Mary Taylor, CPA
Auditor of State

Liberty Local School District Performance Audit

August 4, 2009

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Auditor of State

To the Residents and Board of Education of the Liberty Local School District:

In accordance with House Bill 119, a performance audit was conducted in the Liberty Local School District. The functional areas assessed in the audit were financial systems, human resources, facilities, and transportation. These areas were selected because they are important components of District operations that support its educational mission, and because improvements in these areas can assist the District in improving its financial condition.

The performance audit contains recommendations which identify the potential for cost savings and efficiency improvements. The audit also provides an independent assessment of the District's financial situation and a framework for improvement. While the recommendations contained in the audit report are resources intended to assist in improving operational efficiency and effectiveness, the District is encouraged to assess overall operations and develop additional alternatives.

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

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

Sincerely,

Mary Taylor

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Auditor of State

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EXECUTIVE SUMMARY

Executive Summary

Project History

In accordance with Ohio House Bill 119, the Auditor of State (AOS) conducted a performance audit of Liberty Local School District (LLSD or the District). Based on a review of LLSD's information and discussions with the District, the following functional areas were included in the performance audit:

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

District Overview

LLSD operates under a locally elected Board of Education (BOE) consisting of five members, who are responsible for providing public education to students. The District is located in Trumbull County and primarily covers Liberty Township. According to the United States Census Bureau, the population of Liberty Township was 23,522 in the 2000 Census and the median household income was $36,965. In addition, 11.3 percent of persons lived below the poverty line.

LLSD operates three school buildings: an elementary school (kindergarten through 4th grade), a middle school (5th grade through 8th grade), and a high school (9th grade through 12th grade). The FY 2007-08 Educational Management Information System (EMIS) report indicates that the District employed approximately 126 full-time equivalent (FTE) employees, including 7 administrative FTEs, 77 certificated FTEs, and 42 classified and other support staff FTEs. These employees were responsible for providing educational services to an average daily membership (ADM) of 1,525 students. Students with physical and learning disabilities comprise approximately 10 percent of the student population. The District met 20 out of 30 performance standards on the 2007-2008 School Year Report Card, which resulted in an "Effective" rating. Additionally, Liberty LSD met its Adequate Yearly Progress Goals (AYP) and its District Improvement Status is rated as "ok."

In FY 2006-07, the District's total General Fund revenue per pupil equaled $9,109 while the expenditures equaled $8,671. In FY 2007-08, LLSD's General Fund revenues increased to $9,363 per student, but the expenditures also increased to $9,609 per student. By comparison, in FY 2006-07, the peer average revenue per student equaled $8,733 while the expenditures equaled $8,131. LLSD is currently receiving funding from three emergency levies: a 7.9 mill levy that will expire in FY 2010-11; a 3.1 mill levy that will expire in FY 2011-12; and a 3.55 mill levy that will expire in FY 2013-14. The 7.9 mill and 3.1 mill levies will expire during the forecast period that extends through June 30, 2013. The Treasurer's 2008 October forecast, assumes that LLSD will renew the 7.9 and 3.1 mill levies. However, despite the levy renewals, the Treasurer projects that Liberty LSD's financial condition will significantly decline beginning in FY 2009-10, with an ending deficit balance of approximately $1.9 million. The Treasurer estimates that the deficit will increase to approximately $11.7 million by FY 2012-13.

Subsequent Events

The State budget for FYs 2009-10 and 2010-11 was enacted during the concluding stage of this performance audit. It contains provisions which may affect District funding and operations. LLSD should review provisions in the State budget to determine the extent to which they impact the assessments and recommendations contained in this performance audit.

Objectives

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

The overall objective of this performance audit is to assist the District in identifying strategies to reduce expenditures and, in turn, help improve its financial standing. The major assessments conducted in this performance audit including the following:

- ***Financial Systems:*** includes an evaluation of LLSD's five-year financial forecast, revenue and expenditures, strategic planning, financial reporting, budgeting and purchasing practices, food service fund and special education costs;

- ***Human Resources:*** includes an analysis of District-wide staffing and salary levels, collective bargaining agreements, employee benefits and substitute tracking;

- ***Facilities:*** includes assessments of custodial/groundskeeper and maintenance staffing, overtime use, energy management, building utilization rates, facility management and long-term planning; and

- ***Transportation:*** includes evaluations of key data (e.g., riders transported per bus and costs per rider), fleet maintenance and planning, policies, and reporting procedures.

The performance audit was designed to develop recommendations that provide cost savings, revenue enhancements, and/or efficiency improvements. The ensuing recommendations comprise options that the District can consider to help improve its financial condition and operations.

Scope and Methodology

This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that AOS plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Audit work was conducted between November 2008 and March 2009, and data was drawn primarily for fiscal years 2006-07, 2007-08 and 2008-09. To complete this report, auditors conducted interviews with District personnel, and reviewed and assessed information from LLSD, peer school districts, and other relevant sources. Within the **human resources** section, LLSD's staffing information reported through EMIS was deemed not sufficiently reliable. Because the staffing data was deemed not sufficiently reliable, the performance audit did not conduct a comprehensive data reliability test of the District's enrollment figures, with the exception of reviewing trends in recent years. Additionally, **Table 2-4** in the **financial systems** section is presented as reported by ODE and was not formally tested for reliability because it was used only to supplement the other comparisons. Peer data and other information used for comparison purposes were not tested for reliability, although the information was reviewed for reasonableness.

AOS developed a composite of 10 selected school districts, which were used for peer comparisons. The selected districts include Bath Local School District (Allen County), Boardman Local School District (Mahoning County), Columbiana Exempted Village School District (Columbiana County), Dover City School District (Tuscarawas County), Girard City School District (Trumbull County), Heath City School District (Licking County), Lowellville Local School District (Mahoning County), McDonald Local School District (Trumbull County), Tiffin City School District (Seneca County) and Wheelersburg Local School District (Scioto County). These districts were selected based upon demographic and operational data. Specifically, ODE classifies these ten school districts as urban with low median income and high poverty, which is the same demographic classification as LLSD. Additionally, these ten school districts were meeting a high number of performance standards at a relatively low cost per pupil.

Furthermore, the Brookfield Local School District, the Girard City School District and the Hubbard Exempted Village School District were used for certain salary and collective bargaining agreement comparisons. All three of these districts are located in Trumbull County and were selected based on their proximity to LLSD.

External organizations and sources were also used to provide comparative information and benchmarks. They include the Ohio Department of Education (ODE), the Government Finance Officers Association (GFOA), the State Employment Relations Board (SERB), the American Schools and Universities (AS&U), the National Center for Education Statistics (NCES), and the National Association of State Directors of Pupil Transportation Services (NASDPTS).

Finally, at the District's request, AOS reviewed expenditure and staffing levels in comparison to an average of 20 school districts classified by ODE as being similar to LLSD in demographic composition (20 similar district average). The expenditure and staffing comparisons using the 20 similar district average are generally consistent with the comparisons to the aforementioned 10 district peer average. See **Tables 2-2**, **2-3** and **2-4** in the **financial systems** section for an additional analysis of LLSD's expenditure variances. See also **R2.9** in the **financial systems** section, **Table 3-1** and **R3.2** in the **human resources** section, and **R4.1** in the **facilities** section for an additional analysis of LLSD's staffing levels.

The performance audit process involved significant information sharing with LLSD, including preliminary drafts of findings and proposed recommendations related to the identified audit areas. Furthermore, periodic status meetings were held throughout the engagement to inform LLSD of key issues impacting selected areas, and share proposed recommendations to improve or enhance operations. Throughout the audit process, input from the LLSD was solicited and considered when assessing the selected areas and framing recommendations. Finally, LLSD provided verbal and written comments in response to various recommendations, which were taken into consideration during the reporting process. Where warranted, AOS modified the report based on LLSD's comments.

The Auditor of State and staff express appreciation to LLSD for their cooperation and assistance throughout this audit.

Noteworthy Accomplishments

Noteworthy accomplishments acknowledge significant accomplishments or exemplary practices. Specifically, LLSD transported an average of 114.2 riders per active bus in FY 2007-08[1], which is 29.5 percent higher than the peer average of 88.2 riders per active bus in FY 2006-07. Each bus completes three runs per day. Having each bus complete multiple runs enables the District to

[1] Data for FY 2008-09 became available during the course of this performance audit, which showed that the District transported an average of 105.8 riders per active bus.

use fewer total buses for its transportation operations, which helps limit operating and bus replacement costs.

Conclusions and Key Recommendations

Each section of the audit report contains recommendations that are intended to provide LLSD with options to enhance its operational efficiency and improve its long-term financial stability. In order to obtain a full understanding of the assessed areas, the reader is encouraged to review the recommendations in their entirety. The following summarizes the key recommendations from the performance audit report. In addition to the recommendations, the sections of the report note assessments conducted in the performance audit that did not warrant recommendations.

In the area of financial systems, LLSD should:

- Analyze and use **Table 2-7** to evaluate the effect of recommendations presented in this performance audit. The District should consider implementing the recommendations in this performance audit along with other appropriate actions to avoid projected operating deficits. In addition, the Treasurer should update **Table 2-7** on an on-going basis to reflect changes, monitor revenue and expenditure activities, and review performance against projected figures. Lastly, LLSD should regularly discuss options for reducing costs and/or increasing revenues with stakeholders to help determine long-term strategies for addressing the projected deficits.

- Conduct a comprehensive review of it special education program to identify strategies for improving its overall cost efficiency. These strategies could include adjusting staffing levels, partnering with other districts to share certain services through in-house resources, and reviewing the IEP process. Another strategy could include regularly comparing the cost of providing contracted education and transportation services through the Trumbull County Educational Service Center to other neighboring educational service centers, private service providers, and the cost of bringing the functions in-house.

- Begin charging the Food Service Supervisor's salary and benefits, and the applicable utility costs to the Food Service Fund. This will result in lower costs to the General Fund and allow the District to measure the full cost of its food service operation. The District should also review food service staffing levels and purchasing practices (see below) to identify potential cost saving strategies for the Food Service Fund.

- Revise the purchasing policy to include requests for proposals and to establish lower thresholds for obtaining price quotes and to periodically require competitive bidding for commonly used items, such as office supplies; technology equipment; and transportation, building and food service supplies and materials. In addition, the District should explore participation in additional cooperative purchasing arrangements and consortiums as methods for increasing its pool of products.

- Account for revenues and expenditures in the applicable categories and develop procedures to facilitate this effort.

In the area of human resources, LLSD should:

- Conduct a comprehensive review of its EMIS reporting process and develop strategies to improve its accuracy. These strategies should include developing formal policies and procedures for gathering EMIS information, and requiring the Payroll Clerk and EMIS Coordinator to crosscheck information against a sample of payroll records, student counts and demographic information, and prior year EMIS reports. Upon taking measures to ensure data reliability, LLSD should compare its staffing levels to peer districts and other benchmarks to identify potential staffing reductions.

- Consider reducing regular education and education service personnel (ESP) staffing levels by 10 and 2 FTEs, respectively, if the District does not implement the performance audit recommendations and other strategies to reduce costs. However, the District should weigh decisions to reduce teacher and ESP staffing levels against the impact the reductions may have on the quality of education. Further, given the errors identified in LLSD's EMIS information, it should verify the accuracy of the reported regular education and ESP staffing levels prior to implementing this recommendation.

- Consider eliminating the additional pension benefit for the administrative and non-bargaining positions, and limiting the negotiated wage increases for classified staff in future collective bargaining agreements. The District should also consider negotiating adjustments to the salary schedules for custodians and bus drivers that would result in salary levels being more comparable to neighboring districts. Once LLSD takes measures to ensure the accuracy of its EMIS data, it should assess compensation levels relative to peer and neighboring districts.

- Work with its third-party administrator (TPA) to develop a strategy for determining and achieving an appropriate reserve balance in the Self-Insurance Fund. The District should also conduct an annual cost-benefit analysis to demonstrate that the self-insurance program continues to be more cost-effective than area consortiums.

- Negotiate to require all employees receiving health benefits to contribute at least 13 percent of the monthly premiums. In addition, the District should consider modifying its annual deductibles, employee out-of-pocket maximums, and physician and prescription co-pays to be more in line with industry benchmarks. Similarly, the District should consider negotiating a limit on the number of sick days paid at retirement.

In the area of facilities, LLSD should:

- Consider reducing staffing levels by 3.0 custodial/groundskeeper FTEs. In addition, the District should conduct a detailed cost-benefit analysis of its internal and external maintenance services. The District should also ensure that it has accurately accounted for the allocation of duties by function when making decisions regarding its staffing levels. Further, given the errors identified in its EMIS information, the District should verify the accuracy of the reported staffing levels prior to implementing this recommendation.

- Develop a formal energy management and conservation program by creating formal policies and procedures. Subsequently, the District should educate and train faculty, staff and students on the policies and procedures. The District should also review and consider obtaining available services from external organizations to help address energy conservation. In addition, LLSD should assign an employee to monitor District-wide and building-level utility consumption.

- Develop a facilities master plan, a preventative maintenance program, and a capital improvement plan. The District should also develop and adopt a 5 to 10-year forecast methodology for projecting student enrollment, and begin using this methodology to prepare enrollment projections. The District should subsequently use the enrollment projections to review building capacity utilization and staffing levels.

In the area of transportation, LLSD should:

- Review its transportation program and determine the impact of current service levels on operating costs, including the transportation of high school students and students living less than one mile from their school, and the lack of cluster stops for the majority of the routes. Modifying these practices would help reduce costs of the transportation program and improve efficiency.

- Establish formal policies and procedures to ensure accurate T-forms are prepared, reviewed, and reconciled before submission to ODE.

- Negotiate to eliminate the five hour minimum pay guarantee for bus drivers. Rather, bus driver compensation and benefit levels should be based on actual hours worked.

- Develop and approve formal bus replacement and preventive maintenance plans.

- Consider selling three spare buses and not replacing them. The decision on which buses to sell should be based on criteria defined in the bus replacement plan.

Financial Outlook

Table 2-7 in the **financial systems** section presents the framework for a financial recovery plan for LLSD that demonstrates the impact of the performance audit recommendations on the District's financial condition. With the inclusion of the financial implications for the performance audit recommendations, **Table 2-7** shows that the District will likely experience a negative ending fund balance for each year from FY 2009-10 to FY 2012-13. As a result, it will be necessary for the District to consider other options for addressing the projected deficits or enact changes that go beyond the targeted savings identified in the performance audit recommendations (e.g., requiring more than a 13 percent employee contribution for health insurance (**R3.6**), reducing more than 10 regular education teacher FTEs (**R3.2**), etc.). However, the outcomes in **Table 2-7** are contingent upon the attainment of the revised projections, the timing of implementation of the performance audit recommendations, and the actual impact of those recommendations. See **R2.11** in the **financial systems** section for additional discussion.

Prior to the adoption of final strategies for addressing the financial difficulties, the District is encouraged to discuss all potential options with stakeholders to obtain their input and expectations. Furthermore, adopting a strategic plan (**R2.3**), improving the budgetary process (**R2.4**) and assuring the reliable reporting of data (**R2.1**, **R3.1**, and **R5.3**) would help ensure that potential options are based on defined goals and objectives, stakeholder feedback, and accurate information.

Summary of Financial Implications

The following table summarizes the performance audit recommendations that contain financial implications. Detailed information concerning the financial implications, including assumptions, is contained within the individual sections of the performance audit.

Table 1-1: Summary of Performance Audit Recommendations

	Estimated Annual Cost Savings	Estimated One-Time Revenue Enhancement	Estimated Annual Costs	Estimated One-Time Costs
Recommendations Not Subject to Collective Bargaining				
R2.8 Revise purchasing policies and explore consortium pricing.	$50,000			
R2.9 Charge all appropriate costs to the Food Service Fund (savings for General Fund).	$52,000			
R2.10 Review strategies to reduce special education costs.	$31,500			
R3.2 Reduce regular education and ESP staffing by 12 FTEs.	$490,000			
R3.3 Eliminate the pension benefit for administrators and non-bargaining staff.	$83,000			
R3.5 Maintain appropriate reserve balance in the Self-Insurance Fund.				$799,000
R3.8 Purchase a sub-calling system and eliminate the supplemental contract for this function.	$7,600		$480	$900
R4.1 Reduce staffing by 3.0 FTE custodian/groundskeepers.	$155,000			
R4.5 Develop and implement formal energy management policies and procedures, review external services, and assign staff to monitor energy use.	$22,000			
R4.6 Purchase a computerized maintenance management system (CMMS).			$2,000	
R5.1 Eliminate transportation services for students living within one mile of their schools.	$22,000			
R5.7 Sell three spare buses.	$1,900	$7,500		
Total Recommendations Not Subject to Collective Bargaining	**$915,000**	**$7,500**	**$2,480**	**$799,900**
Recommendations Subject to Collective Bargaining				
R3.3 Limit the negotiated wage increases for classified staff to 1 percent during the next collective bargaining agreement.	$51,800			
R3.6 Increase the employee premium contribution to at least 13 percent for all employees and adjust plan benefits.	$306,000			
R3.7 Reduce life insurance coverage levels to $50,000 per employee.	$7,500			
Total Recommendations Subject to Collective Bargaining	**$365,300**	**$0**	**$0**	**$0**
Total Recommendations	**$1,280,300**	**$7,500**	**$2,480**	**$799,900**

Source: Financial implications identified throughout this performance audit

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FINANCIAL SYSTEMS

Financial Systems

Background

This section of the performance audit focuses on financial systems within the Liberty Local School District (LLSD or the District), including an assessment of the District's five-year forecast. LLSD's operations were evaluated against information from relevant sources, such as Government Finance Officers Association (GFOA), the Ohio Revised Code (ORC), and selected peer school districts.[1]

Financial History and Condition

Real estate property taxes represent the highest revenue source for LLSD, comprising approximately 48 percent of total operating revenues in FY 2007-08. Unrestricted grants-in-aid (state funding) are the second highest revenue source, comprising approximately 34 percent of total operating revenues in FY 2007-08. Salaries and benefits comprise the majority of operating expenditures, accounting for approximately 72 percent of total operating expenditures in FY 2007-08.

Table 2-1 presents the historical and projected revenues and expenditures from the District's October 2008 forecast document.

[1] See the **executive summary** for a list of the peer districts and an explanation of the selection methodology.

Table 2-1: LLSD Financial History and Forecast (in 000's)

	Actual 2005-06	Actual 2006-07	Actual 2007-08	Forecast 2008-09	Forecast 2009-10	Forecast 2010-11	Forecast 2011-12	Forecast 2012-13
Real Estate Property Tax	$6,347	$8,325	$7,453	$7,513	$7,524	$6,783	$5,762	$5,513
Tangible Personal Property Tax	$468	$369	$324	$260	$230	$210	$210	$210
Unrestricted Grants-in-Aid	$5,968	$5,439	$5,339	$5,288	$5,288	$5,288	$5,288	$5,288
Restricted Grants-in-Aid	$10	$122	$133	$143	$143	$143	$143	$143
Property Tax Allocation	$774	$839	$1,300	$1,354	$1,472	$1,386	$1,195	$1,129
Other Revenues	$510	$775	$999	$971	$994	$1,011	$1,026	$1,049
Total Operating Revenues	**$14,077**	**$15,869**	**$15,548**	**$15,530**	**$15,652**	**$14,821**	**$13,625**	**$13,333**
Salaries & Wages	$7,663	$7,670	$8,155	$8,270	$8,506	$8,812	$9,129	$9,458
Fringe Benefits	$3,177	$3,419	$3,116	$3,277	$3,501	$3,763	$4,049	$4,359
Purchased Services	$2,505	$2,158	$2,776	$3,261	$3,359	$3,459	$3,563	$3,670
Supplies, Materials & Textbooks	$565	$604	$503	$555	$572	$589	$607	$625
Capital Outlay	$151	$233	$89	$133	$137	$99	$102	$105
Other Expenditures	$232	$1,094	$948	$1,117	$1,150	$1,185	$1,220	$1,257
Total Operating Expenditures	**$14,292**	**$15,178**	**$15,587**	**$16,613**	**$17,225**	**$17,908**	**$18,670**	**$19,474**
Net Transfers/Advances	($159)	($194)	$31	($50)	($55)	($60)	($65)	($70)
Other Financing Sources	$561	($411)	($376)	$430	($593)	($572)	($190)	($182)
Net Financing	**$402**	**($605)**	**($345)**	**$380**	**($648)**	**($632)**	**($255)**	**($252)**
Result of Operations (Net)	**$187**	**$86**	**($384)**	**($703)**	**($2,221)**	**($3,719)**	**($5,301)**	**($6,394)**
Beginning Cash Balance	$1,359	$1,545	$1,631	$1,247	$544	($1,677)	($5,396)	($10,697)
Ending Cash Balance	**$1,545**	**$1,631**	**$1,247**	**$544**	**($1,677)**	**($5,396)**	**($10,697)**	**($17,091)**
Encumbrances	($493)	($224)	($422)	($100)	($200)	($200)	($200)	($200)
Ending Fund Balance	**$1,051**	**$1,407**	**$825**	**$444**	**($1,877)**	**($5,596)**	**($10,987)**	**($17,291)**
Levy Renewals (Cumulative)	$0	$0	$0	$0	$0	$917	$3,063	$5,562
Revised Ending Fund Balance	**$1,051**	**$1,407**	**$825**	**$444**	**($1,877)**	**($4,679)**	**($7,834)**	**($11,729)**

Source: LLSD Treasurer
Note: Totals may vary from actual due to rounding.

