



Mary Taylor, CPA  
Auditor of State

MINERVA LOCAL SCHOOL DISTRICT  
PERFORMANCE AUDIT

JULY 14, 2009



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Auditor of State

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

In accordance with House Bill 119, a performance audit was conducted in Minerva Local School District (Minerva LSD or the District) because the District's May 2008 five-year financial forecast projected a negative ending fund balance for fiscal year (FY) 2008-09. The deficit was projected to be approximately \$152,000, increasing to \$4.3 million by FY 2011-12. The five functional areas assessed in the performance audit were financial systems, human resources, facilities, transportation, and food service. These areas were selected because they are important components of District operations that support its mission of educating children, and because improvements in these areas can assist in eliminating future year deficits.

The performance audit contains recommendations that identify the potential for cost savings and efficiency improvements. The performance audit also provides an independent assessment of Minerva LSD's financial situation, and a framework for maintaining fiscal solvency and avoiding fiscal oversight by the State. While the recommendations contained in the audit report are resources intended to assist in stabilizing its financial situation, District leaders are also encouraged to assess overall operations and develop other alternatives independent of the performance audit.

An executive summary has been prepared which includes the project history; a district overview; the scope, objectives and methodology of the performance audit; a summary of recommendations, financial implications; and issues for further study. This report has been provided to Minerva LSD and its contents have been discussed with the appropriate officials and District administrators. The District has been encouraged to use the results of the performance audit as a resource in 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. In addition, this performance audit can be accessed online through the Auditor of State of Ohio website at <http://www.auditor.state.oh.us/> by choosing the "Audit Search" option.

Sincerely,

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

July 14, 2009





# **Executive Summary**

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## **Project History**

In accordance with House Bill 119, the Auditor of State's Office (AOS) conducted a performance audit of the Minerva Local School District (Minerva LSD or the District) to identify programs or areas of operation in which it believes greater operational efficiency, effectiveness, or accountability may be achieved. In August 2008, AOS initiated the performance audit due to the District's May 2008 five-year forecast, which projected a negative ending fund balance in Fiscal Year (FY) 2008-09 of approximately \$152,000, increasing to \$4.3 million by FY 2011-12. These deficits did not include the renewal of an emergency operating levy, which collects approximately \$1.1 million annually that was to expire in 2009. In August 2008, voters approved a renewal of the emergency levy. The District subsequently developed a revised five-year forecast in October, which included the successful renewal of the emergency levy. This updated forecast shows a potential negative ending fund balance of approximately \$1.4 million by FY 2012-13.

Based on AOS research and discussions with Minerva LSD officials, the following areas were assessed in the performance audit:

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

Audit work concluded in December 2008. The goal of the performance audit process was to assist the Minerva LSD administration and Board of Education in identifying opportunities for cost savings and improving management practices. The resulting recommendations provide options that the District should consider in its continuing efforts to improve and stabilize its long-term financial condition.

## **District Overview**

Minerva LSD encompasses 81 square miles and is located in Stark County, with portions of the District in Columbiana and Carroll counties. In FY 2007-08, the District provided educational services to 2,131 preschool through grade twelve students. For FY 2007-08, the Ohio Department of Education (ODE) reported that the District received 34.4 percent of its revenue from local sources, 55.4 percent from the State, and 9.2 percent from federal sources. ODE also

reported that the District's expenditures per pupil were \$8,057, which was substantially below the State average of \$9,939. For FY 2007-08, Minerva LSD was categorized as an *effective* district, having met 19 of 30 academic performance indicators established by ODE, but it did not meet the State's adequate yearly progress goals.

In FY 2008-09, the District employed 238.6 full-time equivalent (FTE) staff, consisting of 12 FTE administrators, 138.3 FTE educational personnel, 3 FTE professional/ technical personnel, 25.3 FTE office/clerical staff, and 60 FTE operations and other staff. The regular education student-to-teacher ratio in FY 2008-09 was 19.0 to 1. District employees are covered under two bargaining agreements: one for certificated staff and one for classified staff.

Minerva LSD experienced an average decrease in enrollment of less than 1.0 percent per year from FY 2000-01 through FY 2006-07. However, the District's enrollment decreased by 1.7 percent from FY 2006-07 to FY 2007-08. The District operates four buildings: two elementary school buildings (K-5), one middle school (grades 6-8), and one high school (grades 9-12). The District is in the late stages of an Ohio School Facilities Commission building project. The project included a new middle school (opened in 2004), a renovated high school (completed in 2008), and the consolidation of the elementary schools into a new building which is expected to be completed in 2009.

