536 square feet containing two classrooms each. One classroom is being used for storage while the other three are used for classroom space. **Table 4-5** shows the head count, capacity and utilization rate of the middle school with and without the modular units.

**Table 4-5: FY 2011-12 Middle School Capacity and Utilization**

	Head Count	Capacity	Utilization
With Modular	387	577	67.1%
Without Modular	387	477	81.1%
<b>Difference</b>	N/A	<b>(100)</b>	<b>14.0%</b>

Source: NLSD

As shown in **Table 4-5**, the FY 2011-12 utilization rate at the middle school was 67.1 percent with the modules in place. In *Defining Capacity* (DeJong & Associates, Inc., 1999), it was found that a middle or high school should be considered near capacity when the utilization rate is 85 percent.

The District uses several empty classrooms at the middle school building for the purpose of storing supplies. It is possible that it could maintain one or both modules as storage space while shifting the classrooms into the main building. As shown in **Table 4-5**, if the four modular units were no longer used as classrooms, the middle school would still have a utilization rate below the 85 percent benchmark. This shift would allow the District to save on utility and custodial expenditures associated with the modular structures while still maintaining ownership for future use as classrooms if needed.

<sup>20</sup> Based on the total square footage of the three modular classrooms in use multiplied by the annual utility cost per square foot.

# Transportation

## Background

For FY 2011-12, the District provided transportation for grades kindergarten through 12, serving 1,191 riders with 21 regular buses and 2 special education buses on a two-tier bell schedule. The District transports riders to three public and nine non-public schools. NLSD reported FY 2011-12 ridership of 52.6 riders per active bus at a cost of approximately \$1.9 million.

Transportation efficiency is greatly affected by the size (area) of a District. It was determined that comparing NLSD to the original peer set would not yield an accurate or useful comparison as it was significantly larger in area than the original peers. Based on district square mileage, bus count and ridership the following districts were selected for comparison: East Guernsey Local School District, Greenfield Exempted Village School District, Logan Elm Local School District, Lynchburg-Clay Local School District and Washington- Nile Local School District.

**Table 5-1** shows the District's transportation expenditures per rider compared to the peer average for FY 2011-12.

**Table 5-1: FY 2011-12 Transportation Expenditure Comparison**

	NLSD	Peer Average	Difference	% Difference
Per Yellow Bus Rider	\$1,565.90	\$1,005.46	\$560.44	55.7%
Per Active Bus	\$82,312.04	\$54,772.35	\$27,539.69	50.3%
Per Routine Mile	\$4.01	\$3.33	\$0.68	20.4%

Source: NLSD and peer district T-1 and T-2 Reports

As shown in **Table 5-1**, NLSD's expenditures are significantly higher than the peer average. This is due in part to the fact that the District's salaries and benefits per yellow bus rider were 23.0 percent and 59.8 percent higher, respectively, than the peers. These higher amounts are the result of the classified employees' negotiated pay schedule and benefits package (see **R2.7** and **R2.5**). Also, maintenance and repair costs per active bus were \$16,685, a level 123.1 percent higher than the peer average. This is due to several factors including the size and topography of the District, age of the buses and absence of a preventive maintenance plan (see **R5.2**).

# Recommendations

## R5.1 Increase routing efficiency by increasing the time between bells

**Financial Implication:** The elimination of two bus routes could save the District approximately **\$99,000<sup>21</sup>** annually.

In an effort to provide a tool that schools can use to compare transportation operations to other districts in Ohio, ODE created a transportation efficiency measurement that is published annually. Referred to as the Regular Education Efficiency Target, this measurement takes into consideration a district's total number of riders, the area of a district and the disbursement of riders throughout the district (ridership density) to arrive at a ridership ratio. This model establishes a target student per bus value for each district. Districts that exceed their target are defined as being efficient relative to other districts in the State.

Although NLSD has met or exceeded its ODE Regular Education Efficiency Target for the last three school years, its financial condition may necessitate operating in excess of this target. The District's bell schedule provides it with an opportunity to gain further efficiencies. It was determined that NLSD could improve the efficiency of its transportation system by increasing the time between bells. This would allow the buses more time to pick up riders, thereby decreasing the number of buses needed.