Table 2-1 shows that the District ended FY 2007-08 with a surplus balance of approximately $825,000. However, LLSD's forecast anticipates that the District's financial condition will decline substantially. Specifically, **Table 2-1** shows that the fund balance will decline to a deficit of approximately $1.9 million in FY 2009-10, which reaches a deficit balance of approximately $11.8 million in FY 2012-13 even when assuming the passage of levy renewals.

Revenue and Expenditure Comparisons

Tables 2-2 and **2-3** present comparisons of the District's financial activity to the peer average on a per student basis to account for differences in enrollment. In some cases, staffing and compensation levels appear to contribute to the variances when compared to the peer average. However, the performance audit deemed the District's overall staffing data as not sufficiently reliable and did not include a comprehensive reliability test of reported student data. See **human resources** for more information.

Table 2-2 compares LLSD's FY 2006-07 and FY 2007-08 General Fund revenues by source and expenditures by object to the peer average in FY 2006-07, on a per student basis.

Table 2-2: Revenues by Source, Expenditures by Object (in 000's)

	LLSD FY 2006-07	LLSD FY 2007-08	Peer Average FY 2006-07
Property & Income Tax	$2,965	$4,703	$3,748
Intergovernmental Revenues	$3,689	$4,030	$3,935
Other Revenues	$2,455	$630	$1,049
Total Revenue	**$9,109**	**$9,363**	**$8,733**
Wages	$4,500	$4,909	$4,579
Fringe Benefits	$1,800	$1,840	$1,642
Purchased Service	$1,262	$1,674	$1,002
Supplies & Textbooks	$356	$303	$263
Capital Outlays	$137	$54	$131
Debt Service	$0	$0	$72
Miscellaneous	$616	$815	$163
Other Financing Uses	$0	$15	$280
Total Expenditures	**$8,671**	**$9,609**	**$8,131**

Source: Liberty LSD and peer 4502s.

Table 2-2 shows the District experienced significant variances within the property tax and other revenue line-items from FY 2006-07 to FY 2007-08. The Treasurer indicated that the variances are attributed to a change in accounting practice. Specifically, in FY 2006-07, the District accounted for the proceeds of three emergency levies in a Special Revenue Fund while all other tax revenues were accounted for in the General Fund. The District subsequently transferred the emergency levy proceeds to the General Fund to fund daily operations. The proceeds from the transfer are captured in **Table 2-2** as an other revenue source for FY 2006-07. In FY 2007-08, the District began accounting for the emergency levy proceeds within the General Fund. Despite the line-item variances, **Table 2-2** shows that the District's total revenues per student are higher than peer average.

Table 2-2 also shows that the District spent $540 more per student than the peer average in FY 2006-07 and increased expenditures by $938 per student from FY 2006-07 to FY 2007-08. Explanations for areas where the District's expenditures exceeded the peer average or increased significantly in FY 2008 include the following:

- *Wages* – **Table 2-2** shows that although LLSD's wage expenditures per student were slightly lower than the peer average for FY 2006-07, the District's expenditures increased by approximately $409 (9.1 percent) in FY 2007-08. The increase is partially attributed to negotiated wage increases of 1.6 percent, salary schedule step increases (Treasurer estimates step increases to average 1.6 percent per employee) and increases in other miscellaneous compensation (substitute pay, maternity pay and long-term leave). See the **human resources**, **facilities** and **transportation** sections for further assessment of the District's staffing and compensation levels.

- *Fringe Benefits* – In FY 2006-07, LLSD spent $158 more per student on fringe benefits in comparison to the peer average. Employing higher teacher and custodian/groundskeeper staffing levels, providing an additional pension benefit for administrators, requiring low employee contributions and offering generous health benefit plan provisions contributes to the higher benefit costs per student (see the **human resource** and **facilities** sections).

- *Purchased Services* – **Table 2-2** shows that Liberty LSD's purchased service expenditures per students were $260 more per student than the peer average and increased by approximately 33 percent in FY 2007-08. The large variances are primarily due to tuition paid by the District for students attending other schools through the open enrollment, community school, and school voucher programs, as well as to utility expenditures. More specifically, the District spent $590 per student in FY 2006-07 and $985 in FY 2007-08 on tuition costs, while the peer average was only $449. The tuition costs associated with these programs are largely outside of the District's direct control. Likewise, LLSD spent $278 per student in FY 2006-07 and $301 per student in FY 2007-08 on utility costs, compared to the peer average of only $209 (see the **facilities** section for further assessment of utility expenditures).

- *Supplies and Textbooks* – **Table 2-2** shows that the District's expenditures per student for supplies and textbooks were significantly higher than the peer average. This line-item accounts for instructional materials such as textbooks, library books and periodicals, and general and non-instructional supplies and materials such as vehicle and building maintenance supplies. In FY 2006-07, the District spent $64 per student on instructional supplies and materials, and $292 per student on general and non-instructional supplies and materials. By comparison, the peer average was $47 and $202, respectively. The higher costs can be partially attributed to the District's purchasing policies (see **R2.8** for additional discussion). However, LLSD reduced supply and material costs per student by approximately 15 percent in FY 2007-08. In addition, the District indicated that FY 2006-07 spending-levels reflect a "catch up" year.

- *Capital Outlay* – LLSD's capital outlay per student was slightly higher than the peer average in FY 2006-7. However, the District substantially reduced this expenditure in FY 2007-08.

- *Miscellaneous* – **Table 2-2** shows that the District spent $453 more per student on miscellaneous costs in comparison to the peer average in FY 2006-07, and expenditures per student increased by approximately 32 percent in FY 2007-08. LLSD's high expenditures are attributed to dues and fees. Specifically, the District spent approximately $1.3 million on dues and fees in FY 2007-08, including the Trumbull County Education Service Center ($756,000), county auditor and treasurer fees ($545,000), and financial audit costs ($37,000) (see **R2.10** for an additional discussion of the District's ESC contract).

Table 2-3 shows the expenditures posted to various Uniform School Accounting System (USAS) function codes for LLSD and the peer districts on a per pupil basis. The function codes report expenditures by their nature or purpose.

Table 2-3: Governmental Expenditures by Function

	Liberty LSD FY 2006-07	Liberty LSD FY 2007-08	Peer Average FY 2006-07
USAS Function Classification	**$ Per Pupil**	**$ Per Pupil**	**$ Per Pupil**
Instructional Expenditures:	**$5,244**	**$5,549**	**$5,435**
Regular Instruction	$4,321	$4,780	$4,293
Special Instruction	$880	$725	$861
Vocational Education	$41	$42	$48
Adult/Continuing Education	$3	$1	$0
Extracurricular Activities	$0	$0	$0
Classroom Materials and Fees	$0	$0	$0
Miscellaneous	$0	$0	$0
Other Instruction	$0	$0	$233
Support Service Expenditures:	**$4,336**	**$4,507**	**$3,122**
Pupil Support Services	$301	$272	$454
Instructional Support Services	$279	$326	$358
Board of Education	$7	$4	$36
Administration	$1,381	$1,666	$675
Fiscal Services	$389	$535	$270
Business Services	$39	$12	$6
Plant Operation & Maintenance	$1,286	$1,105	$906
Pupil Transportation	$629	$558	$361
Central Support Services	$26	$30	$55
Non-Instructional Services Expenditures	**$29**	**$26**	**$54**
Extracurricular Activities Expenditures	**$277**	**$267**	**$333**
Total Governmental Fund Operational Expenditures	**$9,886**	**$10,349**	**$8,943**

Source: FY 2006-07 District and peer 4502s
Note: Totals may vary from actuals due to rounding.

Table 2-3 shows that LLSD's total governmental fund operating expenditures were substantially higher than the peer average in FY 2006-07. Furthermore, the District's expenditures increased $463 per pupil from FY 2006-07 to FY 2007-08. Explanations for areas where the District's expenditures exceeded the peer average or changed significantly in FY 2007-08 include the following:

- *Regular Instruction* – **Table 2-3** shows that although the District's expenditures for regular instruction were lower than the peer average in FY 2006-07, the expenditures increased approximately 11 percent in FY 2007-08. Coupled with wage increases, the increase is attributed to the District hiring approximately 5.0 regular instruction FTEs in FY 2007-08 (see the **human resources** section for an additional analysis of teacher staffing and salary levels).

- *Administration and Special Instruction* – **Table 2-3** shows that the District's administrative costs were more than double the peer average in both FY 2006-07 and FY 2007-08. The District uses this line-item to account for the wage and benefit costs associated with the administrative, coordinator, and clerical positions ($1.4 million in FY 2006-07 and $1.8 million in FY 2007-08), and the contracted service costs associated with the Trumbull County Educational Service Center (approximately $756,000 in FY 2007-08). The higher costs are due to the additional pension benefit given to the administrative staff, generous health insurance plan, and account coding errors associated with the Trumbull County Education Service Center (ESC) contract. Specifically, the ESC contract is comprised of a wide variety of services and the ESC provides a recommended cost allocation for the District to reference when entering the contract costs into the accounting system. However, LLSD does not use the recommended cost allocation. Rather, the District uses the administrative function code to account for the entire cost of the ESC contract. If the District had used the recommended cost allocation, the special education costs per student would have equaled $1,137 per student[2] (peer average was $861), the pupil services expenditures would have equaled $390 per student (peer average was $454), and the administration expenditures would have equaled $979 per student (peer average was $675) in FY 2006-07. Lastly, the Treasurer attributed the large increase in the FY 2007-08 administrative expenditures to coding errors within the administrative retirement line-item. See the **human resources** section for an analysis of LLSD's administrative staffing levels and benefits, including the additional pension benefit. See **R2.1** for a discussion of the District's coding practices and **R2.10** for an analysis of LLSD's special education program.

- *Fiscal Services* – **Table 2-3** shows that LLSD's fiscal services expenditures increased approximately 38 percent in FY 2007-08 and were considerably higher than the peer average in FY 2006-07. However, the majority of the expenditures are for county auditor and treasurer fees, which are outside the District's direct control. For example, of the total fiscal service expenditures in FY 2006-07, the Treasurer's office salaries and benefits represented approximately 32 percent ($213,000), county auditor and treasurer fees represented approximately 59 percent ($390,000), and a variety of other supply and miscellaneous costs represented the remaining 9 percent. The higher costs in FY 2007-08 are attributed to a large increase in county auditor and treasurer fees. While county auditor and treasurer fees account for the majority of the fiscal service expenditures, the District's generous health plan also contributes to the higher costs (see the **human resources** section for additional discussion).

- *Business Services* –**Table 2-3** shows that the District's business services expenditures were higher than the peer average in FY 2006-07 and FY 2007-08. The majority of the expenditures within this line-item are for District-wide capital outlay.

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[2]LLSD's revised special education cost per student was $988 in FY 2007-08.

- *Plant Operation and Maintenance* – **Table 2-3** shows that the District's plant operation and maintenance costs were significantly higher than the peer average in FY 2006-07 and FY 2007-08. The higher costs are attributed to the custodial/groundskeeper staffing levels, a generous salary and health benefit package, and the lack of a formal energy management program. The District's use of a permanent improvement levy to help maintain the school buildings (generates approximately $150,000 annually) also contributes to the higher expenditures. See the **facilities** section for an analysis of the District's custodial/groundskeeper staffing levels and energy management practices, and the **human resources** section for an assessment of the salaries and benefits.

- *Pupil Transportation* – **Table 2-3** shows that the District's transportation costs were significantly higher than the peer average in FY 2006-07 and FY 2007-08. The higher costs are attributed to the District's bus driver salary and health benefit packages (see **human resources**), contracted services (see **R2.10**), and maintenance and repair costs (see **transportation**). Furthermore, the District's purchasing practices can impact the costs related to contracted services, and maintenance and repairs (see **R2.8**).

Table 2-2 and **Table 2-3** compared the District's revenues and expenditures per student to the average of ten school districts in LLSD's demographic category as defined by ODE, that meet a high number of report card standards at a relatively low cost per pupil (see executive summary for more information). As an additional comparison, **Table 2-4** compares the District's FY 2007-08 expenditures per student to an average of 20 school districts classified by ODE as being similar to LLSD in demographic composition (20 similar district average). **Table 2-4** is presented as reported by ODE and was not formally tested for reliability because it was used only to supplement the other comparisons.

Table 2-4: Expenditures by Function in FY 2007-08

	Liberty LSD	20 District Average
Administrative	$1,139	$1,054
Building Operations	$1,795	$1,712
Staff Support	$216	$202
Pupil Support	$926	$915
Instructional	$5,244	$5,159
Total	**$9,320**	**$9,042**

Source: Ohio Department of Education

Table 2-4 shows the District's total expenditures per student are approximately three percent higher than the 20 similar district average. In addition, the District's expenditures per student are higher in each category. See **Tables 2-2** and **2-3** for additional explanation of the District's expenditures in these areas.

Audit Objectives for the Financial Systems Section

The following is a list of the questions used to evaluate the financial systems functions at LLSD:

- What has been the District's financial history?
- Does the District have a comprehensive ethics policy?
- Does the District's five-year forecast reasonably and logically project future revenues and expenditures?
- Does the District produce recommended financial reports?
- How do the District's General Fund revenues and expenditures compare to peer districts?
- Does the District have a thorough strategic plan?
- Is the District's budgetary process consistent with recommended practices?
- Does the District have a comprehensive purchasing policy and corresponding procedures that have been approved by the Board and ensure the use of a competitive selection process?
- Is the food service fund self-sufficient?
- What are possible strategies that the District could implement to help reduce the costs of its special education program?

Although some historical posting errors could impact the accuracy of specific line-item projections (see **R2.1**), assessments conducted on the LLSD's forecast revenues and expenditures revealed overall reasonable projections with one exception (see **R2.2**). These assessments were based on a review of several factors, such as historical trends, third-party information, collective bargaining agreements, and legislation. In addition, the budgetary monitoring process was found to be comparable to benchmarks.

Recommendations

Financial Coding and Forecast

R2.1 The Treasurer should account for revenues and expenditures in the applicable categories and develop procedures to facilitate this effort, particularly since the forecast projections are based primarily on historical trends. For instance, the Treasurer should work with the account clerks to make sure they understand each of the District's revenue and expenditure sources and how they should be coded within the accounting system. The Treasurer should also review preliminary financial reports at year-end in comparison to several years of historical trends to identify and correct inaccurate coding. Doing so will help improve the reliability of the District's financial records, support the development of sound projections for the five-year forecast, and facilitate reliable decision-making.

During the review of the District's financial forecast, it was noted that the District's real estate property taxes, tangible property taxes, property tax allocation receipts, and state funding receipts all experienced significant fluctuations from FY 2005-06 through FY 2007-08. The fluctuations are partially attributed to the 7.9 mill levy that was passed in May, 2005 and changes in State legislation. However, the fluctuations are also attributed to inconsistent account coding practices. For example, the District reported approximately $59,000 in tax anticipation note (TAN) proceeds in the real estate tax line-item in FY 2005-06 and $411,000 in FY 2006-07. According to the Uniform School Accounting System, note proceeds should be recorded in a separate line-item titled "Proceeds from Sales of Notes" and are considered non-operating revenues. Likewise, the Treasurer acknowledged that the District had past coding inconsistencies in which property tax allocation receipts were coded as real estate taxes and vice versa. In addition, a review of historical expenditures revealed that the District charged custodial overtime to a certificated overtime account number and administrative retirement costs had an unexplained increase from approximately $197,000 in FY 2006-07 to $644,000 in FY 2007-08. The Treasurer attributed both of the inconsistencies to coding errors for specific line-items, but still felt that total revenues and expenditures reported by the District are accurate. Lastly, the District charged the ESC contract costs to the administration function, rather than using ESC's recommended cost allocation (see **Table 2-3** and **R2.10**).

The District's coding practices can hinder its ability to accurately assess historical trends and overall spending patterns. This, in turn, can impede the District's decision-making process.

R2.2 The Treasurer should update projected benefit costs to account for the additional pension benefit for administrative and non-bargaining employees. This would better reflect the total cost of benefits provided by the District.

The State Teachers Retirement System (certificated staff) and the School Employees Retirement System (administrative and classified staff) both require employees to contribute 10 percent of their gross earnings while the employer is required to contribute an additional 14 percent. In developing the forecast, the Treasurer correctly multiplied the projected wages by 14 percent to determine the District's required pension contributions (accounted for in the employee benefits line-item). However, as an additional benefit, the District has agreed to pay varying percentages of the employee's share of the pension contributions (additional pension benefit) for certain administrative and non-bargaining employees. The Treasurer did not account for the additional pension benefit when developing the financial forecast. The additional pension benefit is estimated to cost approximately $83,000 in FY 2008-09, with annual increases thereafter based on the projected wages. As a result, the District's benefit projection will be adjusted to account for the additional pension benefit. **Table 2-5** shows the impact this revision will have on LLSD's forecast.

Table 2-5: Revised Employee Benefits (000's)

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
District Projection	$3,277	$3,501	$3,763	$4,049	$4,359
Additional Pension Benefit	$83	$84	$86	$88	$89
Revised Projection	$3,360	$3,585	$3,849	$4,137	$4,448

Source: District forecast and AOS analysis

Planning and Budgeting

R2.3 LLSD should develop a comprehensive strategic plan which outlines its long-term vision for all operational and educational programs. In preparing the plan, it should include detailed goals, objectives, benchmarks, timeframes, performance measures and applicable cost estimates. Once developed, LLSD should link the strategic plan to the budget, the five-year forecast and other plans (see facilities and transportation). This approach would shift the focus of budgetary decisions from inputs (salaries and cost of purchased goods and services) to outputs and outcomes, and ultimately to the accomplishment of the goals and objectives in the strategic plan.

LLSD does not have a comprehensive District-wide strategic plan to guide long-term operations and spending decisions. As a result, the District develops the budget and five-year forecast based primarily on contractual obligations, historical spending levels and knowledge of immediate needs.

Recommended Practices on the Establishment of Strategic Plans (GFOA, 2005) recommends that all governments develop a strategic plan in order to provide a long-term perspective for service delivery and budgeting. The strategic plan will establish logical links between spending amounts and goals. In addition, the focus of the strategic plan should be on aligning organizational resources to bridge the gap between present conditions and the envisioned future. In developing the strategic plan, GFOA recommends the inclusion of measurable objectives and performance measures. Objectives should be expressed as quantities or at least as verifiable statements, and ideally include timeframes. Performance measures provide information on whether goals and objectives are being met, and are an important link between the goals in the strategic plan and the activities funded in the budget.

Without an updated comprehensive strategic plan that includes detailed objectives and performance measures, LLSD may have difficulty evaluating the relationship between its spending decisions and program outcomes. This, in turn, increases the risk of ineffectively addressing District needs.