The District's employee share for single and family health insurance premiums are 2.5 and 2.4 percent respectively, which are less than the State Employment Relations Board (SERB) Akron / Canton Region averages of 10.3 and 11.0 percent respectively. Moreover, the District's employees are not contributing towards dental insurance, although SERB found that on average, Ohio government employees contribute 6.0 percent of their premiums for dental insurance. Furthermore, several provisions found in the certificated and classified contracts were above the peer averages and State minimum requirements. These issues contributed to higher spending, and recommended reductions in several areas – including lump sum payments, retirement pickup, sick leave usage, maximum sick leave accrual, severance payout, and holiday pay – could help bring District spending more in line with the peers.

In order to address future deficits, Minerva LSD administrators and Board members will have to make difficult decisions regarding District operations. Some of the recommendations in this performance audit are subject to negotiation, but represent opportunities for significant cost savings. Enhanced local revenue or additional savings not identified by this performance audit would provide the District a greater range of choices to avoid deficits. Conversely, failure to implement cost saving strategies may require Minerva LSD to make additional reductions in mission critical service areas, such as educational personnel.

## **Objectives, Scope, and Methodology**

Performance audits are defined as engagements that provide assurance or conclusions based on evaluations of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide 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.<sup>1</sup>

The performance audit of Minerva LSD was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). These standards require that AOS plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives.

To complete this report, auditors gathered from various sources and assessed data pertaining to key operations, conducted interviews with District personnel, and assessed requested information from Minerva LSD and other school districts. AOS developed a composite of ten selected districts which were used for peer comparisons. The selected districts were Celina CSD (Mercer County), East Guernsey LSD (Guernsey County), East Holmes LSD (Holmes County), Garaway LSD (Tuscarawas County), Leipsic LSD (Putnam County), Logan-Hocking LSD (Hocking County), New London LSD (Huron County), Ridgewood LSD (Coshocton County), Southeast LSD (Wayne County), and Springfield LSD (Mahoning County). These peer districts were specifically selected in order to compare Minerva LSD's operations and approaches to service delivery to other rural/agricultural districts with low costs and high academic performance.

In addition, external organizations and sources were used to provide comparative information and benchmarks. They included ODE, SERB, the Government Finance Officers Association (GFOA), the National State Auditors Association (NSAA), and the United States Government Accountability Office (GAO), and other related best practices. Information used as criteria (benchmarks or leading practices) was not tested for reliability.

The performance audit process involved significant information sharing with Minerva LSD, 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 the District of key issues impacting selected areas, and to share proposed recommendations to improve or enhance operations. Throughout the audit process, input from the District was solicited and considered when assessing the selected areas and framing recommendations. Finally, Minerva LSD provided verbal and written comments in response to

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<sup>1</sup> Government Auditing Standards, July 2007 Revision, United States Government Accountability Office.

the various recommendations, which were taken into consideration during the reporting process. Where warranted, the report was modified based on the District's comments.

The Auditor of State and staff express their appreciation to the Minerva Local School District for its cooperation and assistance throughout this audit.

## **Subsequent Events**

- After the conclusion of fieldwork, Minerva LSD officials reported that they were planning additional cost saving measures to be enacted for FY 2009-10. In addition, the Board was in negotiation with its collective bargaining units and the District was working to achieve additional cost sharing as a component of the new negotiated agreements. However, these agreements had not been finalized at the time of reporting.
- In May 2009, Minerva LSD updated its five-year financial forecast to include cost reductions made to date and known events that had occurred and impacted its financial condition since October 2008. The May forecast shows the District experiencing a slight (\$64,982) deficit in FY 2008-09 then having three years of positive ending fund balances (\$81,118; \$256,818; \$110,563). The forecast shows a deficit of \$346,449 in FY 2012-13.

The May forecast includes modest increases in real property and unrestricted grants in aid. Because of the volatility in these line items, Minerva LSD is encouraged to closely monitor these items and revise its five-year forecast once H.B. 1, which contains the school funding formula, is finalized.