An analysis of bell schedules showed that the District could provide an additional 15 minutes between start and end times. This shift could eliminate up to 4 buses because the District would be able to run longer routes. The exact number of buses that could be eliminated can only be determined by creating new routes for each bus. Therefore a conservative estimate of a reduction of two buses is assumed.

**Table 5-2** shows the projected number of riders per bus resulting from the elimination of two additional bus routes through an adjustment to the bell schedule.

**Table 5-2: FY 2011-12 Riders per Bus**

Riders	1,191
Buses	21
Average Riders per Bus	56.7
<b>Elimination of 2 Buses</b>	
Buses	19
<b>Average Riders per Bus</b>	<b>62.7</b>

Source: ODE Regular Education Efficiency Target.

Note: FY 2011-12 ODE efficiency target is set at 46.85 riders per bus.

<sup>21</sup> Based on 65 percent of the total regular expenditures per bus from the FY 2012-13 T-2 (excluding fixed costs).

As shown in **Table 5-2**, a change in bell schedules could result in an increase in riders per bus by six students (three riders per bus for elementary school and three riders per bus for high school routes) through the elimination of two buses. The District could also increase routing efficiency by further utilizing cluster stops in residential neighborhoods and other areas where safety permits.

## R5.2 Develop a formal program for maintaining and replacing buses

The Head Mechanic and Assistant Mechanic maintain the District's bus fleet. While the buses are on a maintenance schedule, the mechanics do not maintain maintenance logs for each bus and therefore, cannot calculate the maintenance cost for a particular bus. In FY 2011-12, the average age of the District's bus fleet was 12.4 years, with an average mileage of approximately 151,000 miles. In addition, 16 buses are over 12 years of age with the oldest bus being 20 years of age with 320,000 miles. Due to funding reductions, the last bus was purchased in 2010, making the implementation of a maintenance program even more essential.

**Table 5-3** shows the District's maintenance costs compared to the peers.

**Table 5-3: FY 2011-12 Maintenance and Repairs Expenditures<sup>1</sup> Comparison**

	NLSD	Peer Average	Difference	% Difference
Per Yellow Bus Rider	\$317.43	\$137.71	\$179.72	130.5%
Per Active Bus	\$16,685.74	\$7,477.69	\$9,208.05	123.1%
Per Routine Mile	\$0.81	\$0.45	\$0.36	80.0%

Source: ODE T-2 Reports

<sup>1</sup> Includes mechanic and mechanic helper salaries.

**Table 5-3** shows that the District pays \$16,685 per active bus for maintenance and repairs, an expenditure level 123.1 percent higher than the peer average. This cost category is driven primarily by maintenance supplies and mechanics compensation which was found to be higher when classified salary schedules were analyzed (see **R2.7**). According to the District, maintenance supplies expenditures are greatly affected by its aging fleet and the rural nature of its routes, including hills, potholes and gravel roads.

According to *Public Works Management Practices Manual* (American Public Works Association (APWA), 2001), a formal preventive maintenance program should be developed for all equipment that includes scheduling, recording performance, and monitoring the program. Furthermore, *School Bus Replacement Considerations* (National Association of State Directors of Pupil Transportation Services, 2002) emphasizes that replacement of school buses should be a planned process. A district's finances are certainly an important consideration in the replacement of buses, and may be an obstacle to replacing them on the schedule set by the district. Ultimately, a bus replacement plan allows a district to communicate to its leadership and to the public about the needs of its bus fleet, its progress in meeting its schedule of replacement and any risks posed by the current state of the fleet.

Adopting a formal bus replacement plan, even without the resources to fund the plan, could benefit the District as it would set priorities and establish criteria for when funding is available.

In addition, it could help to anticipate and avoid the need to replace a major portion of the fleet at the same time, and allow the District to demonstrate the impact of not funding capital improvements.