R2.4 LLSD should formalize its budget process by developing and following a budget calendar that specifies the tasks and timelines leading to adoption of the annual budget. The budget calendar should be designed to comply with statutory timeframes and include opportunities for the Board, employees, citizens and other stakeholders to provide input. The District should also hold public meetings to discuss the budget and solicit feedback. Additionally, LLSD should prepare a budget document (budget memo, executive summary, etc.) that includes charts and graphs to summarize key financial information, and a narrative to explain the District's goals and objectives for the upcoming year. This document should be published on the District's website for increased accessibility. Adhering to a formal budget calendar will help ensure that all aspects of the budget process have been considered, that statutory timeframes are being met, and that adequate time has been scheduled to allow for stakeholder input. Developing a budget document with summary information will help the Board, stakeholders, and interested citizens better understand the District's financial condition and the issues that influenced key decisions.

ORC § 5705.36 states that "on or about the first day of each fiscal year, the fiscal officer of each subdivision shall certify to the county auditor the total amount from all sources available for expenditures from each fund. The amount certified shall include any unencumbered balances that existed at the end of the preceding year." According to a representative from the Trumbull County Auditor's Office (the County Auditor's Office), this information is used to prepare an amended official certificate of estimated resources, which includes ending fund balances carried over from the prior year. In addition, ORC § 5705.38 states, in part, that "…a board of education shall pass its annual appropriation measure by the first day of October. Prior to passage of the annual appropriation measure, the board may pass a temporary appropriation measure for meeting the ordinary expenses of the district until it passes the annual appropriation measure, and appropriations made in the temporary measure shall be chargeable to the appropriations in the annual appropriations measure for that fiscal year when passed."

The District did not comply with either statute in FY 2008-09. Specifically, in discussions with representatives from the County Auditor's Office in November 2008 (five months after start of FY 2008-09), it was noted that the District had not filed a report showing the year-end fund balances (unencumbered balances) from FY 2007-08. As a result, the County Auditor's Office had not prepared an amended official certificate of estimated resources for FY 2008-09. In addition, review of the Board of Education meeting minutes through November 2008 showed that the District passed a temporary appropriation measure in July, 2009, but still had not adopted the annual appropriation measure for FY 2008-09. The Treasurer indicated that the District's practice is to pass a temporary appropriation measure at the beginning of each fiscal year and use this throughout the year in lieu of the annual appropriation measure.

In developing the annual budget, the District uses an informal process that allows for some input from employees and department heads. However, LLSD does not hold public meetings to discuss the budget or to explain significant budgetary decisions, which limits the ability of the Board and other stakeholders to provide meaningful input. Additionally, the District does not publish a budget summary on its website or prepare other similar documentation that would allow Board members and citizens to easily understand the impact of the budget, key assumptions, and/or significant financial issues.

GFOA indicates that the budget process is one of the most important activities undertaken by governments because it allocates scarce resources and can have a significant impact on service levels and program effectiveness. Accordingly, GFOA recommends that governments develop a comprehensive budget calendar that specifies when budget tasks are to be completed and identifies timelines for those tasks. The calendar should also include specific opportunities for stakeholder input where government officials are available to explain issues and choices, and to receive comments. GFOA also recommends that governments prepare a budget document, or other similar documentation (budget memo, summary letter, etc.), that provides summary information, including an overview of significant budgetary issues, goals and objectives, historical trends, and resource choices. Charts and graphs should be used to highlight financial and statistical information. Narrative interpretation should be provided when the messages conveyed by the graphs are not self-evident.

Reporting

R2.5 LLSD should consider preparing and issuing comprehensive annual financial reports (CAFR) and popular annual financial reports (PAFR). Additionally, LLSD should post these documents on its website to allow for public review and analysis.

Liberty LSD is required by Ohio Administrative Code (OAC) § 117-2-03 to issue financial statements prepared on an accrual basis in accordance with Generally Accepted Accounting Principles (GAAP). The financial audits for FY 2002-03, FY 2003-04 and FY 2004-05 indicate that Liberty LSD complied with this statute and is preparing its financial statements on an accrual basis. However, the District does not make the financial statements available on its website. In addition, the District does not prepare a Comprehensive Annual Financial Report (CAFR) or a Popular Annual Financial Report (PAFR). According to the Treasurer, the additional preparation costs have prevented the District from preparing a CAFR or PAFR in the past.

Recommended Practices: Government Accounting, Auditing, and Financial Reporting (GFOA, 2006) indicates that state and local governments should not be satisfied with only issuing basic financial statements required by GAAP, but should instead publish a CAFR. The CAFR would expand the reporting model to include information on Liberty LSD's operating environment, explanations for past spending decisions and future commitments, as well as budgetary statements and statistical information. Likewise, *Recommended Practices: Preparing Popular Reports* (GFOA, 2001) encourages governments to supplement their annual financial reports with simpler, "popular" annual financial reports (PAFR) designed to assist those who need a less detailed overview of a government's financial activities. According to GFOA, the PAFR supplements the GAAP basis financial statements and is used to describe a government entity's operations in a consolidated, aggregated or condensed format. The intent of a PAFR is to provide objective information to local citizens in a clear and concise manner, using charts and graphs to interpret financial data and to help identify trends. Lastly, according to *Using Websites to Improve Access to Budget Documents and Financial Reports* (GFOA, 2003), a government should publish its budget documents and its comprehensive annual financial reports on its website (see **R2.6**).

R2.6 LLSD should update its website to include financial information that could be useful to citizens and other interested parties. By making financial information available on its website, the District would be using a relatively inexpensive method to inform stakeholders of its financial condition, and could potentially reduce the time and costs associated with public records requests.

LLSD has developed a website that contains useful resources that are available to District employees, community members and stakeholders. For example, LLSD's website includes District-wide calendars and building information; Board policies and meeting schedules; common forms; and information for certain District services and extracurricular activities including band, athletics, choir, and food and nursing services. However, the financial information posted on the website is limited to employee health insurance information and the projected impact of a proposed levy.

According to *Using Websites to Improve Access to Budget Documents and Financial Reports* (GFOA, 2003), a government effectively using their website to convey financial information can realize a number of benefits including increased public awareness, increased public usage of the information, and availability of information for use in public analysis. The Westerville City School District (Franklin County) provides its community with several key financial reports that pertain to district operations on its website, including detailed levy information, current and historical budget and forecast documents, property tax millage and valuation information, comprehensive and popular annual financial reports (see **R2.5**), past financial audit results, and expenditure per pupil comparisons to neighboring school districts.

Policies

R2.7 LLSD should update the existing code of ethics policy to include all staff and cover the pertinent areas identified by the Ohio Ethics Commission's model ethics policy. Subsequently, the District should distribute and explain the policy to all employees.

The District has a comprehensive code of ethics policy in place for Board members that identify ethical standards and basic principles and procedures. However, the policy is written solely for Board members and does not address certain restraints identified by the Ohio Ethics Commission (OEC) in its model ethics policy. Additionally, LLSD does not have an ethics policy to guide the decision-making process for employees, which increases the risk that employees may unknowingly participate in activities that could be perceived as unethical (i.e. accepting small gifts, door prizes, or dinners from vendors).

OEC states that the underlying principle for all functions of the ethics law is to uphold straight-forward standards of conduct that maintain integrity and propriety in connection with decisions and policy involving public funds. Particularly, the law prohibits conflict of interest or personal gain in making and implementing public decisions. Additionally, OEC offers a model ethics policy for local governments. The model ethics policy lists a number of general standards for ethical conduct as well as ethics requirements and penalties associated with compliance failure. A summary of the restraints upon the conduct of all officials and employees includes the following, whereby no official or employee shall:

- Solicit or accept anything of value from anyone doing business with the agency;

- Solicit or accept employment from anyone doing business with the agency, unless the official or employee completely withdraws from agency activity regarding the party offering employment, and the agency approves the withdrawal;

- Use his or her public position to obtain benefits for the official or employee, a family member, or anyone with whom the official or employee has a business or employment relationship;

- Be paid or accept any form of compensation for personal services rendered on a matter before any board, commission, or other body of the agency, unless the official or employee qualifies for the exception, and files the statement, described in ORC § 102.04(D);

- Hold or benefit from a contract with, authorized or approved by, the agency;

- Vote, authorize, recommend, or in any other way use his or her position to secure approval of an agency contract (including employment or personal services) in which the official or employee, a family member, or anyone with whom the official or employee has a business or employment relationship, has an interest;

- Solicit or accept honoraria;

- During public service, and for one year after leaving public service, represent any person, in any fashion, before any public agency, with respect to a matter in which the official or employee personally participated while serving with the agency;

- Use or disclose confidential information protected by law, unless appropriately authorized; and

- Use, or authorize the use of, his or her title, the name of the agency, or the logo in a manner that suggests impropriety, favoritism, or bias by the agency or the official or employee.

Although the District has developed a code of ethics for board members, expanding the policy to cover the areas suggested by OEC and include all employees will better define the principles to guide staff behavior.

R2.8 The District should revise its purchasing policy to establish lower thresholds for obtaining price quotes and to periodically require competitive bidding for commonly used items, such as office supplies; technology equipment; and transportation, building and food service supplies and materials. The Treasurer's office should help devise the new thresholds with the intent of subjecting more purchasing transactions to competitive pricing, without being overly cumbersome for operational units. In addition, the District should include requests for proposals in the revised policy, including when they should be used in contracting for purchased services. Lastly, LLSD should explore participation in additional cooperative purchasing arrangements and consortiums as methods for increasing its pool of products and helping to ensure the District pays the "best" price for products. These policies and practices will provide the Board with greater assurance that goods and services are being purchased at competitive prices and that objective decisions are being made regarding vendor selection.

Table 2-5 shows that the District spent a total of $356 per student from the General Fund on supplies and textbooks while the peer average was $263 in FY 2006-07. Likewise, **Table 4-3** in the **facilities** section shows that the District spent $0.53 and $0.47 per square foot on building supplies and materials in FY 2006-07 and FY 2007-08, respectively, while the peer average was only $0.36 in FY 2006-07 and the AS&U national median was $0.38 in FY 2007-08. Furthermore, the District spent an average of $8,622 per active bus in FY 2006-07 and $4,485 in FY 2007-08, and $0.51 per routine mile in FY 2006-07 and $0.28 in FY 2007-08 on maintenance and repairs, excluding mechanic and helper salaries. These amounts are higher than the respective peer averages of $2,672 and $0.27 in FY 2006-07.

Although the higher costs may be partially attributed to the specific building and transportation needs at LLSD, the District's purchasing policies can also contribute toward the variances. For example, the Board's purchasing policy only requires two price quotations on purchases of more than $10,000 and competitive bidding on construction projects costing more than $25,000. Likewise, the Board policies do not address the use of requests for proposals (RFPs) when contracting for purchased services. Lastly, although the Board policies encourage participation in cooperative purchasing arrangements with other governments to allow for bulk purchasing, the policies do not address the use of purchasing consortiums. The Treasurer indicated that cooperative purchasing arrangements with Trumbull County and the Trumbull County ESC are used periodically by principals and department heads to purchase office supplies.

By comparison, the Akron City School District requires employees to obtain three price quotes on anything costing more than $6,000. Similarly, the Cincinnati City School District requires various forms of competitive pricing for goods and services costing more than $500. In addition, *The Contract Management Manual* (Voinovich Center for

Leadership and Public Affairs, 2001) indicates an RFP is a form of a bid, and is generally used for services that cannot be summarized in written bid specifications. It includes numerous recommendations as to what should be included in an RFP, and how to structure, evaluate, and award an RFP. Without more stringent purchasing policies and defining the RFP process, the Board increases the risk of employees not obtaining competitive prices for significant purchases and not objectively selecting vendors.

Exploring additional cooperative purchasing arrangements and/or consortiums would also help the District ensure it purchases products at the most economical price and would easily allow for price comparisons from non-local sources. For example, the U.S. Communities: Government Purchasing Alliance (USC) is a nonprofit entity that assists public agencies in reducing the cost of purchased goods by pooling the purchasing power of public agencies nationwide. The USC advertises that the advantages of membership include the following:

- No user fees to participate;
- Competitively solicited contracts;
- Nationally sponsored by leading associations and purchasing organizations (e.g., Association of School Business Officials International);
- Directed by public purchasing professionals; and
- Aggregation of purchasing power via the following:
    - Combines potential purchasing power of up to 90,000 public agencies;
    - Expands purchasing choices beyond state boundaries; and
    - Includes over 35,900 participating public agencies.

USC offers technology products such as computer hardware, software, and peripherals, as well as office/school supplies, janitorial supplies, office and school furniture, office machines, and auto parts and accessories. Although LLSD is a member of USC, it is unknown of how often the District uses and/or reviews pricing in USC.

Financial Implication: The District spent approximately $502,000 on supplies and textbooks in FY 2007-08. If the District could achieve a 10 percent cost savings by adopting more stringent policies, the annual savings would be approximately $50,000 and the revised cost per student would be $272, compared to the FY 2006-07 peer average of $263.

Food Service Fund

R2.9 LLSD should begin charging the Food Service Supervisor's salary and benefits, and the applicable utility costs to the Food Service Fund. This will result in lower costs to the General Fund and allow the District to measure the full cost of its food service operation. The District should also actively monitor the impact these changes have on the ending fund balances within the Food Service Fund. Moreover, the District should review food service staffing levels and purchasing practices (see R2.8) to identify potential cost saving strategies for the Food Service Fund and avoid future operating deficits.

Table 2-6 shows LLSD's total revenues and expenditures reported for the Food Service Fund since FY 2004-05.

Table 2-6: Food Service Fund

	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
Total Revenue	$575,410	$643,897	$697,353	$733,373
Total Expenditures	$554,973	$532,940	$707,941	$694,152
Net Profit (Loss)	**$20,437**	**$110,956**	**($10,588)**	**$39,222**
Beginning Fund Balance	$192,712	$213,149	$324,106	$313,518
Ending Fund Balance	$213,149	$324,106	$313,518	$352,740

Source: LLSD FY 2004-05 through FY 2007-08 4502 reports.

Table 2-6 shows that LLSD reported positive ending fund balances in the Food Service Fund each of the last four years, and that total operating revenues exceeded the expenditures three of the years. The Treasurer indicated that with the exception of the food service supervisor and utilities, all appropriate costs are charged to the Food Service Fund. The salary and benefit costs for the food service supervisor and the utilities are charged to the General Fund.

Measuring the Cost of Government Services (GFOA, 2002) indicates that measuring the cost of government services is useful for a variety of purposes, including setting user fees and charges, privatization comparisons, and performance measurement and benchmarking. However, it is important that governments measure the full cost of the service they provide, which includes direct costs and indirect costs. Direct costs include the salaries, wages, and benefits of employees while they are working exclusively on the delivery of the service, as well as the materials and supplies, and other associated operating costs such as utilities and rent, training and travel. Indirect costs include shared administrative expenses within the work unit and in one or more support functions outside the work unit. These shared costs should be apportioned by some systematic and rational allocation methodology and that methodology should be disclosed.

In FY 2007-08, the Food Service Supervisor's salary and benefits equaled approximately $52,000. In addition, the District's total utility costs equaled approximately $498,000. **Table 2-6** shows that although the Food Service Fund revenues exceeded the expenditures in FY 2007-08, the net profit would not have been sufficient to cover the additional costs associated with the Food Service Supervisor's salary and benefits for each year except FY 2005-06. As a result, if LLSD began charging these costs to the Food Service Fund, the District would likely need to make operational changes to avoid deficit balances over the long-term. **Table 3-1** in the **human resources** section shows that the District's food service staffing levels equal 9.18 FTEs per 1,000 students while the peer average is only 5.46. The District would have to reduce approximately 5.0 FTEs to achieve the peer average. Additionally, **R2.8** recommends that LLSD review its purchasing policies, which may yield savings within the Food Service Fund. Lastly, GFOA advocates that governments review their user fees and privatization options using the full cost approach outlined above.

Financial Implication: Charging the Food Service Supervisor's salary and benefits to the Food Service Fund would save the General Fund approximately $52,000 annually.

Special Education Expenditures

R2.10 The District should conduct a comprehensive review of it special education program to identify strategies for improving overall efficiency. These strategies could include adjusting staffing levels, partnering with other districts to share certain services through in-house resources, and reviewing the IEP process. Another strategy could include regularly comparing the cost of providing contracted education and transportation services through the Trumbull County Educational Service Center to other neighboring educational service centers, private service providers, and the cost of bringing the functions in-house.

Table 2-3 shows that the District spent $725 per student on special education in FY 2007-08 while the FY 2006-07 peer average was only $861. However, as noted in the analysis of **Table 2-3**, LLSD did not accurately account for the cost of the Trumbull County Educational Service Center (TCESC) contract cost. Specifically, the District contracted with TCESC for special education services that totaled approximately $436,000 in FY 2007-08. However, these costs were accounted for within the "administration" function code rather than the "special education" function code. If these costs were properly allocated (see **R2.1**), the revised special education cost per student (all students) would have equaled $988. This is higher than the peer average of $861, despite the District's special education students comprising 10 percent of total enrollment, which is similar to the peer average (11 percent). When including only special education students, the District's total cost per special education student is approximately $10,360, which is significantly higher than the peer average of $7,590.

LLSD's higher expenditures are partially due to staffing levels and the costs associated with the ESC contract.[3] Specifically, the District's FY 2007-08 EMIS report shows that the combined special education teacher, tutor/small group instructor, and supplemental special education teacher staffing levels equal 11.31 on a per 1,000 ADM basis while the peer average is 8.69 (includes contracted positions). Additionally, the EMIS report shows that the District employed approximately 14 special education and supplemental special education teacher FTEs in FY 2007-08 (includes contracted positions), which is estimated to be approximately 4 FTEs higher than the minimum requirements in OAC section 3301-51-09.[4] Although a detailed comparison of the specific ESC contract costs cannot be completed due to limited peer information, **Table 2-2** shows that LLSD's total purchased services and miscellaneous costs[5] are significantly higher than the peer averages, which can be partially attributed to the TCESC contract.

In addition to the educational services, LLSD contracts with the TCESC to provide special needs transportation services. In FY 2006-07, the District paid the TCESC approximately $104,000 to provide transportation to 18 special needs students, which equates to $5,783 per student. However, the costs increased to $132,000 in FY 2007-08, despite the number of students transported staying the same (18 students). As a result, the cost per student increases to $7,329. By comparison, a representative from ODE indicated that the State average special needs transportation cost per special needs student was $4,819 in FY 2006-07.

The Superintendent indicated that the District's special education staffing levels and the contracted services are needed to meet specific student disabilities and individualized education program (IEPs) requirements. The Superintendent also indicated that the District contracts for special needs transportation because it cannot afford to purchase the additional buses and specialized equipment that would be necessary to transport students using in-house resources. However, LLSD does not partner with any other districts to share the use and cost of in-house resources, and has not recently reviewed the feasibility of using other educational service centers, bringing certain services in-house, or using other service providers to meet the needs of the special education program.

Financial Implication: Using the revised special education costs noted above, the District's expenditures for special education exceed the peer average by approximately

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[3] AOS did not conduct a detailed review of the specific disabilities of LLSD's students compared to the peers. Differences in the severity of student disabilities and other factors like IEP requirements may also contribute to the cost variances.

[4] EMIS staffing data was deemed not sufficiently reliable. Additionally, the performance audit did not conduct a comprehensive reliability test of reported student data. See **human resources** for more information.

[5] LLSD accounts for the Trumbull County ESC contract within the miscellaneous object code while the peers likely include this as a purchased service. However, a detailed review of the peer coding practices was not conducted during this audit.

$210,000. If the District could reduce this cost by at least 15 percent through one or more of the strategies noted above, the annual savings would be $31,500.

Financial Recovery Plan

R2.11 LLSD should analyze and use Table 2-7 to evaluate the effect of the recommendations presented in this performance audit. The District should consider implementing the recommendations in this performance audit along with other appropriate actions to avoid projected operating deficits. In addition, the Treasurer should update Table 2-7 on an on-going basis to reflect changes, monitor revenue and expenditure activities, and review performance against projected figures. Lastly, LLSD should regularly discuss options for reducing costs and/or increasing revenues with stakeholders to help determine long-term strategies for addressing the projected deficits.