## **Conclusions and Key Recommendations**

The following are key recommendations from the performance audit report. As school district issues are often complex, users of this report are encouraged to examine the full findings and recommendations contained in the detailed sections of the report.

*In the area of finance and strategic management, Minerva LSD should:*

- Combine and update its planning documents and policies into a comprehensive, multi-year strategic plan to guide the District's operations and aid in decision making.
- Enhance the format of the financial reports Board members receive, develop a popular annual financial report (PAFR), and include key financial information on its website.



- Amend its purchasing policies to increase the effectiveness of internal controls over the purchasing process and include requirements for the procurement of contracted services that are in line with leading practices.
- Update its credit card policy and implement internal controls which are consistent with leading practices. The District should also consider canceling its store-issued credit cards and maintaining a single credit card provider in an effort to simplify credit card management.
- Enhance its written payroll policies and guidelines to include comprehensive internal controls. If Minerva LSD continues to make lump sum payments outside of its existing salary schedule (see **R3.2** in **human resources**), it should negotiate a reduction of three payroll cycles per year by including the lump sum payments in regular pay checks.
- Revise and fully document its methodology for the major line items in its five-year forecast in order to better support and explain the basis for its projections. The General Fund should be used to cover deficits in other funds and such transfers should be anticipated and reflected in the five-year forecast. Furthermore, the Treasurer must ensure that all reservations of funds are reflected in the forecast when necessary.
- Implement the recommendations contained in the performance audit to help offset projected deficits.

*In the area of human resources, Minerva LSD should:*

- Eliminate at least 1.0 FTE library aide position when it consolidates its elementary schools, and eliminate 1.0 FTE office/clerical position to bring staffing levels more in line with the peer averages and save an estimated \$56,000 annually.
- Renegotiate contractual provisions regarding compensation, specifically those providing lump sum payments and pickup of retirement contributions. Discontinuing the retirement pickup would save an estimated \$418,000 annually.
- Bring its extracurricular activity expenditures more in line with the average of surrounding districts by reevaluating its supplemental salary schedules and/or reducing the number of supplemental positions, which would save an estimated \$53,500 annually.

*During the course of the audit, the District reported taking steps to reduce extracurricular activity expenses.*

- Engage in a cost-sharing arrangement through which employees contribute at least 10 percent for single and family medical insurance coverage. If employees contributed 10

percent toward premiums, the District would be more in line with regional averages and save an estimated \$159,000 annually.

- Negotiate an employee contribution of at least 6 percent for single and family dental coverage to be more in line with the SERB averages and save an estimated \$16,000 annually.
- Attempt to remove the retirement incentive provision from its certificated and classified employee bargaining agreements, which is estimated to save \$77,000 annually.

*In the area of facilities, Minerva LSD should:*

- Establish a formal preventative maintenance (PM) program based on the Maintenance Business Plan and the Facility Maintenance Report received during the OSFC project, as well as comprehensive building audits of all District buildings. Minerva LSD should also develop a five-year capital improvement plan that identifies the expected life cycles of equipment and facilities.
- Develop and implement formal performance standards and measures to clarify staff expectations, evaluate individual performance, and assess the overall effectiveness of maintenance and operations (M&O) activities.
- Develop a formal handbook for the M&O Department and conduct annual training based on specific staff needs and organizational performance goals.
- Consider reducing 2.0 FTE custodians to bring M&O Department staffing closer to the productivity benchmark of 29,500 per FTE and save approximately \$78,000 in salary and benefit costs starting in FY 2009-10.

*In the area of transportation, Minerva LSD should:*

- Document its procedures for completing, reconciling, and submitting transportation data (T-forms). Most importantly, the methodology for separating and allocating costs should be documented to ensure compliance and consistency in reporting transportation costs to ODE.
- Establish and implement a formal preventive maintenance plan to ensure that its buses are properly maintained and remain safe for students. In addition, Minerva LSD should develop a formal bus replacement plan in conjunction with the preventive maintenance plan to help ensure that bus replacement needs are effectively evaluated and communicated.

- Involve transportation personnel in the individualized education program (IEP) process for special needs students with transportation as a related service.