### **R5.3 Implement a fuel reconciliation policy**

NLSD has a 7,500 gallon tank located at the bus garage. The tank is secured by a gated fence with an on/off switch that is located inside the garage. AOS, however, was unable to ascertain whether this is turned off for security purposes.

Although the District has a monthly fuel usage and mileage report for each bus driver to complete when the buses are fueled, there is no process in place to reconcile bulk fuel purchases to the monthly fuel usage and mileage report from each bus.

The Montana Department of Administration has a bulk fuel policy that requires physical controls over bulk fuel tanks. Among the portions of this policy already implemented by NLSD are the installation of gates to limit access, tank circuit breakers and a tank dispensing meter. Additional physical controls the District may consider implementing are as follows:

- Adding and regularly rotating padlocks to tank nozzles; and
- Reconciling vehicle logbooks against bulk tank transaction logs.

Failing to secure its bulk fuel tank and not reporting mileage and fuel usage leaves the District with little information on whether fuel is being used solely for District purposes. Fuel purchases represent a significant portion of the transportation budget. In FY 2011-12, the District spent almost \$300,000 on fuel. Reconciling the bulk fuel purchases to bus logs will help ensure fuel is being used for its intended purpose.

# Appendix

**Table A-1** contains the comparison of NLSD to three sets of districts, showing the difference in food service revenues and expenditures on a percentage basis.

**Table A-1: FY 2011-12 Food Service Fund Comparison**

	NLSD	Peer Average
<b>Original Peers</b>		
<b>% Gain (Loss)</b>	(9.9%)	1.3%
<b>Outsource Food Service (State-wide)</b>		
	NLSD	Peer Average
<b>% Gain (Loss)</b>	(4.9%)	2.4%
<b>Outsource Food Service (Regional)</b>		
	NLSD	Peer Average
<b>% Gain (Loss)</b>	(4.9%)	5.7%

Source: NLSD and selected districts

Note: The original peers set was compared using MR reports while the following two peer sets were compared using the financial detail report.

As shown in **Table A-1**, the NLSD had a 4.9 percent Food Service Fund deficit in FY 2011-12. In contrast, all peer sets operated with a Fund surplus of at least 1.3 percent, with the largest surplus occurring in regional peer set which consists of local districts that outsource their food service function.

## **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 adequate supporting documentation, revisions were made to the audit report.

# NORTHWEST LOCAL SCHOOL DISTRICT

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August 9, 2013

Mr. Tyson Hodges, Senior Performance Analyst  
Auditor of State David Yost

Dear Mr. Hodges:

On behalf of the Northwest Local School District, I would like to thank the entire performance audit team for their time and effort in preparing the audit report for the Northwest Local School District. The staff was thorough and professional during the all phases of the performance audit.

We appreciate the many accomplishments noted within the report which will assist in guiding the Northwest Local School District to provide excellent educational services while maintaining a lean budget. We are committed to continue our efforts in this area.

The Northwest Local School District would like it to be known that some of the recommendations that emerged from the Performance Audit have been addressed as evidenced by the comments below:

1. Regarding the recommendation for a reduction of ten (10) certified FTEs, we have made a reduction of seven (7) teachers through attrition.
2. Three classified staff members were not replaced for this school year: one building secretary, one library aide, and one bus driver.
3. The employee share of health care contributions increased by 1.5% for the current year and will increase by an additional 1.5% for the 2014-2015 school year.
4. The district joined a food purchasing coop for this upcoming year.
5. The three (3) district-owned three modular units that were classrooms have been vacated and those classes are now within the middle school building.
6. All budgets have been reviewed and reduced for this upcoming year.
7. The district has been going under several energy conservation projects, and we are currently looking into solar energy.

The Northwest Local Schools will continue to analyze the information provided through the audit process for the continued improvement of our district.

Again, thank you for your time and efforts.

Sincerely,



TODD JENKINS  
Superintendent

ATJ:slc



# Dave Yost • Auditor of State

**NORTHWEST LOCAL SCHOOL DISTRICT**

**SCIOTO 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  
SEPTEMBER 5, 2013**