Table 2-7 presents the framework for a financial recovery plan for LLSD, which includes the revised benefit projections (see **R2.2**) and demonstrates the impact of the performance audit recommendations on the District's financial condition. Based on **Table 2-7**, the District will need to make difficult management decisions in order to improve its financial condition. Specifically, even when including the financial implications for all the performance audit recommendations, **Table 2-7** shows that the District is projected to experience a negative ending fund balance for each year from FY 2009-10 to FY 2012-13. This is despite including savings from potential teacher and education service personnel reductions (see **R3.2**), which comprise approximately 36 percent of the total annual savings. Furthermore, negative ending fund balances would still be projected from FY 2009-10 to FY 2012-13 even if the District implemented additional teacher staffing reductions to operate at State minimum requirements. As a result, it will be necessary for the District to consider other options for addressing the projected deficits.

The forecast in **Table 2-7** will depend, in part, on the attainment of the District and AOS revised projections. Therefore, monitoring the attainment of the projections and updating the forecast as necessary will ensure the District bases future decisions on the most current information. The projections will also depend upon timing related to implementing the performance audit recommendations and the actual impact of those recommendations. **Table 2-7** includes implementation of the performance audit recommendations beginning in FY 2009-10. In addition, the District may be able to realize greater savings from implementing the recommendations because AOS applies a generally conservative approach in estimating the financial implications. For example, if the District was able to achieve the higher cost saving estimate in **R3.6** by altering health benefits and reduced teacher staffing levels to operate at State minimum requirements, it would maintain a positive fund balance in FY 2009-10 of approximately $322,000. While

LLSD would still have negative ending fund balances thereafter, they would be much lower than in **Table 2-7** (approximately $95,000 in FY 2010-11, $747,000 in FY 2011-12 and $2.0 million in FY 2012-13).

Table 2-7: Financial Recovery Plan (in 000's)

	Actual 2005-06	Actual 2006-07	Actual 2007-08	Forecast 2008-09	Forecast 2009-10	Forecast 2010-11	Forecast 2011-12	Forecast 2012-13
Real Estate Property Tax	$6,347	$8,325	$7,453	$7,513	$7,524	$6,783	$5,762	$5,513
Tangible Personal Property Tax	$468	$369	$324	$260	$230	$210	$210	$210
Unrestricted Grants-in-Aid	$5,968	$5,439	$5,339	$5,288	$5,288	$5,288	$5,288	$5,288
Restricted Grants-in-Aid	$10	$122	$133	$143	$143	$143	$143	$143
Property Tax Allocation	$774	$839	$1,300	$1,354	$1,472	$1,386	$1,195	$1,129
Other Revenues	$510	$775	$999	$971	$994	$1,011	$1,026	$1,049
Total Operating Revenues	**$14,077**	**$15,869**	**$15,548**	**$15,530**	**$15,652**	**$14,821**	**$13,625**	**$13,333**
Salaries & Wages	$7,663	$7,670	$8,155	$8,270	$8,506	$8,812	$9,129	$9,458
Fringe Benefits	$3,177	$3,419	$3,116	$3,360	$3,585	$3,849	$4,137	$4,448
Purchased Services	$2,505	$2,158	$2,776	$3,261	$3,359	$3,459	$3,563	$3,670
Supplies, Materials & Textbooks	$565	$604	$503	$555	$572	$589	$607	$625
Capital Outlay	$151	$233	$89	$133	$137	$99	$102	$105
Other Expenditures	$232	$1,094	$948	$1,117	$1,150	$1,185	$1,220	$1,257
Total Operating Expenditures	**$14,292**	**$15,178**	**$15,587**	**$16,696**	**$17,309**	**$17,993**	**$18,759**	**$19,563**
Net Transfers/Advances	($159)	($194)	$31	($50)	($55)	($60)	($65)	($70)
Other Financing Sources	$561	($411)	($376)	$430	($593)	($572)	($190)	($182)
Net Financing	**$402**	**($605)**	**($345)**	**$380**	**($648)**	**($632)**	**($255)**	**($252)**
Result of Operations (Net)	**$187**	**$86**	**($384)**	**($787)**	**($2,305)**	**($3,805)**	**($5,389)**	**($6,482)**
Beginning Cash Balance	$1,359	$1,545	$1,631	$1,247	$460	($1,844)	($5,649)	($11,038)
Ending Cash Balance	**$1,545**	**$1,631**	**$1,247**	**$460**	**($1,844)**	**($5,649)**	**($11,038)**	**($17,520)**
Encumbrances	($493)	($224)	($422)	($100)	($200)	($200)	($200)	($200)
Ending Fund Balance	**$1,051**	**$1,407**	**$825**	**$360**	**($2,044)**	**($5,849)**	**($11,238)**	**($17,720)**
Levy Renewals (Cumulative)	$0	$0	$0	$0	$0	$917	$3,063	$5,562
Revised Ending Fund Balance	**$1,051**	**$1,407**	**$825**	**$360**	**($2,044)**	**($4,932)**	**($8,175)**	**($12,159)**
Performance Audit Recommendations (Cumulative) [1]	**$0**	**$0**	**$0**	**$0**	**$1,335**	**$2,718**	**$4,159**	**$5,663**
Revised Ending Fund Balance	**$1,051**	**$1,407**	**$825**	**$360**	**($709)**	**($2,214)**	**($4,016)**	**($6,496)**

Source: LLSD Treasurer and AOS analysis

Note: The performance audit recommendations are increased each year based on the Treasurer's assumptions.

[1] This excludes **R3.5** because of the District's projected financial condition.

Financial Implications Summary

The following table presents a summary of annual cost savings for the General Fund in this section of the report.

Table 2-8: Summary of Financial Implications

Recommendation	Annual Cost Savings
R2.8 Revise purchasing policies and explore consortium pricing	$50,000
R2.9 Charge all appropriate costs to the Food Service Fund.	$52,000
R2.10 Review strategies to reduce special education costs.	$31,500
Total	**$133,500**

Source: AOS Recommendations

HUMAN RESOURCES

Human Resources

Background

This section of the performance audit focuses on Liberty Local School District's (LLSD or the District) human resource operations. LLSD's human resource operations are evaluated against recommended or leading practices, industry benchmarks, operational standards, and selected peer school districts.[1] Sources of comparative information include the Ohio Revised Code (ORC), the Ohio Administrative Code (OAC), the Ohio Department of Education (ODE), the State Employment Relations Board (SERB), the Bureau of Workers' Compensation (BWC), the Kaiser Family Foundation 2007 National Survey, and the Ohio Association of EMIS Professionals (OAEP).

Organizational Structure

LLSD does not have a separate department dedicated to human resource functions. Instead, the District's Treasurer and Superintendent complete the major human resource functions, including hiring, terminating, managing and evaluating employees; negotiating collective bargaining agreements; administering the health insurance programs; processing payroll; monitoring compliance with minimum employment standards; and overseeing the process for reporting information through the Education Management Information System (EMIS).

Staffing

Table 3-1 compares LLSD's full-time equivalent (FTE) employees per 1,000 average daily membership (ADM) for FY 2007-08 to the peer average (FY 2006-07). During the course of the audit, FY 2008-09 staffing information became available. Where applicable and possible, adjustments were made in the detailed staffing assessments to reflect the changes in the FY 2008-09 staffing levels. However, based on the identified coding errors (see **R3.1**) and the lack of corroborating data, the EMIS staffing data is deemed not sufficiently reliable. The performance audit will still use the data because it is the only information available to provide comparisons with other school districts and will adjust the data where necessary to account for the identified coding errors. However, the potential exists for additional coding errors that may skew some of the staffing comparisons. See the ensuing discussion and **R3.1** for more information. Furthermore, because the staffing data was deemed not sufficiently reliable, the performance audit did not conduct a comprehensive data reliability test of the District's enrollment figures, with the exception of reviewing trends in recent years (see **R3.1**).

[1] See the **executive summary** for a list of the peer districts and an explanation of the selection methodology.

Table 3-1: Staffing Comparison (FTEs per 1,000 Students) [2]

	Liberty LSD FY 2007-08	Peer Average FY 2006-07	Differences
Students Educated (FTE)[1]	1,525	1,889	(364)
Administrators[3]	7.36	6.00	1.36
Educational	73.78	65.77	8.01
Professional	1.31	1.61	(0.30)
Technical	1.97	2.60	(0.63)
Office/Clerical	13.12	8.67	4.45
Crafts/Trades Workers	1.97	1.12	0.85
Custodians/Grounds	9.18	6.28	2.90
Bus Drivers	7.87	6.22	1.65
Food Service Workers	9.18	5.46	3.72
All Other	0.66	3.69	(3.03)
Total FTEs	**126.40**[2]	**107.42**	**18.98**

Source: EMIS data reported to ODE
[1] Includes students receiving educational services from the district and excludes the percent of time students are receiving educational services outside the district.
[2] LLSD's total staffing levels reported through EMIS declined by approximately 6.0 FTEs in FY 2008-09.

Table 3-1 shows that LLSD's staffing levels exceed the peer average on a per 1,000 ADM basis in the administrator, educational, office/clerical, crafts/trades, custodians/grounds, bus driver, and food service classifications. However, the administrator (principals and assistant principals) and office/clerical (teaching aide) classifications are higher due to coding errors in LLSD's EMIS reports. After adjusting for the coding errors and accounting for staffing changes in FY 2008-09, the District's administrative FTEs per 1,000 ADM decreases to 6.05, which is similar to the peer average. In addition, the District's office/clerical staffing levels per 1,000 ADM and teaching aide FTEs per 1,000 ADM decrease to 7.87 and 1.97, respectively, which are both lower than the peer averages (8.67 and 2.79). See **R3.1** for a discussion of the District's EMIS reporting process.

The higher educational staffing levels are attributed to the District's regular education and special education teacher staffing levels, as well as remedial specialists and tutor/small group instructors. See **R3.2** for an additional discussion of the District's regular education staffing levels. Along with the higher special education teacher FTEs per 1,000 ADM even after accounting for EMIS reporting errors (see **R3.1**), LLSD's special education cost per special education student is significantly higher than the peer average in FY 2007-08. See the **financial**

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[2] At the District's request, AOS also compared staffing levels per 1,000 students to an average of 20 school districts classified by ODE as being similar in demographics (20 similar district average). Although LLSD's total staffing per 1,000 students is lower than the 20 similar district average, it employs more staff per 1,000 students in the regular education, custodial/grounds and food service classifications. Due to cost and time constraints, the staffing comparison to the 20 similar district average used a different methodology than **Table 3-1**. The methodology used for the 20 similar district average is based on the staffing reports generated by ODE.

systems section for additional analysis of special education costs. While the District employs more remedial specialists per 1,000 ADM, these positions are funded by sources other than the General Fund. When accounting for EMIS reporting errors (see **R3.1**) and staffing changes in FY 2008-09, and combining tutor/small group instructor staffing levels with the teaching aide and instructional paraprofessional categories to capture other positions that provide educational support, the District employs 6.56 FTEs per 1,000 ADM. This is still higher than the peer average of 5.46. However, the General Fund does not pay for 2.0 tutor/small group instructor FTEs. When excluding these positions, the District employs 5.25 combined FTEs per 1,000 ADM, which is lower than the peer average. As a result, the performance audit did not further assess tutor/small group instructor staffing levels.

The higher staffing levels within the crafts/trades and custodial/grounds classifications are addressed in the **facilities** section and the higher staffing level in the food service classification is addressed in the **financial systems** section. Although **Table 3-1** shows that LLSD's bus driver staffing levels are higher than the peer average, **Table 5-1** in the **transportation** section shows that the District is transporting significantly more students per bus than the peer average.

Negotiated Agreements

The District has a collective bargaining agreement (CBA) with the Liberty Association of School Employees, which was originally effective from September 1, 2005 to August 31, 2008. However, due to the District's financial difficulties, the District and union agreed to extend the agreement until August 31, 2009, with the only change being negotiated wage increases of 1.6 percent for all bargaining unit employees. Membership in this collective bargaining unit includes all certificated and classified staff. During the performance audit, AOS assessed and compared various contract provisions contained in the CBA to requirements stipulated in the ORC, OAC, and other leading practices (see **R3.4**).

Audit Objectives for the Human Resources Section

The following is a list of the questions used to evaluate the human resources function at LLSD:

- Is the District's current allocation of personnel efficient?
- How does the cost of benefits offered by the District compare with industry benchmarks?
- Are District salaries in line with the peer average?
- Are the District's negotiated agreements in line with peers and leading practices?
- Does the District track substitutes using an automated system?

Assessments conducted on sick leave use and the workers' compensation program were found to be comparable to the peers and/or other benchmarks.

Recommendations

Staffing

R3.1 LLSD should conduct a comprehensive review of its Education Management Information System (EMIS) reporting process and develop strategies to improve its accuracy. These strategies should include developing formal policies and procedures for gathering EMIS information, and requiring the Payroll Clerk and EMIS Coordinator to crosscheck information against a sample of payroll records, student counts and demographic information, and prior year EMIS reports. Any large variances should be investigated and resolved before submitting the information to the Superintendent and Treasurer. Subsequently, the Superintendent and Treasurer should ensure policies and procedures are being followed and that information has been properly reviewed for accuracy before authorizing submission to ODE. In addition, the District should encourage EMIS staff to become certified as Ohio Association of EMIS Professionals (OAEP). Collectively, these measures would better ensure the accuracy and reliability of District EMIS data, and help to ensure the District is receiving appropriate funding. Upon taking measures to ensure data reliability, LLSD should compare its staffing levels to peer districts and other benchmarks to identify potential staffing reductions.

The Payroll Clerk in the Treasurer's Office is responsible for entering staff data into the EMIS system, while the EMIS Coordinator is responsible for entering student data. School building secretaries also assist with entering student data. LLSD does not have formal policies and procedures for preparing, reviewing and reconciling the EMIS information prior to submission to ODE. However, the EMIS Coordinator provides instruction packets to school secretaries to assist in compiling student information. Further, the Payroll Clerk indicated that the District follows the EMIS Manual produced by ODE, runs and corrects error reports within the EMIS system, regularly contacts the Information Technology Center (ITC) for assistance in preparing EMIS information, and attends EMIS related training offered by the ITC and conferences offered by OAEP. However, neither the Payroll Clerk nor the EMIS Coordinator has achieved Certified EMIS Professional status through the OAEP.

Regardless of the abovementioned efforts, AOS identified several errors in the District's EMIS information that, if uncorrected, skew the staffing conclusions in the performance audit. For example, the administrator staffing levels appear high in **Table 3-1** because the Superintendent is coded as a middle school principal in the FY 2007-08 EMIS report despite becoming the Superintendent in May, 2007, and the prior Superintendent was still listed as a District employee. LLSD also reported two assistant principals at the middle school, although one transferred into the principal position in June 2007. Additionally, when reviewing LLSD's FY 2007-08 teaching aide staffing levels (shown as office/clerical in **Table 3-1**), the Treasurer indicated that several employees should have been coded as tutor/small group instructors and that one employee has not worked for the District since 2006. Finally, the District reported contracted ESC staff in its EMIS demographics report, contrary to EMIS reporting instructions.

Because the staffing data was deemed not sufficiently reliable, the performance audit did not conduct a comprehensive test of the District's enrollment figures. However, LLSD's EMIS reports show that the number of students educated by the District declined by approximately 80 students in FY 2006-07 and declined by an additional 164 students in FY 2007-08. As a result, the reported number of students educated declined by approximately 244 students (14 percent) from FY 2005-06 to FY 2007-08. Monitoring enrollment trends and ensuring the accuracy of its data would help the District realign its staffing levels as necessary, which can be aided by developing enrollment projections (see the **facilities** section).

ORC § 3301.0714 outlines the guidelines for the EMIS system and includes a requirement to report personnel and classroom enrollment data. According to ORC § 3301.0714, the total number of licensed and non-licensed employees and the full-time equivalent serving, by category, are required to be reported and maintained for each school district. Furthermore, the legislation indicates that data collected through the EMIS system is used for state and federal reporting, funding and distribution of payments, an academic accountability system, and the generation of statewide and district reports. The process for EMIS data submission requires data to be submitted in accordance with the process and requirements of the EMIS manual, which includes processes for ensuring the accuracy and completeness of the data before submission and through a data verification process. Districts are required to submit accurate data.

To help districts submit accurate EMIS data, ODE, OAEP, and the Ohio Education Data Systems Association provide various training opportunities and conferences each year. Further, OAEP offers Certified EMIS Professional and Master Certified EMIS Professional designations, which are earned after completing a regimented program of professional development and work experience. According to ODE, Certified EMIS Professionals and Master Certified EMIS Professionals are committed to maintaining the highest standards possible regarding the maintenance and reporting of student, staff, and district data.

R3.2 If the District does not implement the performance audit recommendations and other strategies to reduce costs, it should consider reducing regular education and education service personnel (ESP) staffing levels. For instance, the District could reduce its regular education teacher and ESP staffing levels by 10 and 2 FTEs, respectively, and still remain above State minimum requirements for regular education teachers. However, it should weigh decisions to reduce teacher and ESP staffing levels against the impact the reductions may have on the quality of education. Further, given the errors identified in LLSD's EMIS information (see R3.1), it should verify the accuracy of the reported regular education and ESP staffing levels prior to implementing this recommendation.

Table 3-2 compares LLSD's teacher staffing ratios for FY 2007-08 to the peer average for FY 2006-07.

Table 3-2: Regular Classroom Teacher Staffing & Report Card Results

	Liberty LSD FY 2007-08	Peer Average FY 2006-07	Difference
Regular Students per Regular Teacher	17.5	18.6	(5.9%)
Total Students per Regular Teacher	19.1	21.3	(10.3%)
FY 2007 Performance Indicators Met (out of 30)	22.0[1]	27.2	(19.1%)
FY 2007 Performance Index (out of 120)	92.7[1]	99.8	(7.1%)

Source: EMIS data and ODE Local District Report Cards
[1] LLSD's FY 2007-08 Report Card shows the District met 20 out of 30 performance indicators and achieved a performance index of 94.1 out of 120.

Table 3-2 shows LLSD's student-to-teacher ratios are lower than the peer averages, which indicates that the District employs more regular teachers. **Table 3-2** also shows that the District met fewer performance indicators and achieved a lower performance index scope on the FY 2006-07 State report card, when compared to the peer averages. To achieve the peer average number of regular students per teacher, the District would need to eliminate 4.7 FTEs. Alternatively, to achieve the peer average number of total students per teacher, the District would need to eliminate 8.2 FTEs.

Pursuant to OAC § 3301-35-05, for every 25 regular education students, LLSD is required to maintain at least one FTE classroom teacher on a District-wide basis. The District could reduce approximately 24 FTE regular education teachers and still comply with State minimum requirements. However, this overall average of 25:1 may be difficult to achieve, based on factors like specific grade and class sizes. If LLSD maintained a regular student-to-teacher ratio of 20:1, the District would need to eliminate approximately 10 FTEs.

In contrast to regular teacher staffing levels, the District employs fewer education service personnel (ESP) FTEs than the peer average, based both on the number of regular students and total students. However, the District has more ESP teachers than the State minimum requirements. Specifically, OAC § 3301-35-05(A) (4) requires school districts to employ a minimum of five ESP for every 1,000 regular education students. ESP positions are classified as elementary art, music, and physical education teachers; counselors; registered nurses; social workers; and library/media specialists. Based on OAC requirements and the District's regular education enrollment in FY 2007-08 (1,396), the District is required to employ a minimum of 7.0 ESP FTEs. However, the District currently employs 9.5 ESP FTEs, or 2.5 more than required by the OAC.

Financial Implication: By reducing 10.0 regular education teachers and 2.0 ESP FTEs, the District can save approximately $490,000 in salaries and benefits. This is based on a starting certificated salary for a degreed teacher (BA/BS) of $29,777 effective September 1, 2008 and a 37 percent benefit cost, which is consistent with the District's ratio of benefits to wage costs in FY 2007-08.