*In the area of food service, Minerva LSD should:*

- Develop a strategic plan for its food service operation that contains specific goals and objectives. Based on identified goals and objectives, the District should develop a budget and five-year forecast for the Food Service Fund and a comprehensive set of performance measures.
- Charge all food service-related expenses to the Food Service Fund, regardless of the Fund's ability to maintain a positive fund balance.
- Consider options to enhance revenue, including charging for breakfast meals at the elementary and middle schools and increase participation in the lunch program in order to reduce the annual deficit in the Food Service Fund.
- Periodically explore the benefits and costs of contracting for food service by implementing a competitive request for proposal (RFP) process.
- Develop a comprehensive procedures manual and a formal training program for the food service operation.

## Issues for Further Study

Auditing standards require the disclosure of significant issues identified during an audit that AOS did not review in depth. These issues may not be directly related to the audit objectives or may be issues that the auditors do not have time or resources to pursue. AOS has identified the following issues that may require further study:

- **Maintenance Activities:** The District has managed to maintain its facilities and equipment with one part-time maintenance technician. However, once the Ohio School Facilities Commission (OSFC) project is complete, the District will have new and renovated buildings with extensive technology and controls. If the District is unable to perform regular preventative maintenance (PM) activities, it risks the potential deterioration of these buildings and systems. The District should ensure that maintenance staffing is sufficient to perform all required activities. One method for extending the effectiveness of the M&O Department would be through the use of a computerized maintenance management system (CMMS). Since the District will have access to a downloadable PM schedule as part of the OSFC project, the District should consider a CMMS which would enable it to ensure all necessary maintenance is performed. The District will also need to assess its staffing levels and determine if additional staffing is needed.
- **Administration and Transportation Facilities:** While OSFC is in the process of addressing the educational facility needs at Minerva LSD, auditors observed inadequate facilities for administration and buses. All central administrative services are located in two small renovated residential houses. The administrative building, which includes the Superintendent's office, was built in 1918 and is approximately 1,200 square feet. The Treasurer and his staff are located in a separate building, which was constructed in 1900 and is approximately 1,900 square feet. In total, the District employs 12 staff in these 2 buildings. The bus garage is located directly adjacent to the administrative building and is approximately 2,500 square feet. The bus garage is unsecured and consists of a very small, aging facility. The District's buses are parked on a separate piece of property nearby, which is also unsecured.

The Minerva LSD administration has explored the possibility of improving the conditions of its administrative and transportation facilities. Although it is remaining open to alternatives, the option that has been most discussed involves constructing a new bus garage and administrative building on the property where the buses are currently stored. One estimate received by the District projects the cost of the project at \$450,000, with a portion of the cost being offset by the sale of the existing buildings.

While any project to replace or upgrade these facilities would involve a cost to the District, maintaining the status quo also has a cost – both in terms of real dollars for upkeep and limitations on productivity caused by the cramped environment – as well as unknown potential liabilities. The District should continue to explore its options for improving the working conditions of its administrative staff and the security and utility of its transportation facilities.

- **Additional Compensation for Employees:** Minerva LSD’s certificated and classified contracts contain provisions that provide additional compensation for employees in the event District revenues exceed projections. Specifically, in any year the District receives non-mandated revenue that exceeds projections detailed in the contracts, 60 percent of that additional revenue is to be used for contingency payments to increase employee compensation the following year. In addition, 70 percent of any non-recurring, non-mandated revenue and 50 percent of any savings from employees opting out of the District’s health insurance plan are to be used for contingency payments. The salary increases from these contingency payments and from any negotiated wage increases provided in the contracts are limited to 3.5 percent in any given year.

The “contingency provisions” appear to be common among negotiated agreements within Stark County school districts, but the specific percentages and limits vary. For example, Sandy Valley LSD’s certificated employee contract provides for contingency payments of 40 percent of excess revenue, with maximum increases of 2.5 percent of employee salaries in FY 2008-09 and 3.0 percent in FY 2009-10. The contingency payment provisions are intended to ensure that districts are not committed to annual negotiated wage increases that they are unable to afford. Instead, annual increases are tied to the amount of excess revenue received by the districts. However, when negotiating future contracts, Minerva LSD should review the specific terms of its contingency provisions to determine whether they are in line with surrounding districts or unnecessarily limit resources to expand or enhance educational opportunities.

## Summary of Financial Implications

The following table summarizes the performance audit recommendations that contain financial implications. These recommendations provide a series of ideas or suggestions that Minerva LSD should consider. Some of the recommendations depend on labor negotiations or collective bargaining agreements. Detailed information concerning the financial implications, including assumptions, is contained within the individual sections of the performance audit.