Salaries

R3.3 The District should consider eliminating the additional pension benefit for administrative and non-bargaining positions, and limiting the negotiated wage increases for classified staff in future collective bargaining agreements. Doing so would make LLSD's compensation package for administrative and classified employees more comparable to the peer averages. The District should also consider negotiating adjustments to the salary schedules for custodians and bus drivers that would result in salary levels being more comparable to neighboring districts. Once LLSD takes measures to ensure the accuracy of its EMIS data (see R3.1), it should assess compensation levels relative to peer and neighboring districts.

The State Teachers Retirement System (certificated staff) and the School Employees Retirement System (administrative and classified staff) both require employees to contribute 10 percent of their gross earnings to accrue long-term pension benefits while the employer is required to contribute an additional 14 percent. **Table 3-3** compares the District's average salary by employee group to the peer average. It should be noted that based on the identified coding errors and the lack of corroborating data, the EMIS staffing data is deemed not sufficiently reliable (see **R3.1** for more information).

Table 3-3: Average Salaries

	Liberty LSD FY 2006-07	Liberty LSD FY 2007-08	Peer Average FY 2006-07
Administrative[2]	$64,961	$67,390	$66,958
Educational	$46,776	$49,136	$48,745
Professional [1]	$46,115	$45,015	$42,980
Technical [1]	$33,320	$34,268	$16,041
Office/Clerical	$23,888	$21,067	$23,894
Crafts/Trades Workers [1]	$43,839	$45,205	$35,858
Operative	$18,380	$19,093	$16,954
Service Worker	$23,592	$23,692	$19,605
Total Average Salary	$40,302	$41,252	$40,693

Source: EMIS data

[1] Professional, technical and crafts/trades staff, when combined, comprise less than five percent of total staffing levels for LLSD and the peer average.

[2] LLSD's administrative classification includes two coordinator positions (0.23 FTEs) contracted through the Trumbull County Education Service Center. LLSD reported an average salary of $46,148 for these positions while the peer average was $53,007.

Table 3-3 shows that LLSD's average administrative and educational salaries in FY 2006-07 are lower than the peer average. However, as an additional benefit, the District pays varying percentages of the employee's share of the pension contributions (additional pension benefit) for the administrative and four other non-bargaining employees. When including this additional benefit, the average administrator salary equals approximately $70,800 for FY 2006-07, which is 5.7 percent higher than the peer average. The additional pension benefit for the administrative and non-bargaining positions is estimated to cost the District approximately $83,000 in FY 2008-09.

Table 3-3 also shows that LLSD's average salaries in FY 2006-07 for professional, technical, crafts/trades, operative, and service workers were higher than the peer averages. Employees in these groupings are the District's classified staff. To determine the cause of the higher salaries, the step schedules for custodians and bus drivers were compared to salary schedules in place at Brookfield Local School District (Brookfield LSD), Girard City School District (Girard CSD), and Hubbard Exempted Village School District (Hubbard EVSD). These school districts were selected based on their proximity to LLSD. Additionally, the custodians and bus drivers are the largest groups of classified employees paid from the General Fund and represent approximately 53 percent of the total reported FTEs in professional, technical, crafts/trades, operative and service worker classifications. **Table 3-4** shows a summary of the salary schedule comparisons for FY 2007-08.

Table 3-4: Salary Schedule Comparison

	Liberty LSD	Brookfield LSD	Girard CSD	Hubbard EVSD	Neighboring District Avg.
Custodian[1]					
Beginning Step	$15.19	$13.60	$13.66	$14.41	$13.89
Ending Step	$17.44	$14.36	$22.51	$15.83	$17.57
Number of Step Increases	7	4	12	8	8
Avg. Step Increase	$0.32	$0.19	$0.74	$0.18	$0.46
Ending Step	7	4	35	8	16
Bus Drivers					
Beginning Step	$16.44	$14.03	$13.02	$15.23	$14.09
Ending Step	$18.39	$14.97	$19.54	$16.43	$16.98
Number of Step Increases	6	5	10	4	6
Avg. Step Increase	$0.33	$0.19	$0.65	$0.30	$0.38
Ending Step	6	5	29	4	13

Source: FY 2007-08 LLSD and neighboring district step schedules
[1] LLSD has a separate schedule for custodian/boiler operators that stipulates beginning and ending salaries of $15.56 and $17.96, respectively. In addition, LLSD's salary schedule for p.m. custodians/mechanic helper and p.m. custodian/boiler operators are higher than the other two respective schedules by $0.10 for the beginning and ending steps.

Table 3-4 shows that LLSD's beginning pay rate for custodians is significantly higher than the peer average. **Table 3-4** also shows that LLSD's ending custodial pay rate and the value of an average step increase are lower than the peer averages. However, this is due to Girard CSD skewing the average. When excluding Girard CSD, the revised ending custodial pay rate would be $15.10 and the average step increase would be $0.19. LLSD's ending custodial pay and average step increase are much higher than the adjusted peer averages. Lastly, **Table 3-4** shows that LLSD's beginning and ending hourly rates for bus drivers are higher than the peer averages, and the value of an average step increase is higher than Brookfield LSD and Hubbard EVSD. LLSD's CBA expires on August 31, 2009.

Financial Implication: LLSD's FY 2008-09 October five-year forecast includes negotiated wage increases (NWIs) of 2 percent annually through FY 2012-13. If LLSD were able to limit the NWIs for classified staff to 1 percent during the next collective bargaining agreement, the annual savings would be $20,757 in FY 2009-10, $42,136 in FY 2010-11, and $64,153 in FY 2011-12. Additionally, for forecast purposes, the District would also save $65,436 in FY 2012-13, and $66,745 in FY 2013-14 due to the reduction in base wages. Furthermore, the District would save approximately $83,000 annually by eliminating the additional pension benefit for all administrative and non-bargaining employees.

Negotiated Agreements

R3.4 The District should consider negotiating to reduce the number of holidays, vacation days and personal days. The District should also consider negotiating a limit on the number of sick days paid at retirement to be more comparable to the ORC minimum requirements.

As a component of the performance audit, certain provisions within the District's CBA were compared to State minimum requirements and relevant standards. The following provisions were identified as comparable to these requirements and/or standards: length of workweek, minimum staffing, employee evaluations, board pension contributions, negotiated wage increases, and retirement incentives. A summary analysis of the areas that exceeded these standards includes the following:

- **Holidays, Vacation and Personal Leave**: According to ORC § 3319.087, 11 and 12 month employees are entitled to a minimum of 7 holidays, and 9 and 10 month employees are entitled to 6 holidays. LLSD's classified employees who work 11 or more months receive 12 holidays, while other classified positions receive 9 holidays. Likewise, the District's vacation accrual rates are generous compared to ORC minimum requirements. Specifically, ORC § 3318.084 stipulates that non-teaching employees receive 10 days of vacation for 1 to 9 years of service, 15 days after 10 years of service, and 20 days after 20 years. By comparison, LLSD's employees receive 10 days after 1 year of service, 15 days after 7 years of service, 20 days after 13 years of service, 25 days after 20 years of service, and 28 days after 25 years of service. Lastly, ORC § 3319.142 indicates that each school district provide its employees with a minimum of three personal days. LLSD's CBA stipulates that each employee receive four personal days. Providing full-time employees with more holidays, vacation, and personal days can reduce productivity since there are fewer workdays devoted to District operations. In addition, providing employees with more days off increases expenditures if substitutes and/or overtime are needed.

- **Sick Days Accrued and Severance Payouts:** LLSD's CBA stipulates that each employee shall accrue 15 sick days per year and provides for an unlimited maximum accumulation. The CBA further stipulates that an employee with 10 or more years of service who retires from active service shall receive, in one lump sum payment, 25 percent of the value of unused accumulated sick leave, multiplied by the employee's per diem rate at the time of retirement. Because of these provisions, LLSD does not have a maximum liability for severance payouts. By comparison, ORC §124.39 stipulates that if an individual retires with 10 or more years of service with the State, they are entitled to be paid 25 percent of the value of their accrued, but unused sick leave, up to a maximum of 30 days.

LLSD's sick leave and severance pay provisions result in higher operating costs and future long-term liabilities. For example, if a certificated employee with a bachelor's degree retires with 200 sick days accrued after 30 years of service, the District's severance liability would be approximately $16,000 while the liability using the ORC minimums (capped at 30 days) would be approximately $9,500.

Financial Implication: Although not readily quantifiable, the savings associated with a reduction in severance payouts will vary depending on the number of retirees, rate of pay, and accumulated sick leave balances.

Benefits

R3.5 The District should work with its third-party administrator (TPA) to develop a strategy for determining and achieving an appropriate reserve balance in the Self-Insurance Fund. In doing so, the District should consider the recommendations identified in R3.6, which could reduce its claims costs and potentially limit the need for significant premium increases. The District should also conduct an annual cost-benefit analysis to demonstrate that the self-insurance program continues to be more cost-effective than area consortiums. Revising the plan benefits (see R3.6) may allow the District to receive improved premium rates through the consortiums.

LLSD is self-insured for healthcare purposes, which allows the District to independently manage the health insurance claims and set the monthly premiums based on actual and projected claims costs for the year. LLSD contracts with a TPA to assist in managing the self-insurance program, which includes performing claims review and management, and working with the District to establish the monthly premiums. For accounting purposes, the District charges the General Fund and other funds that account for employee salaries a monthly premium, which it remits to the Self-Insurance Fund as revenue (similar to a transfer). The District pays all health care claims, TPA administrative fees, and stop-loss insurance costs from the Self-Insurance Fund using the premium receipts. **Table 3-5** shows a summary of revenues, expenditures, and ending fund balances in the Self-Insurance Fund since FY 2004-05.

Table 3-5: Self-Insurance Fund Summary

	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
Total Revenue from Internal Premiums[1]	$2,318,274	$2,126,018	$2,754,404	$2,077,483
Total Costs for Claims and Other Health	$2,053,117	$2,332,880	$2,485,394	$2,397,819
Net Result	$265,157	($206,862)	$269,009	($320,336)
Beginning Balance	$26,306	$291,463	$84,601	$353,611
Ending Balance	**$291,463**	**$84,601**	**$353,611**	**$33,275**

Source: LLSD Treasures Office
[1] The revenues for the Self-Insurance Fund represent internal premium charges/transfers from the General Fund and other funds that pay employee salaries.

Table 3-5 shows that despite relatively consistent claims costs since FY 2005-06, the District's ending fund balances have experienced significant fluctuations during the last four years. Additionally, the District's ending fund balance in FY 2007-08 represents less than 2 percent of the total claims costs, which is significantly lower than the four-year historical average of approximately 8 percent. The large fluctuations in ending fund balance are a result of the District adjusting the annual premiums/revenues based on historical claims costs and the carryover fund balances. The Treasurer indicated that although LLSD does not have a large reserve balance in the Self-Insurance Fund, the District has never operated with a deficit or had to make mid-year premium adjustments to cover unexpected costs.

Auditor of State Technical Bulletin 2001-005 (AOSTB) addresses requirements for self-insured government entities and indicates the premium amount charged to other funds to pay health care claims is a matter of management judgment, with the minimum requirement being that management have sufficient cash on hand to pay approved claims. However, only meeting the minimum obligation is risky since catastrophic illnesses and other significant self-insured liabilities could cause a material increase in required payments. A more fiscally conservative approach is to fund an additional amount above the amount needed for approved claims, to build a cushion (reserve balance) for large, unforeseen claims. Although the AOSTB does not recommend a specific reserve balance, a medical consultant that worked with the City of Lorain during a performance audit conducted in 2004 indicated that maintaining a reserve balance of three months worth of medical claims is reasonable to cover unexpected costs. Additionally, the City of Barberton establishes the annual premiums based on an actuarial analysis that considers projected claims costs and appropriate reserve balances to cover potential liabilities. The City of Barberton ended 2008 with an ending fund balance in the Self-Insurance Fund of approximately $1.5 million, which equaled 5 months worth of claims.

Lastly, the State Employment Relations Board 2007 Survey (SERB) indicates that only approximately 10 percent of the school districts reported using self-funding to provide health insurance benefits. Rather, the majority of school districts (64 percent) reported using consortiums as a method to save money on health insurance by increasing the potential risk pool. The Treasurer indicated that the District has reviewed the use of consortiums in the past, but found that self-insurance was more cost-effective based on its plan designs. However, **R3.6** shows that the District's premiums and insurance costs under the self-insurance plan are significantly higher than the peer averages and other benchmarks. **R3.6** also shows that the District's benefit plan provisions are generous compared to benchmarks.

Financial Implication: Based on the guidelines of three and five months, and LLSD's FY 2007-08 activity levels, the District would need to adjust the premiums and/or plan designs to achieve an ending fund balance within the Self-Insurance Fund of approximately $599,000 to $999,000 (mid-point would be $799,000). However, the District's ability to achieve these reserve levels will depend on its financial condition (see **financial systems** section).

R3.6 The District should negotiate to require all employees receiving health benefits to contribute at least 13 percent of the monthly premiums. This would make the District's contribution levels comparable to SERB averages, but still significantly lower than the Kaiser Survey averages. In addition, the District should consider modifying its annual deductibles, employee out-of-pocket maximums, and physician and prescription co-pays to be more in line with industry benchmarks, which should generate additional savings. Likewise, LLSD should review the coverage levels in its vision program for potential cost-saving strategies. Lastly, the District should consider negotiating to require classified staff hired prior to January 1, 2001 to be subject to the same provisions for health benefits as the other classified staff, thereby ensuring consistency in the provision of benefits.

The District offers medical, prescription, vision, dental, and life insurance coverage to all full-time employees. For healthcare purposes, all District employees who work more than six hours on a daily basis can enroll in either an HMO or PPO plan, and have the basic medical premium costs paid by the Board (after accounting for normal employee contributions). Employees working less than six hours per day may select the PPO plan, but are required to pay a pro-rated share of the premium costs, based on a six-hour day. For example, an employee working three hours per day is required to pay 50 percent of the insurance premiums. However, the District's CBA further stipulates that classified employees hired after January 1, 2001 are not eligible for any type of insurance benefits if they work less than four hours per day. Classified employees hired prior to this date receive full healthcare benefits if they work more than three hours but less than six.

In FY 2006-07, the District's General Fund insurance costs equaled $9,889 per FTE, which was significantly higher than the peer average of $7,461. Higher premium costs coupled with low employee contribution rates towards the monthly premiums contributes to the higher costs per FTE. **Table 3-6** compares LLSD's premiums and employee contributions to data reported by the Ohio Education Association's 2008 Survey (OEA) and the State Employment Relations Board 2007 State Survey (SERB). Premium costs reported by SERB and the OEA have been increased for inflation, to allow for a reliable comparison to LLSD's premiums in FY 2008-09.

Table 3-6: Monthly Healthcare Premiums

	LLSD	OEA Estimates	SERB Estimates
Average Annual Premiums[1]	Single: $609.59 Family: $1,453.94	Single: $438.43 Family: $1,108.80	Single: $448.55 Family: $1,160.94
Average Employee Contribution Towards Premiums	**HMO** Single: $10 (1.6%) Family: $20 (1.3%) **PPO** Single: $20 (3.2%) Family: $40 (2.8%)	Medians: Single: 9% Family: 10%	Single: 12.5% Family: 14.2%
Prescription Drug Coverage Average Annual Premiums	Single: $159.78 Family: $381.10	Not reported	Single: $109.49 Family: $246.45
Dental Plan Coverage Average Monthly Premiums	Single: $34.36 Family: $81.97	Single: $41.00 Family: $77.00	Single: $41.95 Family: $86.89
Vision Plan Coverage Average Monthly Premiums	Single: $10.95 Family: $26.12	Single: $9.00 Family: $19.00	Single: $13.37 Family: $19.49

Source: Liberty LSD, OEA 2008 Survey, SERB 2007 Annual Report
[1] Although the District offers an HMO and PPO plan, it charges one composite premium for self-insurance purposes that is designed to cover the cost of both plans.

Table 3-6 shows that the District's annual premiums for medical, prescription, and family coverage for vision insurance are significantly higher than the estimated OEA and SERB survey averages. **Table 3-6** also shows that LLSD requires its employees to contribute between $10 and $40 per month, with the range dependant on the plan and coverage choices of the employee. These contribution rates represent less than four percent of the District's premium costs. By comparison, the SERB survey reports that the statewide average employee contribution was 12.5 percent for single medical coverage and 14.2 percent for family coverage. Furthermore, the OEA survey reports that the median contribution rates were 9 percent for single coverage and 10 percent for family coverage. Lastly, data reported by the Kaiser Family Foundation's 2007 National Survey (Kaiser Survey) shows that the national average contribution rates were 16 percent for single coverage and 28 percent for family coverage.

The District's high health insurance premium costs can be attributed to offering several generous health benefit plan provisions. A summary analysis of the provisions that appear generous includes the following:

- **Physician Co-Pays**: LLSD has established the co-pays for physician office visits at $10 per visit for the HMO plan and $15 per visit for the PPO plan. According to the Kaiser Survey, 77 percent of respondents with an HMO plan established the employee co-pays at $15 or higher while 63 percent of respondents with a PPO plan established the employee co-pays at $20 or higher.

- **Prescription Drug Co-Pays:** LLSD requires employees to pay $5 for generic prescriptions, $10 for formulary non-generic prescriptions, and $15 for non-formulary prescriptions. By comparison, the Kaiser Survey reported that the average employee co-payments were $11 for generic, $25 for preferred (formulary) and $43 for non-preferred (non-formulary) prescriptions.

- **Average Annual Deductible:** LLSD established the annual deductibles for employees enrolled in the PPO plan at $100 for single coverage and $200 for family coverage. LLSD does not have an annual deductible for employees enrolled in the HMO plan. In contrast, the Kaiser Survey reported an average annual deductible in PPO in-network plans of $401 for single coverage and $1,040 for family coverage[3]. In addition, the 2006 SERB survey reported that for school districts, the average annual deductible was $251 for single coverage and $534 for family coverage.

- **Annual Out-of-Pocket Maximums:** LLSD established the annual out-of-pocket maximums for both plans (HMO and PPO) at $500 for single coverage and $1,000 for family coverage. According to the Kaiser Survey, 93 percent of the respondents require an out-of-pocket maximum of $1,000 or more for single coverage. Likewise, the Kaiser Survey also reported that 90 percent of respondents require an out-of-pocket maximum of $2,000 or more for family coverage.

- **Vision Insurance:** LLSD offers vision insurance to employees that allows for one eye exam per year, and varying amounts ranging from $100 to $175 for glasses or contacts, with the range dependent on the prescribed lens/frame type. Although the Kaiser, OEA and SERB surveys do not report the vision benefit levels, the 2007 SERB and the 2008 OEA reports note that nearly 29 and 44 percent of the respondents do not offer vision benefits, respectively.

Financial Implication: The District could experience an annual cost savings of at least $258,000 by requiring all employees to contribute 13 percent towards the cost of health insurance premiums. If changes to plan benefits reduced LLSD's premium costs to be comparable to at least the SERB average and the District required a 13 percent employee contribution, LLSD would realize approximately $456,000 per year in additional savings.

[3] This is the average for workers with an annual deductible. The Kaiser survey also reported an average annual deductible of $759 for family coverage in HMOs, but lacked sufficient data for single coverage. Approximately 29 and 82 percent of participants in PPO and HMO plans do not face an annual deductible, respectively.

However, in order to provide a conservative estimate and account other potential factors that could affect premium costs, the District could save at least $48,000 by establishing the annual deductibles close to the SERB averages ($250 single, $530 family).[4]

R3.7 The District should consider negotiating to reduce life insurance coverage levels to a maximum of $50,000. Doing so would make the District's rates more comparable with other area school districts, but still higher than the SERB average.

In accordance with the CBA, the District provides $75,000 in life insurance benefits to all employees. According to the Treasurer, this benefit costs the District $0.13 per $1,000 in coverage, or $9.75 per person per month.

By comparison, the Waterloo Local School District (Portage County) provides its certificated employees with $50,000 of life insurance coverage while the classified employees receive $35,000 of coverage. Similar to LLSD, Waterloo pays $0.13 for $1,000 in coverage, but due to differences in coverage levels, only pays $6.50 per certificated employee and $4.55 per classified employee on a monthly basis. Likewise, the Brookfield Local School District (Trumbull County) provides $50,000 of life insurance coverage to all full-time certificated and classified employees at a cost of $6.00 per person, per month ($0.12 per $1,000 in coverage).[5] Lastly, the 2004 SERB survey (life insurance not reported in subsequent surveys) reported that the mean life insurance benefit for all government types was approximately $33,000. Collectively, these comparisons show that although LLSD's cost per $1,000 in life insurance coverage is comparable to area school districts, the District provides higher levels of coverage.

Financial Implication: If the District reduced the life insurance coverage levels to $50,000, the estimated savings would be approximately $7,500 annually. The cost savings are based on 192 total FTEs to provide a more conservative estimate, and assume that the District will continue to pay $0.13 per $1,000 in coverage.

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[4] The potential savings of $258,000 and $48,000 are based on the PPO plan to provide a conservative estimate.

[5] The insurance coverage for Waterloo LSD is based on the certificated CBA covering 2006 through 2008 and the classified CBA covering 2005 through 2007. The insurance coverage for Brookfield LSD is based on the certificated CBA covering 2005 through 2006 and the classified CBA covering 2003 through 2007.

Technology

R3.8 LLSD should purchase and implement an automated substitute calling system. This would provide the District with an efficient and cost effective method for contacting substitute employees. In addition, an automated system could be used to help monitor sick leave usage.

LLSD does not have an automated system to handle substitute placement. Rather, the District has a supplemental contract that pays an elementary secretary for 1.5 hours per day at the overtime rate to locate substitute teachers. When considering the salary and related pension costs, the substitute placement function costs the District approximately $7,600 annually. According to the article *Sub-Searching Made Easier* (Education World 2005), school districts across the nation have begun to use automated substitute calling systems that are either web or phone based. These systems automatically contact substitute(s) from a pre-established list of available certificated substitutes. Some systems allow district staff to record their own call-offs or report their own leave requests. Additionally, supervisors are able to print reports on employee leave use as needed.

Based on information from the aforementioned article and certain vendors, the following are benefits of an automated phone-based substitute calling system:

- Eliminates the labor-intensive task of calling substitutes manually;
- Provides greater control over employee absences and substitute placement;
- Links teachers to preferred substitutes or substitute groups;
- Allows teachers who do not need substitutes to choose their own calling times;
- Allows prioritization of each school's substitute lists;
- Tracks employee absenteeism and leave usage; and
- Process leave requests in a more efficient and cost effective manner by eliminating paperwork, reducing data entry and allowing for better record keeping of employee time for payroll purposes.

Financial Implication: Based on a particular system, the initial costs of an automated substitute calling system would be approximately $900 for software, training, and installation fees, along with an annual maintenance and support fee of $480. However, the savings associated with eliminating the supplemental contract is $7,600 annually, for a net savings of $6,200 in the first year and $7,100 annually thereafter.

Financial Implications Summary

The following table presents a summary of annual cost savings and implementation costs identified in this section of the report. The financial implications are divided into two groups: those that are, and those that are not, subject to negotiation.

Table 3-7: Recommendations Not Subject to Negotiation

Recommendation	Annual Cost Savings	Implementation Cost (One Time)	Annual Cost
R3.2 Reduce regular education and ESP staffing by 12 FTEs	$490,000		
R3.3 Eliminate pension benefits for administrators and non-bargaining staff.	$83,000		
R3.5 Maintain a reserve in the Self-Insurance Fund		$799,000	
R3.8 Implement automated sub-calling and eliminate the supplemental contract for this function.	$7,600	$900	$480
Total	**$580,600**	**$799,900**	**$480**

Source: AOS Recommendations

Table 3-8: Recommendations Subject to Negotiation

Recommendation	Annual Cost Savings
R3.3 Reduce the negotiated wage increase for classified staff from 2 to 1 percent.	$51,800 [1]
R3.6 Increase the employee premium contribution to at least 13 percent for all employees and adjust plan benefits.	$306,000
R3.7 Reduce the life insurance benefits to $50,000 per employee.	$7,500
Total	**$365,300**

Source: AOS Recommendations
[1] This is the average annual savings from FY 2009-10 to FY 2013-14.

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FACILITIES

Facilities

Background

This section of the performance audit focuses on Liberty Local School District's (LLSD or the District) facilities operations. Throughout this section, LLSD's operations are evaluated against selected peer school districts,[1] and recommended practices and operational standards from applicable sources, including the American School and University Magazine (AS&U), the National Center for Education Statistics (NCES), the United States Department of Energy (DOE), the Ohio's Energy Smart Schools Program (OESSP), DeJong and Associates, Inc. (DeJong), and the Government Finance Officers Association (GFOA).

Organizational Structure and Staffing

LLSD is comprised of three school buildings: an elementary school (kindergarten through 4th grade), a middle school (5th grade through 8th grade), and a high school (9th grade through 12th grade). The District also operates and maintains other facilities, including a bus garage, a warehouse, and a field house. The District's student enrollment has steadily declined each year since FY 2004-05 (approximately 1,800 students) and now equals approximately 1,650 students.

LLSD's has 16 employees that are responsible for completing the maintenance and operations functions (M&O) for the District's buildings and grounds. These functions include cleaning all areas of each school building, completing a variety of building maintenance tasks, and maintaining the exterior environment around the buildings and grounds (i.e. mowing grass, controlling weeds, and removing snow and ice during the winter). LLSD's M&O function is overseen by the Supervisor of Transportation, Maintenance and Grounds (Supervisor TMG). **Table 4-1** shows LLSD's staffing levels for the M&O function by position and based on functional responsibility.

[1] See the **executive summary** for a list of the peer districts and an explanation of the selection methodology.

Table 4-1: LLSD M&O Staffing Breakdown

Position	Number of Positions	FTE Administrator	FTE Maintenance	FTE Custodian	FTE Groundskeeper
Supervisor TMG [1]	**1.0**	0.4	0.2	0.0	0.0
Maintenance	**1.0**	0.0	1.0	0.0	0.0
A.M. Custodian [2]	**3.0**	0.0	1.0	2.0	0.0
P.M. Custodian	**9.0**	0.0	0.0	9.0	0.0
Groundskeeper [2]	**2.0**	0.0	0.0	0.2	1.8
Total	**16.0**	**0.4**	**2.2**	**11.2**	**1.8**

Source: LLSD staffing

[1] The Supervisor TMG estimates that 60 percent of his time is allocated to M&O with the remaining 40 percent allocated to the Transportation Department. In addition, the Supervisor TMG spends approximately one day per week performing building maintenance activities.

[2] The Supervisor TMG estimates that each A.M. custodian spends 33 percent of their time on maintenance activities and each groundskeeper spends 10 percent of their time on custodial related activities.

Table 4-1 shows that when the employees are allocated based on functional responsibility, the M&O function is comprised of 0.4 administrative FTEs, 2.2 maintenance FTEs, 11.2 custodial FTEs, and 1.8 groundskeeper FTEs.

Key Statistics and Indicators

Table 4-2 compares key statistics for LLSD's M&O function to benchmarks from the *Planning Guide for Maintaining School Facilities* (NCES, 2003) and averages reported by the *Maintenance and Operations Cost Study* (AS&U) from 2004 through 2008.[2]

[2] The *Maintenance and Operations Cost Study* is an annual publication and the AS&U averages in **Table 4-2** represent the average of the last five years.

Table 4-2: M&O Statistics[3]

Elementary School	60,610
Middle School (includes Board Offices)	95,299
High School	112,622
Other Buildings[1]	44,975
Total Square Footage Cleaned	**268,531**
Total Square Footage Maintained	**313,506**
District-Wide Square Feet per Custodial FTE (11.2 FTEs)	23,976
NCES "Level Three" Standard, Square Feet per FTE[2]	29,500
Difference per FTE	**(5,524)**
FTE Difference	**2.1**
District-Wide Square Feet per Maintenance FTE (2.2 FTEs)	142,503
AS&U Average Square Feet per FTE	95,000
Difference per FTE	**47,503**
FTE Difference	**(1.1)**
District-Wide Acreage	43
District-Wide Acres per Groundskeeper FTE (1.8 FTEs)	24
AS&U Average Acres per FTE	43
Difference per FTE	**(19)**
FTE Difference	**0.8**

Source: LLSD staffing, OSFC square footage, NCES, and AS&U
Note: Totals may vary due to rounding.
[1] Other buildings include the Bus Garage, Warehouse, and Varsity Field House. .
[2] According to the NCES *Planning Guide for Maintaining School Facilities*, 28,000 to 31,000 square feet per custodian FTE is the benchmark range for most school facilities. Therefore, an average square footage of 29,500 per custodian FTE is applied in the analysis.

As shown in **Table 4-2**, the District's maintenance staff is responsible for more square feet per FTE (142,503) than the AS&U average (95,000). Conversely, the custodians and groundskeepers maintain fewer square feet (23,976) and acres (24) per FTE than the respective benchmarks. See **R4.1** for an additional discussion of the District's M&O staffing levels.

[3] **Table 4-2** reports that the total square footage cleaned on daily basis is 268,531, which excludes the Bus Garage, Warehouse, and Varsity Field House. These were excluded based on an internal study prepared by the District in 2008, which showed that all custodians were assigned to school buildings on a full-time basis and were not responsible for the other buildings. During the course of this audit, the District indicated that the Varsity Field House (8,500 square feet) is now being cleaned by custodians on a regular basis. If the custodial staffing ratios in **Table 4-2** were adjusted to include the Varsity Field House, the revised square footage per custodian would be 24,735. LLSD staffing would exceed the NCES staffing benchmark (29,500 square feet per custodian) by approximately 1.8 FTEs, which is still materially consistent with the conclusions reported in **R4.1**.

Financial Data

Table 4-3 compares LLSD's M&O expenditures per square foot to the peer average and the AS&U national median.

Table 4-3: M&O Expenditure Comparison

	LLSD FY 2006-07	LLSD FY 2007-08	Peer Average FY 2006-07	AS&U Median FY 2007-08
Personal Services	$2.60	$2.76	$2.42	$2.05
Purchased Services	$0.70	$0.71	$0.53	$0.21
Utilities	$1.50	$1.59	$1.18	$1.52
Supplies & Materials	$0.53	$0.47	$0.36	$0.38
Capital Outlay	$0.06	$0.00	$0.11	N/A
Miscellaneous / Other	$0.00	$0.00	$0.03	$0.40
General Fund Total	**$5.39**	**$5.54**	**$4.63**	**$4.56**
All Funds Utilities	$1.50	$1.59	$1.30	$1.52
All Funds Total	**$6.94**	**$5.84**	**$5.14**	**$4.56**

Source: LLSD, OSFC, peer districts, ODE, and the AS&U *37th Annual Cost Study* (2008).
Note: Totals may vary due to rounding.

Table 4-3 shows that LLSD's total General Fund M&O expenditures were approximately 16 percent higher than the peer average in FY 2006-07. Likewise, the District's total General Fund M&O expenditures are approximately 21 percent higher than the AS&U national median in FY 2007-08. In addition, **Table 4-3** shows that LLSD's expenditures per square foot were higher than both the AS&U and the peer average for each line-item in the applicable year, with the exception of capital outlay and miscellaneous/other.

LLSD's higher personal service costs are attributed to maintaining higher staffing and salary levels for custodial/grounds employees[4] (see **R4.1** and the **human resources** section). LLSD's higher purchased service costs are attributed to outsourcing certain functions, such as heating ventilation, air conditioning, and roof maintenance (see **R4.1**). LLSD's higher utilities can be partially attributed to the lack of a comprehensive energy management program (see **R4.5**), while the higher supplies and materials can be partially attributed to the lack of defined purchasing policies (see the **financial systems** section). Along with the abovementioned factors, the higher all funds expenditures can be attributed to using a permanent improvement levy to help meet certain building and equipment needs (see **R4.4**).

[4] For collective bargaining purposes, the District's groundskeepers and custodians are all classified as custodians and are paid based on the same salary schedule.

Audit Objectives for the Facilities Section

The following is a list of the questions used to evaluate the facility functions at LLSD:

- Are the District's custodial, maintenance and groundskeeper staffing levels comparable to industry standards, and does LLSD limit the use of overtime?
- Are the District's energy management practices comparable to leading practices?
- Are LLSD's facility management and planning practices comparable to leading practices, and what are the District's building utilization rates?
- Does the District have a system for prioritizing maintenance needs?

Assessments conducted on the District's overtime costs, energy procurement, and building utilization were found to be comparable to the peers and/or other benchmarks.

Recommendations

Staffing

R4.1 LLSD should consider reducing staffing levels by 3.0 custodial/groundskeeper FTEs. In addition, the District should conduct a detailed cost-benefit analysis of its internal and external maintenance services. Taking these measures would allow LLSD to achieve custodial and groundskeeper staffing levels that are comparable to benchmarks, and help determine the optimal use of maintenance staff and contracted maintenance services. The District should also ensure that it has accurately accounted for the allocation of duties by function when making decisions regarding its staffing levels[5]. Further, given the errors identified in its EMIS information, the District should verify the accuracy of the reported staffing levels prior to implementing this recommendation (see R3.1 in the human resources section).

For education management information system (EMIS) reporting purposes, **Table 3-1** in the **human resources** section shows that the District employs a total of 11.1 custodial and maintenance FTEs per 1,000 students, while the peer average is only 7.4. The District would need to reduce approximately 5.0 FTEs to achieve the peer average.

Table 4-2 shows that while the maintenance staff is responsible for more square feet than the AS&U average, the custodians and groundskeepers maintain fewer square feet and acres than the respective benchmarks. LLSD would need to increase staffing by 1.1 maintenance FTEs, and reduce staffing by 2.1 custodial FTEs and 0.8 groundskeeper FTE to achieve the respective benchmarks in **Table 4-2**. However, **Table 4-3** also shows that LLSD's purchased service expenditures per square foot ($0.70 and $0.71) are higher than the peer average ($0.53) and the AS&U national median ($0.21), which indicates that the District may be using contracted services to help offset the lower maintenance staffing levels. For instance, the District reported approximately $40,200 in contracted repair and maintenance services, and $75,800 in other contracted property services in FY 2007-08. For collective bargaining purposes, the District's groundskeepers and custodians are all classified as custodians and are paid based on the same salary schedule.

Financial Implication: If LLSD were to eliminate 3.0 FTE custodians/groundskeepers, the District could save approximately $155,000 in salaries and benefits in FY 2009-10, based on the lower-salaried staff.

[5] The Supervisor TMG estimates that each A.M. custodian spends 33 percent of their time on maintenance activities and each groundskeeper spends 10 percent of their time on custodial related activities.

R4.2 LLSD should evaluate the efficiency and effectiveness of the custodial and maintenance programs by regularly tracking and reporting key performance measures, such as cost per square foot and cost per student for major areas (staffing, benefits, purchased services, utilities, supplies, etc.), the number of square feet cleaned and maintained per FTE, and acres maintained per FTE. Additionally, the District should conduct periodic surveys of stakeholders to help identify the strengths and weaknesses of the M&O function. Coupled with a review of industry standards, these steps will help the District establish benchmarks to measure future staff and organizational performance. Furthermore, periodically comparing the established benchmarks to actual performance, industry standards, and historical trends would provide the District with objective data to use in making future decisions about the M&O program.

In determining the custodial staffing levels, the Supervisor TMG reviews a variety of ratios and workload measures, but does not include the District's three day shift custodians when analyzing the efficiency of custodial staffing levels (one at each building, all full-time employees). This is due to the perception that these employees are not able to clean building while school is in session. Furthermore, LLSD does not use performance measures to evaluate the efficiency of the maintenance or groundskeeping staff nor does the District formally review other performance measures to gauge overall effectiveness, such as cost per square foot and periodic customer surveys.

The *Planning Guide for Maintaining School Facilities* (NCES, 2003) states that to effectively evaluate a facilities management program, a district must collect and maintain accurate, timely, and comprehensive information about its facilities. NCES goes on to cite maintenance and operations cost per square foot, cost per student, visual inspection, customer surveys, changes in maintenance costs, number of work orders completed, and floor space or rooms maintained per employee as examples of performance measures. The lack of performance measures and benchmarks increases the risk of the District making uninformed and/or unsubstantiated decisions.

Planning

R4.3 LLSD should work with the Ohio School Facilities Commission (if needed based on the District's request) and key stakeholders to develop a facilities master plan that reflects current building configurations and needs, student demographics, and the future direction of the District as stipulated in the strategic plan (see financial systems section). The District should also develop and adopt a 5 to 10-year forecast methodology for projecting student enrollment, and begin using this methodology to prepare enrollment projections. The District should subsequently use the enrollment projections to review building capacity utilization and staffing levels (see human resources), and incorporate them in the facilities master plan. Once developed,

LLSD should ensure that the master plan and the enrollment projections are periodically updated to reflect changes to the District's buildings, student enrollment, and future goals and objectives.

The District does not have a comprehensive facilities master plan. In FY 2001-02, the Ohio Schools Facilities Commission (OSFC) completed an assessment of LLSD's buildings to determine eligibility for the school construction program. The assessment included some items that would typically be included in a facilities master plan, including enrollment projections, a building inventory and appraisal, building capacity estimates, square footage figures, suggested renovations, and the associated costs. However, the District did not move forward with the project due to funding limitations and the building information has not been updated since 2002. Additionally, the enrollment projections used in the OSFC assessment have not been corrected or updated to reflect current conditions. For example, the OSFC projected that the District's enrollment would increase between 20 to 50 students annually, and would equal 1,986 in FY 2007-08 and 2,090 in FY 2011-12. By comparison, the District's actual enrollment (head count) has declined in recent years and equaled 1,601 students in FY 2007-08. LLSD recently submitted paperwork to OSFC requesting that a second facilities assessment be completed to determine if the District's funding status has changed.

According to *Creating a Successful Facility Master Plan* (DeJong, 2001), districts should develop a long-range facility master plan. The plan should contain information on capital improvements and financing, preventive maintenance and work orders, building conditions, enrollment projections, and building capacities. The facility master plan should be developed on a foundation of sound data and community input. As a roadmap, the master plan should specify the projects that have been identified, the timing and sequence of the projects, and their estimated costs. A master plan is typically developed for a ten-year period and should be regularly updated to incorporate improvements that have been made, changes in demographics or other educational directions. A master plan, if developed appropriately, has the potential to have a significant impact on the quality of education in a school district. Additionally, in developing enrollment projections, DeJong and Associates suggests reviewing a wide range of factors, including live birth data, historical enrollment, and housing and demographic information.

Lastly, based on an analysis of LLSD's building capacities, the District does not have enough capacity to house its current student population in two buildings and therefore, needs to currently maintain three buildings. However, regularly monitoring building utilization rates in conjunction with enrollment trends and projections, and a master plan would help ensure that the District operates the appropriate number of buildings in the future.

R4.4 LLSD should establish a preventive maintenance (PM) program that addresses all routine, cyclical, and planned building maintenance functions. The District should also develop a five-year capital improvement plan that is updated on an annual basis to ensure the completion of critical repair work and timely equipment replacement. The capital plan should include a project categorization and prioritization system that provides District management with a breakdown between maintenance tasks and capital projects, ensures work is completed in timely manner, and minimizes both safety hazards and facility deterioration. The preventive maintenance program and capital plan should link to the District's facilities master plan (see R4.3). Once developed, the District should post the facilities master plan and the capital plan on its website and regularly update the documents. This would enable stakeholders to understand how the permanent improvement levy (PI levy) monies are being used and that the expenditures are being made as part of a long-term planning process.

LLSD has a policy on maintenance which states that the Board recognizes that the fixed assets of the District represent a significant investment to the community, and maintenance is a prime concern to the Board. Further, the Board directs the conduct of a continuous program of inspection, maintenance, and rehabilitation for the preservation of all school buildings and equipment. Finally, wherever possible and feasible, maintenance shall be preventive. Despite this policy, LLSD does not have a formal PM program. According to the Supervisor TMG, most maintenance activities are performed on a reactionary basis due to a lack of funds. The *Planning Guide for Maintaining School Facilities* (NCES, 2003) indicates that a good maintenance program is built on a foundation of PM. Once the items that should receive PM are identified, entities should determine the frequency and type of inspections. When developing a PM schedule, manufacturers' manuals are a good place to start. Ideally, the scheduling of PM tasks should be computerized (see **R4.6**). NCES also indicates that regularly scheduled maintenance prevents sudden and unexpected equipment failure, and reduces the overall building life-cycle cost.