### Summary of Performance Audit Recommendations

	Estimated Annual Savings
<b>Recommendations Not Subject to Negotiation</b>	
<b>R3.1</b> Eliminate 1.0 FTE library aide and office/clerical position	\$56,300
<b>R3.3</b> Reduce extracurricular expenditures	\$53,500
<b>R4.5</b> Reduce custodial staffing by 2.0 FTEs	\$78,100
<b>R6.2</b> Use cost allocation to account for all expenses of the food service operation	\$39,500
<b><i>Subtotal Cost Savings Not Subject to Negotiation</i></b>	<b><i>\$227,400</i></b>
<b>Recommendations Subject to Negotiation</b>	
<b>R3.2</b> Discontinue providing employee pickup	\$418,000
<b>R3.4</b> Increase employee medical insurance contribution to at least 10 percent	\$159,000
<b>R3.5</b> Negotiate an employee dental insurance contribution of at least 6 percent	\$16,000
<b>R3.10</b> Negotiate elimination of retirement incentives	\$77,000
<b><i>Subtotal Cost Savings Subject to Negotiation</i></b>	<b><i>\$670,000</i></b>
<b>Total Cost Savings from Performance Audit Recommendations</b>	<b>\$897,400</b>

Source: Performance audit recommendations



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# Financial Systems

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## Background

This section focuses on the financial systems in the Minerva Local School District (Minerva LSD, or the District). It analyzes the current and future financial condition of the District for the purpose of developing recommendations to improve financial management and identify opportunities for greater efficiency. Operations were evaluated against leading practices, industry benchmarks, operational standards, and selected peer districts<sup>1</sup>. Leading practices and industry standards were drawn from various sources including the Ohio Department of Education (ODE), the Government Finance Officers Association (GFOA), the National State Auditors Association (NSAA), and the United States Government Accountability Office (GAO).

### *Treasurer's Office Operations*

The Treasurer's Office is primarily responsible for managing and tracking the District's revenue and expenditures, developing financial statements, developing the tax budget and five-year forecast, and administering the purchasing and payroll functions. The Treasurer's Office consists of three full-time employees, including the Treasurer and two assistants. The Treasurer and both assistants are also long-time District employees. The Treasurer, who reports directly to the Minerva Local School District Board of Education (the Board) is primarily responsible for managing and tracking the District's revenue and expenditures, developing the annual tax budget, preparing financial statements, and maintaining the District's five-year forecast. One of the assistants is responsible for overseeing the purchasing function and credit card usage. The other assistant is responsible for payroll processing, time and attendance reporting, and direct deposits. The Treasurer's Office operations are guided by the Board's *Bylaws and Policies*<sup>2</sup> and *Administrative Guidelines and Forms*, which were developed with the assistance of NEOLA, an organization which provides school board policy services to school districts in several states.

### *Financial History and Condition*

From November 1997 to March 2008, District residents voted on 10 operating levies; 5 were renewal levies, which all passed; and 5 were replacement levies, which all failed. The last time new operating money was approved was in 1993, when a five-year emergency operating levy

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<sup>1</sup>The peers include: Celina CSD (Mercer County), East Guernsey LSD (Guernsey County), East Holmes LSD (Holmes County), Garaway LSD (Tuscarawas County), Leipsic LSD (Putnam County), Logan-Hocking LSD (Hocking County), New London LSD (Huron County), Ridgewood LSD (Coshocton County), Southeast LSD (Wayne County), and Springfield LSD (Mahoning County).

<sup>2</sup> <http://www.neola.com/Minerva-oh/>



passed. In August 2008, this levy was renewed; otherwise, it would have expired in January 2009.

The District's May 2008 five-year forecast projected a negative \$4.3 million fund balance by FY 2011-12. However, this deficit was reduced by the renewal of an emergency levy in August 2008, which increased general property tax revenue cumulatively by almost \$3.9 million through FY 2011-12. The performance audit assessed the District's May 2008 forecast, although the District submitted its October 2008 five-year forecast during the course of the audit. **Table 2-1** presents the District's October 2008 five-year forecast which reflects the levy renewal and other known changes. During the audit, AOS and the District worked together to develop updated projections for purchased services, supplies and materials, and capital outlay (see **R2.14**), therefore the expenditures for these line items are similar in **Table 2-1** and **Table 2-5**.