LLSD has a five-year PI levy that generates approximately $153,000 annually and was renewed in November, 2008. However, the District does not have a capital improvement plan (CIP) in place to efficiently allocate the PI levy monies and to plan for long-term maintenance and capital needs. Rather, the District has a Permanent Improvement Committee (PI Committee) that consists of two Board members, the Superintendent, the Treasurer, and the Supervisor TMG that is responsible for determining how to use the PI levy. In prior years, the PI Committee developed an annual spending plan for the PI levy, but no such plan was developed in FY 2008-09 due to a perception that the District had insufficient funds for new projects. Additionally, LLSD publishes a document on its website that shows projects funded with the PI levy. However, this document has not been updated since FY 2004-05, which makes it difficult to determine if recent projects were part of a long-term planning process or in response to emergency situations arising throughout the year.

The Government Finance Officers Association (GFOA), in its recommended practice on *Multi-Year Capital Planning* (2006), states that all governments should develop and adopt a multi-year (at least three but preferably five years or more) capital plan to ensure effective management of capital assets. A prudent capital plan will identify and prioritize expected capital needs based on a government's long-term plans, establish project scope and cost, detail estimated funding by source, and project future operating and maintenance costs.

The implementation of a PM program and the development of a five-year capital improvement plan will help the District anticipate needed facility and equipment repairs and replacements. By planning ahead, project financing sources can be identified and secured before they are needed, helping to eliminate the significant affect of unforeseen capital costs on the District's finances. In addition, having a comprehensive capital improvement plan will assist the District in demonstrating its facility needs to the public when the PI levy is up for renewal.

Energy Management

R4.5 LLSD should develop a formal energy management and conservation program by creating formal policies and procedures. In doing so, the District should review information from industry sources. Subsequently, the District should distribute and discuss the policies and procedures with the administration, faculty, staff, and students to educate and train them about energy conservation and ensure implementation of appropriate energy management practices. The District should also review and consider obtaining available services from external organizations to help address energy conservation. In addition, LLSD should assign an employee to monitor District-wide and building-level utility consumption. Centrally tracking energy would provide trend comparisons that could be used to identify potential issues of waste and/or inefficient equipment, and determine which energy conservation programs/practices are having the biggest impact.

Table 4-4 compares LLSD's utility expenditures per square foot to the peer average and the AS&U national median.

Table 4-4: Utility Cost per Square Foot Comparison

	LLSD FY 2006-07	LLSD FY 2007-08	Peer Average FY 2006-07	AS&U Median FY 2007-08
General Fund Utilities	$1.50	$1.59	$1.18	$1.52
All Funds Utilities	$1.50	$1.59	$1.30	$1.52

Source: LLSD, OSFC, peer districts, ODE, and the AS&U *37th Annual Cost Study* (2008).
Note: Totals may vary due to rounding.

Table 4-4 shows that LLSD's utility costs per square foot in FY 2006-07 and FY 2007-08 are higher than the respective peer average and AS&U national median. LLSD's higher costs can be partially attributed to lacking a comprehensive energy management program. For example, LLSD does not regularly monitor, benchmark, or report energy usage by building, does not have a formal energy conservation policy and related formal procedures, and does not participate in energy management programs offered by external organizations outside of purchasing consortiums.

Despite the lack of a comprehensive energy management program, the District has recently taken steps to improve energy usage. Specifically, at the start of the 2008-09 school year, LLSD's administrators met for the first time to discuss the importance of energy conservation. As a result of this discussion, most small appliances were removed from classrooms and building staff were instructed to turn off lights and computers when not in use. Additionally, LLSD made it a priority to fully use the technological capabilities of the automated HVAC and lighting systems at the high school, which allows the District to heat, cool, or light specific parts of the building depending on need. While the District has taken action to address staff behaviors, it did not address the role students can play in energy conservation efforts.

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

- Establishing an energy policy with specific goals and objectives;
- Assigning someone to be responsible for the District's energy management program and give this energy manager access to top-level administrators;
- Monitoring each building's energy use;
- Conducting building-by-building energy audits to identify inefficiencies;
- Instituting performance contracting when replacing older, energy-inefficient equipment;
- Rewarding buildings that decrease energy consumption;

- Installing energy-efficient equipment; and
- Install motion detectors that turn the lights on when the room is occupied, and off when the room is unoccupied.

School Operations and Maintenance: Best Practices for Controlling Energy Costs (U.S. Department of Energy, 2004) indicates that there are different types of energy conservation programs. Energy Tracking and Accounting programs are comprehensive and require the collection, recording, and tracking of monthly energy costs in all school district facilities. The data allows staff to compare energy performance in all buildings and identify problems at individual facilities. On the other hand, voluntary energy awareness programs operate on the premise that increasing the general energy awareness of faculty, staff, and students will result in voluntary changes in behavior and reductions in energy consumption. An example of this approach is affixing "Turn the Lights Off" stickers to lighting switch plates. Finally, quick fix and low cost programs rely on the identification and repair of simple building problems that are moderate in cost and likely have a short energy savings payback. Such programs may include replacing weather stripping on doors and windows, instituting night and weekend temperatures setbacks, and establishing district-wide shut down procedures.

The Ohio's Energy Smart Schools Program (OESSP) provides materials and programs for teachers and/or students to improve the learning environment in schools while saving energy and money, using the school building as a learning laboratory. OESSP helps reduce school energy consumption and costs by empowering teachers and students to make sustainable energy choices, and affecting the attitudes and behaviors of teachers, students, and staff about energy conservation. Types of activities available through the OESSP include:

- Energy audits and comfort surveys of buildings to determine where the building's energy efficiency and learning environment can be improved;
- Signing an Energy Smart Schools contract to encourage students to reduce the amount of energy they use every day;
- Waste audits that demonstrate where waste occurs in the building and ways to improve the situation with cooperative action; and
- Supporting Ohio Schools Going Solar, complete with a solar array that generates electricity and serves as a powerful teaching tool.

By developing formal energy management policies and procedures for staff and students, instituting mechanisms to monitor energy usage, perhaps obtaining energy conservation services from external entities, LLSD would be in a better position to control and potentially reduce utility costs.

Financial Implication: LLSD could save approximately $22,000 annually if it reduced its utility costs per square foot to the AS&U national median of $1.52.

Facilities Management

R4.6 LLSD should consider purchasing a computerized maintenance management system (CMMS). In doing so, the District should ensure it chooses a CMMS that has the ability to track pertinent information and the vendor provides LLSD employees with appropriate training in order to fully use the system's functions. A CMMS would help in formalizing the preventive maintenance program and make future preventive maintenance costs more predictable (see R4.4). However, if LLSD chooses to retain the paper-based work order process, the work order forms should be expanded to include pertinent elements, including cost data. Implementing either option would help in estimating future costs and timeframes for projects.

The District uses a manual work order process to track facility related information. Under the current process, a work order is completed by an employee as the need arises. Assuming the building principal approves the work order and it cannot be resolved by a day shift custodian, the request is submitted to the Supervisor TMG for review. The Supervisor TMG then prioritizes the work orders and develops a daily work schedule based on a consideration of health and safety issues and the order in which the work order was received. Upon completion, the work orders are signed and returned to the Supervisor TMG where they are retained in paper format. The District's reporting capabilities under the manual work order system are limited. For example, the work order forms do not allow the District to easily track the project history or the cost of labor, supplies and materials. The Supervisor TMG indicated that the District is considering revising the current paper-based forms to begin tracking cost information. However, the Supervisor TMG also expressed concern that manually tracking this information may become overly cumbersome.

The *Planning Guide for Maintaining School Facilities* (NCES, 2003) notes that work order systems help school districts register and acknowledge work requests, assign tasks to staff, confirm that work was done, and track the cost of parts and labor. The *Planning Guide* goes on to indicate that, at a minimum, work order systems should account for:

- The date the request was received;
- The date the request was approved;
- A job tracking number;
- The job status (received, assigned, ongoing, or completed);
- The job priority (emergency, routine, or preventive);
- The job location (where, specifically, is the work to be performed);

- The entry user (the person requesting the work);
- The supervisor and craftsperson assigned to the job;
- The supply and labor costs for the job; and
- The job completion date/time.

However, the *Planning Guide* also indicates that a computerized maintenance management system (CMMS) may be a more efficient approach to managing the work order process. Such systems have become increasingly affordable and easy to use. The *Planning Guide* further indicates that in terms of utility, a good CMMS program will:

- Acknowledge the receipt of a work order;
- Allow the maintenance department to establish work priorities;
- Allow the requesting party to track work order progress through completion;
- Allow the requesting party to provide feedback on the quality and timeliness of the work;
- Allow preventive maintenance work orders to be included; and
- Allow labor and parts costs to be captured on a per-building basis (or, even better, on a per-task basis).

Financial Implication: A CMMS could cost approximately $1,000 annually, based on vendor advertised prices. To be conservative, this estimate is doubled for a total of $2,000 to account for transportation maintenance (see **R5.5** in the **transportation** section). However, the exact price will depend on the features desired by LLSD and the contract terms negotiated with the vendor.

Financial Implications Summary

The following table lists cost savings and implementation costs for recommendations contained in this section of the report.

Table 4-5: Summary of Financial Implications for Facilities

Recommendation	Estimated Annual Cost Savings	Estimated Annual Cost
R4.1 Reduce staffing by 3.0 FTE custodian/groundskeepers.	$155,000	N/A
R4.5 Develop and implement formal energy management policies and procedures, review external services, and assign someone to monitor energy use.	$22,000	N/A
R4.6 Consider the purchase of a computerized maintenance management system (CMMS).	N/A	$2,000
Total	**$177,000**	**$2,000**

Source: AOS facilities recommendations

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TRANSPORTATION

Transportation

Background

This section of the performance audit focuses on Liberty Local School District's (LLSD or the District) transportation operations. Throughout this section, LLSD's operations are evaluated against selected peer school districts,[1] and leading or recommended practices and operational standards from applicable sources, including the Ohio Revised Code (ORC), the Ohio Administrative Code (OAC), the Ohio Department of Education (ODE), the Legislative Office of Education Oversight (LOEO), the National Association of State Directors of Pupil Transportation Services (NASDPTS), and the American Public Works Association (APWA).

Ohio Revised Code (ORC) § 3327.01 requires that, at a minimum, school districts provide transportation to and from school to all students in kindergarten through grade eight who live more than two miles from their assigned school. Districts are also required to provide transportation to community school and non-public school students on the same basis as students attending district schools. In addition, school districts must provide transportation to disabled students who are unable to walk to school regardless of the distance. LLSD provides transportation services in excess of these requirements (see **R5.1**).

Operational Statistics

The Supervisor of Transportation, Maintenance and Grounds (Supervisor TMG) oversees the District's transportation function. LLSD provided Type-I pupil transportation services to 1,485 regular needs riders in FY 2007-08. Type-I services pertain to those provided on District-owned yellow buses.

Table 5-1 compares LLSD's transportation operational data to the peer average.

[1] See the **executive summary** for a list of the peer districts and an explanation of the selection methodology.

Table 5-1: Key Statistics and Operating Ratios

Key Statistics	LLSD FY 2006-07	LLSD FY 2007-08	Peer Average FY 2006-07	% Difference FY 2006-07
Square Miles	18.6	18.6	20.5	(9.3%)
ODE Enrollment	1,769	1,601	1,998	(11.5%)
Total Students Transported - All Types	1,256	1,527	1,327	(5.3%)
Yellow Bus Riders (Type-I)				
Public	1,226	1,255	1,202	2.0%
Non-Public	0	230	75	(100.0%)
Community School	0	0	1	(100.0%)
Special Needs[1]	0	0	19	(100.0%)
Total Yellow Bus Riders	1,226	1,485	1,297	(5.5%)
Buses (Type-I)				
Active Buses	13	13	16	(16.7%)
Spare Buses	7	7	4	62.8%
Miles (Type-I)				
Annual Routine Miles	218,520	210,960	155,988	40.1%
Annual Non-Routine Miles	17,301	16,854	26,307	(34.2%)
Total Miles	235,821	227,814	182,295	29.4%
Operating Ratios				
Enrollment per Square Mile	95.1	86.1	153.8	(38.2%)
Riders Per Square Mile	65.9	79.8	80.3	(17.9%)
Yellow Bus Riders per Active Bus	**94.3**	**114.2**	**88.2**	**6.9%**
Routine Miles per Active Bus	16,809	16,228	10,384	61.9%
Spare Bus Ratio	35.0%	35.0%	26.3%	8.7%
Percent State Reimbursement	44.0%	47.9%	65.0%	(20.9%)
Total Transportation Expenditures as Percent of General Fund	**6.8%**	**5.9%**	**3.8%**	**3.0%**

Source: LLSD and peer district T-forms
Note: Totals may vary due to rounding.
[1] The District contracts with the Trumbull County Educational Service Center to provide special needs transportation services. See the **financial systems** section for an analysis of this contract.

Table 5-1 shows that LLSD's riders per active bus exceeded the peer average (88.2) in both FY 2006-07 (94.3) and FY 2007-08 (114.2)[2]. The large increase in ridership in FY 2007-08 is due to the District mistakenly reporting no non-public riders in the prior year (see **R5.3**). **Table 5-1** also shows that the District's spare buses comprise approximately 35 percent of its fleet, which is much higher than the peer average of 26 percent (see **R5.7**). Finally, **Table 5-1** shows that the District's percent of transportation cost reimbursed by the State (44 percent in FY 2006-07) is considerably lower than the peer average (65 percent), which is partially attributed to certain transportation policies and practices in place at LLSD (see **R5.1**).

Table 5-2 compares LLSD's transportation cost data to the peer average.

[2] Data for FY 2008-09 became available during the course of this performance audit, which showed that the District transported an average of 105.8 riders per active bus.

Table 5-2: Transportation Cost Ratio Comparison

	LLSD FY 2006-07	LLSD FY 2007-08	Peer Average FY 2006-07	% Difference FY 2006-07
Salaries:				
Per Yellow Bus Rider	$284.24	$252.63	$241.61	17.6%
Per Active Bus	$26,806.23	$28,857.77	$18,572.57	44.3%
Per Routine Mile	$1.59	$1.78	$1.84	(13.5%)
Benefits:				
Per Yellow Bus Rider	$219.56	$184.30	$100.77	117.9%
Per Active Bus	$20,706.54	$21,052.23	$8,518.09	143.1%
Per Routine Mile	$1.23	$1.30	$0.84	46.9%
Maintenance & Repairs: [1]				
Per Yellow Bus Rider	$135.19	$79.07	$64.88	108.4%
Per Active Bus	$12,749.54	$9,032.62	$4,957.29	157.2%
Per Routine Mile	$0.76	$0.56	$0.50	50.7%
Fuel:				
Per Yellow Bus Rider	$54.57	$68.00	$55.15	(1.1%)
Per Active Bus	$5,145.92	$7,767.23	$4,426.09	16.3%
Per Routine Mile	$0.31	$0.48	$0.43	(29.3%)
Bus Insurance:				
Per Yellow Bus Rider	$14.80	$12.61	$14.31	3.5%
Per Active Bus	$1,395.77	$1,440.92	$1,048.76	33.1%
Per Routine Mile	$0.08	$0.09	$0.10	(20.7%)
All Other Costs:				
Per Yellow Bus Rider	$105.05	$33.74	$18.91	455.6%
Per Active Bus	$9,907.46	$3,854.38	$1,202.10	724.2%
Per Routine Mile	$0.59	$0.24	$0.12	379.1%
Total Expenditures:				
Per Yellow Bus Rider	$813.42	$630.35	$495.63	64.1%
Per Active Bus	$76,711.46	$72,005.15	$38,724.90	98.1%
Per Routine Mile	$4.56	$4.44	$3.85	18.6%

Source: LLSD and peer district T-forms
Note: Percentages may vary due to rounding.
[1] Maintenance and repairs includes mechanic salaries for LLSD and the peers.

As shown in **Table 5-2**, LLSD's total transportation expenditures in FY 2006-07 and FY 2007-08 are significantly higher than the peer average on a per yellow bus rider, active bus, and routine mile basis. The following provides an explanation of the higher expenditures.

- **Salaries and Benefits** - With the exception of salaries per routine mile, **Table 5-2** shows that LLSD's salary and benefit cost ratios are much higher than the respective peer averages. This is primarily attributed to the District maintaining generous compensation and employee benefit plans (see the **human resources** section).

- **Maintenance and Repairs** - LLSD's higher maintenance and repair costs can be attributed to maintaining a high level of spare buses (see **R5.7**), as well as lacking formal preventive maintenance and bus replacement plans (see **R5.5** and **R5.6**), and defined purchasing policies (see the **financial systems** section).

- **Fuel** - **Table 5-2** shows that although LLSD's FY 2006-07 fuel costs were higher than the peer average on a per active bus basis, the cost per rider and per routine mile were lower in FY 2006-07. Furthermore, LLSD's average cost per gallon of diesel fuel was lower than prices offered through the Ohio Department of Administrative Services, based on a sample review of certain dates in FY 2007-08.

- **Bus Insurance** - **Table 5-2** shows that LLSD's insurance costs per active bus were much higher than the peer average. However, this is partially skewed by the District maintaining a higher percentage of spare buses (see **Table 5-1**) and one peer district not reporting bus insurance expenditures. When including all buses and excluding the one peer not reporting bus insurance expenditures, LLSD insurance cost per bus was $907 in FY 2006-07 and $937 in FY 2007-08, which is still higher than the peer average of $845 per bus in FY 2006-07. However, in light of materiality, this discrepancy was not further investigated in the performance audit. Specifically, the District would reduce costs by approximately $1,200 by achieving the peer average of $845 per bus, based on FY 2006-07 costs.

- **All Other Costs** - This category of expenditure consists of physical exams and drug tests ($1,450), certification and licensing ($1,200), training ($1,400), utilities ($113,716), and other ($11,031) in FY 2006-07. The higher costs are due to an account coding error associated with the utility costs. See **R5.3** for a discussion on T-form reporting and the **financial systems** section for a discussion on account coding issues.

Along with the above factors, including non-routine costs contributes to the higher cost ratios in **Table 5-2** (see **R5.2** and **R5.3**).

Audit Objectives for the Transportation Section

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

- Do the District's transportation policies and procedures meet leading practices and ensure efficient operations?
- Are the District's transportation-related operating and financial indicators in line with peer averages and/or industry benchmarks?
- Does the District have an adequate control system over reporting?
- Is the District efficiently maintaining and managing its fleet?

An assessment conducted on the District's cost of fuel was found to be comparable to the peers and/or other benchmarks.

Noteworthy Accomplishments

Noteworthy accomplishments acknowledge significant accomplishments or exemplary practices. As shown in **Table 5-1**, LLSD transported an average of 114.2 riders per active bus in FY 2007-08, which is 29.5 percent higher than the peer average in FY 2006-07. Each bus completes three runs per day. Having each bus complete multiple runs enables the District to use fewer total buses for its transportation operations, which helps limit operating and bus replacement costs.

Recommendations

Policies and Procedures

R5.1 LLSD should review its transportation program and determine the impact of current service levels on operating costs, including the transportation of high school students and students living less than one mile from their school, and the lack of cluster stops for the majority of the routes. Modifying these practices would help reduce the cost of the transportation program and improve efficiency. For example, the District may be able to reduce the active fleet by at least one bus through eliminating transportation services for students living within one mile of their school buildings. Likewise, expanding the use of cluster stops could help reduce ride times and fuel use by reducing the number of starts and stops. Once LLSD has completed this review and updates its practices, it should update its policies accordingly. If the District does not make changes, it should still update its policies to accurately reflect current practices.

LLSD's policies stipulate that transportation services be provided to all students (kindergarten through 12th grade) that live beyond two miles of their assigned school building. The policies also indicate that exceptions to the foregoing limits may be made in the case of a temporarily or permanently disabled child who has been so certified by a physician and in the case of adverse safety conditions. Moreover, the policies indicate that the bus routes will be designed so that an authorized bus stop is available within reasonable walking distance of the home of every transported resident student. However, despite the policies, the District's actual practice is to transport students regardless of proximity to the buildings and to design the routes so that the majority of students are transported directly to and from their homes. Cluster stops are only used in limited situations. The Superintendent indicated that LLSD's deviation from the adopted policy is due to a lack of sidewalks around the school buildings.

ORC § 3327.01 requires that, at a minimum, school districts provide transportation to and from school to all students in kindergarten through grade eight who live more than two miles from their assigned school. In addition, Ohio Administrative Code (OAC) § 3301-83-13 indicates that students may walk up to one-half mile to a bus stop. The District's actual transportation practices exceed the state minimum requirements in the following areas:

- Transporting kindergarten through eighth grade students living less than two miles from school;

- Transporting high school students; and
- Designing the majority of the bus stops less than one-half mile from a student's home.

Furthermore, in FY 2008-09, the District is transporting 222 students that live within one mile of their school. According to *Instructions for Preparing Form T-1 Report of Pupil Transportation Service* (ODE, 2007), students living within one mile of the school building are not eligible for reimbursement.

Due, in part, to its transportation service levels, the District's State funding reimbursement rates are low. Specifically, the District incurred transportation expenditures of approximately $940,000 in FY 2007-08, but only received approximately $450,000 in State funding for a reimbursement rate of 48 percent. By comparison, the peer average reimbursement rate was 65 percent in FY 2006-07. Likewise, the average reimbursement rate of Brookfield Local School District (Brookfield LSD), Girard City School District (Girard CSD), and the Hubbard Exempted Village School District (Hubbard EVSD), which are all located in Trumbull County, was 71 percent and the statewide average was 54 percent in FY 2006-07. If the District revised its practices to eliminate transportation services for students living less than one mile from their assigned building, it could eliminate up to 2 buses from the current fleet. This is based on the District transporting 222 students living within one mile of their school buildings and the average number of students transported per bus in FY 2007-08 (114). However, this does not consider the safety hazards that may exist within the District or the impact the reduction could have on student ride times. These and other factors may prevent LLSD from eliminating a total of two buses.

Financial Implication: If LLSD's review of its transportation service levels resulted in reducing one bus from the active fleet, it is conservatively estimated that the District could save approximately $22,000 annually. This is based on the salary for the least tenured bus driver and an estimate of the benefit costs using the District's historical benefit costs as a percentage of wages. However, the District may be able to realize additional cost savings related to salaries and benefits, fuel, insurance, and maintenance repairs, if the abovementioned policy revisions reduce the number of total miles driven each year and/or route times. For example, based on the District's total cost per active bus in FY 2007-08, eliminating one active bus would save approximately $72,000 annually.

R5.2 LLSD should develop a per-mile reimbursement rate that can be used to facilitate charge-backs for non-routine transportation services. In developing this rate, the District should ensure that all allowable costs are considered, including the cost of fuel, maintenance, supervision, and insurance. Finally, LLSD should consider charging back the cost of non-routine transportation services provided in support of the athletic programs. Doing so would provide the District with a more accurate measure of the true cost of offering these programs and services.

LLSD's Board policies state that "the District shall furnish, at District expense, bus transportation for school-sponsored activities, unless hereinafter excepted, when the distance is less than 50 miles. The total transportation cost of trips in excess of 50 miles shall be paid from the activity fund or other sources. The mode of transportation for distances greater than 50 miles shall be optional with the groups involved subject to the approval of the Board."

LLSD uses a trip-ticket to document all non-routine transportation services. Specifically, when a building-level activity is planned that requires transportation services (i.e., a field trip), the building principal fills out a trip-ticket request form, which is subsequently sent to the Supervisor TMG for review, approval, and scheduling. A copy of the trip-ticket is then given to the bus driver to record the time spent providing the non-routine transportation service and the total miles of the trip. For trips in excess of 50 miles, the District charges the user/activity for the cost of the bus driver's wages and benefits. However, the District does not charge for other operating costs, such as fuel, bus maintenance, and insurance. Additionally, the District does not charge the athletic funds when non-routine transportation services are provided in support of the athletic programs.

OAC § 3301-83-16 defines the non-routine use of school buses as "transportation of passengers for purposes other than regularly scheduled routes to and from school. School buses may be used for non-routine trips only when such trips will not interfere with routine transportation services." It also states that the board shall recover an amount not to exceed the actual operational costs associated with non-routine use of school buses, with the exception of field trips that are extensions of the instructional program. These costs include the driver's salary and benefits, fuel, maintenance, service, supervision, and insurance.

R5.3 LLSD should establish formal policies and procedures to ensure accurate T-forms are prepared, reviewed, and reconciled before submission to ODE. As a part of these procedures, the Treasurer's office and the Supervisor TMG should be responsible for identifying and explaining significant variances from prior year reports, including a comparison of operating expenditures by line-item and ridership information. The Treasurer's office and the Supervisor TMG should also use the revised accounting process identified in R5.2 to exclude all non-routine

transportation expenditures as required by ODE. Lastly, the District should design policies and procedures to ensure that the T-forms are filed with ODE within the mandatory timeframes. Taking these measures will help ensure that the District receives the appropriate State reimbursements for its transportation services and uses accurate information for decision-making.

LLSD does not have formal policies or procedures in place to guide staff in preparing and reviewing the T-forms before they are submitted to ODE. In actual practice, LLSD's T-forms are prepared by the Supervisor TMG and the Treasurer based on the October student counts, various operating statistics, and financial information tracked through the District's accounting system.

The following errors were noted during a review of the District's T-forms:

- **Ridership**: The District's ridership information appears understated in FY 2006-07 due to not reporting any non-public riders. By comparison, LLSD's non-public riders equaled 217 in FY 2004-05, 116 in FY 2005-06, and 230 in FY 2007-08. *Instructions for Preparing Form T-1 Report of Pupil Transportation Service* (ODE, 2007) indicates that school districts should report all students transported that attend non-public schools as these students are eligible for reimbursement within certain guidelines.

- **Transportation Expenditures**: The District appears to use inconsistent procedures for reporting transportation expenditures on the T-forms. For example, in FY 2006-07, the District reported $113,716 in transportation utilities while the utility costs equaled $39,903 in FY 2004-05, $43,000 in FY 2005-06, and $48,863 in FY 2007-08. Likewise, although the Supervisor TMG splits time between the transportation function and the building maintenance function, the District reported the entire salary for this position on the T-2 form in FY 2007-08 ($58,024). By comparison, the District reported the Supervisor TMG's transportation related salary as $31,045 in FY 2004-05, $30,687 in FY 2005-06, and $28,235 in FY 2006-07. Lastly, *Instructions for Preparing Form T-2 Report of Pupil Transportation Expense* (ODE, 2007) indicates that expenditures for the non-routine use of a school bus should not be included on the T-forms. The non-routine use of a bus includes transportation for summer school, after school events, athletic trips, and educational field trips. However, due to the District's accounting procedures for the non-routine use of school buses (see **R5.2**), the District is unable to exclude all costs related to non-routine services.

- **Filing Deadlines**: *Instructions for Preparing Form T-2 Report of Pupil Transportation Expense* (ODE, 2007) indicates that the T-2 report must be filed with ODE no later than August 1. However, the District did not file the FY 2007-

08 T-2 report until August 26, 2008, despite a reminder from ODE on August 18 that the report was past due.

Although transportation funding levels were based on percentage increases from prior year's funding levels from FY 2005-06 to FY 2008-09, a new funding formula is expected in FY 2009-10. Therefore, submitting inaccurate data could impact future funding levels and result in faulty-decision making. Furthermore, according to *Student Transportation in Ohio* (LOEO, 2003), the first step in ensuring accurate data is for school districts to create and adhere to formal policies and procedures that govern the submission of T-forms.

Negotiated Agreement

R5.4 LLSD should negotiate to eliminate the five hour minimum pay guarantee for bus drivers. Rather, bus driver compensation and benefit levels should be based on actual hours worked. This would allow the District to control future employee salary and benefit costs, and provide the flexibility to adjust its transportation policy and practices to maximize efficiency.

LLSD's collective bargaining agreement guarantees that each bus driver will receive a minimum of five hours of pay per day. According to the Supervisor TMG, all routes are designed to ensure that each driver is working approximately five hours per day, with a 5 to 10 minute variance in either direction. This is confirmed by the District's classified demographics reports for FY 2007-08 and FY 2008-09[3], which show that each driver works at least five hours per day. However, as a result of this provision, all bus drivers are guaranteed to receive health benefit coverage with LLSD paying at least 83 percent of the premium.[4] Each bus driver has a family health plan. Coupled with the District's generous health plan (see **human resources**), this contributes to the higher benefit cost ratios in **Table 5-2**. Furthermore, the five hour minimum guarantee can hinder the District's ability to make future adjustments that would otherwise reduce costs and/or improve operating efficiency (see **R5.1**).

The Marysville Exempted Village School District (Muskingum County) collective bargaining agreement (CBA) stipulates that "hours and days of work for all regular, full-time or short hour classified employees will be based on job classification, assignment, and responsibility." Further, "any deviation in hours or days of work must be approved in advance by the employee's supervisor. This paragraph does not prohibit the Board from establishing part-time positions or modifying hours of work and days of work, depending

[3] The FY 2008-09 report (as of January 23, 2009) was not "final" during the time of this assessment.

[4] LLSD pays a pro-rated share based on a six hour work day for employees hired after December 31, 2000. However, LLSD pays the full premium for employees hired prior to December 31, 2000 that work at least three hours per day and select an HMO plan. See the **human resources** section for additional analysis.

upon District needs." The CBA goes on to define the hours and days of work for the bus driver position as 180 days per year on an "as needed" basis. Likewise, Hubbard EVSD's CBA does not include minimum hour guarantees for bus drivers completing regular routes.

Fleet Maintenance and Management

R5.5 LLSD should develop a formal preventive maintenance plan that specifies the frequency and level of vehicle maintenance activities. In addition, as noted in R4.6 in the facilities section, the District should consider purchasing a computerized maintenance management system (CMMS) that can be used to schedule, track and report on both the District's building and bus maintenance activities. This would allow LLSD to reduce its reliance on paper work orders and maintenance logs. This, in turn, would help improve the District's reporting capabilities by formalizing the preventive maintenance program and reducing the potential for lost or misplaced information.

The District does not have a formal preventive maintenance plan that specifies the frequency and level of vehicle maintenance that should be performed. Rather, most bus maintenance activities occur in reaction to issues identified during daily pre-trip inspections conducted by the bus drivers, quarterly inspections conducted by the mechanics, and the annual inspections conducted by the State Highway Patrol. Other bus maintenance activities, such as oil and filter changes and brake replacements, are informally monitored and occur based on a variety of mileage thresholds.

All bus maintenance work is manually logged on work orders that report the date, the bus number, a description of the problem, and the mechanic's resolution to the issue. The Supervisor TMG also maintains a separate paper-based log for each bus that tracks maintenance history. The Supervisor TMG indicated that the District used a software program several years ago to track the work orders and bus maintenance history. However, the District discontinued the use of the software due to a perception that it was cumbersome to hand-write information on the work orders and then input the same information into the software. Although the manual system appears effective for the Supervisor TMG, an automated system may better ensure long-term efficiency, accuracy and consistency in scheduling and performing preventive maintenance activities, and tracking and reporting maintenance repair history and costs specific to each bus.

The *Public Works Practices Management Manual* (American Public Works Association (APWA), September 2002) indicates that effective equipment management requires that repairs be made before equipment fails. This involves a preventive maintenance approach that provides for the systematic, periodic servicing of equipment to facilitate operations with a minimum of downtime. Well-planned preventive maintenance programs, which follow the manufacturer's recommendations and schedules, should result in a dependable fleet with extended equipment life and lower operation, maintenance, and repair costs. Planning and scheduling preventive maintenance activities helps to ensure provision of the right maintenance, at the right time, at the lowest cost. In addition, *School Bus Fleet Magazine* (2008) indicates that tracking bus repairs allows a district to identify trends in parts and services being repeated, which is useful in planning future maintenance and in future bus and parts purchases. The publication goes on to indicate that without properly recording repairs, information is not accessible, analysis becomes less reliable, and costly future problems are more difficult to avoid.

R4.6 in the *facilities* section recommends that the District consider purchasing a CMMS to schedule, track and report on the District's building maintenance activities. A representative from a vendor that promotes work order systems indicated that some software packages have the ability to meet both the District's facility and transportation work order management and reporting needs. Another vendor stated that a CMMS would have the following benefits for a transportation department:

- Automatically update preventive maintenance scheduling;
- Automatically create work orders;
- Seamlessly integrate unit information, scheduling and inventory records;
- Provides detailed knowledge of which part was used on each vehicle; and
- Provides powerful analysis and reporting.

Financial Implication: See **R4.6** in the **facilities** section.

R5.6 LLSD should develop and approve a formal bus replacement plan, and update it annually. All bus and equipment replacement should be based upon economic modeling that allows for replacement at the most advantageous point in the equipment's life cycle. The plan should include criteria for bus replacement, such as maintenance costs, estimated cost at the time of replacement, safety inspection results, age, mileage and condition of the buses. Accordingly, the plan should include the buses that would potentially be replaced in the upcoming years. By reviewing and updating the plan annually, the District would better anticipate future costs and ensure cost-effective replacement decisions.

The District does not have a formal bus replacement plan. LLSD's past practice was to purchase buses whenever the State funding for bus replacements permitted. However, the Treasurer indicated that the District has not purchased a new bus in two years due to declining State funding levels. There are no State guidelines for bus replacement beyond the requirement that the bus must be able to pass the annual Highway Patrol inspection. As long as the bus can pass the inspection, a district may continue to use the bus for transportation, regardless of age or mileage. However, the National Association of State

Directors of Pupil Transportation Services (NASDPTS) suggests that Type C and D buses (conventional buses) should be replaced after 12-15 years, and Type A and B buses (lighter duty buses) after 8-12 years. The NASDPTS also notes that the State of South Carolina replaces buses after 250,000 miles and/or 15 years of service.

As of January 2009, the average ages of the District's active and spare buses were 8.4 and 12.7 years, respectively. Additionally, the average miles per active and spare bus were 108,526 miles and 141,557 miles, respectively. Although none of the District's buses currently exceed the 250,000 mile threshold, one active bus and three spares have more than 15 years of service. Furthermore, LLSD will have another five active buses and 3 spares that exceed 15 years of service during the next five years. The Treasurer's five-year forecast (see **financial systems**) includes approximately $100,000 annually in the capital outlay line-item for non-specific building/equipment needs. These funds could be used to purchase new buses. However, developing a formal bus replacement plan would help the District better anticipate bus replacement needs and identify potential sources of funding in advance.

The NASDPTS emphasizes that replacement of school buses should be a planned process (*School Bus Replacement Considerations,* 2002). 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 desired by the district. However, even when this is the case, a bus replacement plan is still an important resource for the district. The plan can incorporate the maintenance data into the decision making process for bus replacements. The plan also allows a district to establish its priorities with regard to safety and emissions features. 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.

R5.7 The District should consider selling three spare buses and not replacing them. This would reduce the ratio of spare buses, making it more comparable to the ODE benchmark and the peer average. In addition, this would help limit the liability associated with potential breakdowns and accidents. The decision on which buses to sell should be based on criteria defined in the bus replacement plan (see R5.6). Implementation of a CMMS (see R5.5) would help the District more closely track this information.

Table 5-1 shows that LLSD's spare buses represent approximately 35 percent of the total fleet, which is significantly higher than the peer average of 26 percent. In addition, according to a representative from ODE, spare buses typically comprise approximately 20 percent of the fleet. **Table 5-2** also shows that the District's bus maintenance and repair costs are significantly higher than the peer average, which could be partially attributed to maintaining more spare buses. If the District sold three spare buses, the remaining spares would represent 23.5 percent of the fleet, which is in between the ODE benchmark and the peer average. Maintaining a large spare fleet with an advanced age indicates that these buses may be more prone to breakdowns, which could impact future maintenance and repair costs.

The Ohio Schools Council (OSC) has a program that allows school districts to sell used buses through an online auction process on e-bay. To date, OSC reports that 19 buses have been sold through this program at an average price of approximately $2,500 per bus.

Financial Implication: Assuming LLSD could sell each spare for $2,500, the District would realize additional revenue of approximately $7,500. The District would also realize a savings of approximately $1,900 in insurance costs, based on the average cost per bus in FY 2007-08. Although an exact dollar amount cannot be quantified, reducing the spare buses could also help the District reduce its maintenance costs.

Financial Implications Summary

The following table lists cost savings and revenue enhancements for recommendations in this section of the report.

Table 5-4: Summary of Financial Implications for Transportation

Recommendation	Estimated Annual Cost Savings	Estimated One-Time Revenues
R5.1 Consider eliminating transportation services for students living within one mile of their schools	$22,000	
R5.7 Sell three spare buses	$1,900	$7,500
Total	**$23,900**	**$7,500**

Source: AOS transportation recommendations

DISTRICT RESPONSE

District Response

The letter that follows is Liberty Local School 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 District officials disagreed with information contained in the report and provided supporting documentation, the audit report was revised.

It should be noted that during the post audit conference, representatives of the Auditor of State's Office and Liberty LSD's officials discussed the actions taken by the District to implement some of the recommendations. The Auditor of State's Office is only aware of the actions reflected in the written comments provided by the District to address the performance audit recommendations. Additionally, three recommendations are subject to negotiation with the collective bargaining units (**R3.3**, **R3.6**, and **R3.7**) and two recommendations directly impact educational resources (**R2.10**[1] and **R3.3**). The performance audit contains a total of 32 recommendations, 15 of which contain financial implications.

[1] The District may be able to provide the same level of resources for the special education program, but at a lower cost. See **R2.10** for additional detail.

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Liberty Local Schools

OFFICE OF THE SUPERINTENDENT

Our name says it all.
Liberty - a school where students come to understand that knowledge brings freedom.

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JUL 13 2009

MARY TAYLOR, CPA
AUDITOR OF STATE

Mary Taylor, CPA
Office of the Auditor of State of Ohio
88 E. Broad Street
Columbus, Ohio 43215

Dear Ms. Taylor:

The Board of Education and administration of the Liberty Local School District would like to thank you and your team for the analysis and suggestions resulting from the audit of our 2007-2008 financial information. The recommendations contained in the audit report will be considered as we continue to balance the need to reduce the District's costs with the need to maintain the highest educational quality. We have been working diligently for the past several years to appropriately manage our school district in light of significant demographic and economic changes. The difficulty faced by this school district in managing these changes cannot be overstated; however the Board of Education and administrative team are committed to providing the highest quality of education while ensuring fiscal stability as the District moves forward.

We thank you for your recognition of the District's noteworthy accomplishments presented in the audit report. We also appreciate your acknowledgement at the post audit conference that we have already implemented many of the recommended initiatives.

The post audit conference was quite helpful in providing a better understanding as to how comparative peer districts were determined for purposes of the audit. The District will take into consideration the audit's comparison to peer districts when such comparison is consistent with the educational, financial, and operational conditions and objectives of the Liberty Local Schools.

Unfortunately, like too many other Ohio school districts, State funding continues to decline and the Liberty Local School District has had a difficult time passing levies to gain new revenue. A concern with the release of this audit report is that the public may grasp the recommendations as a mandate without understanding contractual considerations and educational needs. While we greatly appreciate that you recognize and state in the audit report that many of the recommendations may not be practical in light of contractual limitations and/or the negative impact on educational quality, the Board is deeply concerned that the public will misinterpret the purpose of the audit and will not support a levy until all recommendations are completely implemented.

We ask that anyone interested in the audit report review it in its entirety rather than relying upon isolated portions which may be taken out of context.

Thank you again for the assistance and insight provided by your staff and for their professionalism and competence.

Sincerely,

Mark Lucas

Mark Lucas
Superintendent

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JUL 15 2009

AUDITOR OF STATE
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