**Table 2-1: Minerva LSD Five-Year Forecast (in 000's)**

	Actual			Forecasted				
	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
<b>Revenue:</b>								
General Property Tax	\$4,435	\$4,589	\$4,854	\$5,062	\$5,100	\$5,200	\$5,200	\$5,400
Tangible Personal Property Tax	\$1,051	\$692	\$518	\$245	\$0	\$0	\$0	\$0
Unrestricted Grants-in-Aid	\$8,717	\$8,740	\$8,813	\$9,316	\$9,494	\$9,589	\$9,685	\$9,782
Restricted Grants-in-Aid	\$71	\$58	\$46	\$36	\$36	\$36	\$37	\$37
Property Tax Allocation	\$660	\$968	\$1,045	\$1,159	\$1,359	\$1,400	\$1,450	\$1,475
All Other Revenues	\$958	\$1,012	\$1,005	\$1,007	\$1,012	\$1,020	\$1,030	\$1,040
Total Revenues	\$15,891	\$16,059	\$16,281	\$16,824	\$17,001	\$17,245	\$17,401	\$17,734
Total Other Financing Sources	\$0	\$0	\$20	\$0	\$0	\$0	\$0	\$0
<b>Total Revenues and Other Financing Sources</b>	<b>\$15,891</b>	<b>\$16,059</b>	<b>\$16,301</b>	<b>\$16,824</b>	<b>\$17,001</b>	<b>\$17,245</b>	<b>\$17,401</b>	<b>\$17,734</b>
<b>Expenditures:</b>								
Personal Services	\$9,818	\$9,958	\$9,519	\$9,776	\$9,533	\$9,875	\$10,214	\$10,559
Employees' Retirement/Insurance Benefits	\$4,039	\$3,862	\$4,435	\$4,066	\$4,254	\$4,557	\$4,883	\$5,616
Purchased Services	\$1,070	\$1,027	\$1,230	\$1,349	\$1,405	\$1,464	\$1,526	\$1,590
Supplies and Materials	\$480	\$575	\$688	\$685	\$862	\$864	\$868	\$872
Capital Outlay	\$78	\$77	\$77	\$166	\$170	\$173	\$176	\$180
Intergovernmental	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Debt Service	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Objects	\$320	\$318	\$333	\$340	\$347	\$354	\$361	\$368
Total Expenditures	\$15,806	\$15,818	\$16,282	\$16,382	\$16,571	\$17,287	\$18,027	\$19,185
<b>Other Financing Uses</b>								
Operating Transfers-Out	\$41	\$361	\$19	\$82	\$0	\$0	\$0	\$0
All Other Financing Uses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Other Financing Uses	\$41	\$361	\$19	\$82	\$0	\$0	\$0	\$0
<b>Total Expenditures and Other Financing Uses</b>	<b>\$15,846</b>	<b>\$16,179</b>	<b>\$16,301</b>	<b>\$16,464</b>	<b>\$16,571</b>	<b>\$17,287</b>	<b>\$18,027</b>	<b>\$19,185</b>
<b>Result of Operations (Net)</b>	<b>\$45</b>	<b>(\$120)</b>	<b>\$0</b>	<b>\$361</b>	<b>\$431</b>	<b>(\$42)</b>	<b>(\$626)</b>	<b>(\$1,452)</b>
Balance July 1	\$93	\$139	\$19	\$19	\$379	\$810	\$768	\$143
Cash Balance June 30	\$139	\$19	\$19	\$379	\$810	\$768	\$143	(\$1,309)
Estimated Encumbrances June 30	\$69	\$17	\$13	\$50	\$50	\$50	\$50	\$50
Reservation of Fund Balance								
<b>Fund Balance / June 30 for Certification of Appropriations</b>	<b>\$70</b>	<b>\$2</b>	<b>\$6</b>	<b>\$329</b>	<b>\$760</b>	<b>\$718</b>	<b>\$93</b>	<b>(\$1,359)</b>
<b>Unreserved Fund Balance June 30</b>	<b>\$70</b>	<b>\$2</b>	<b>\$6</b>	<b>\$329</b>	<b>\$760</b>	<b>\$718</b>	<b>\$93</b>	<b>(\$1,359)</b>

Source: Minerva Local School District

By its nature, forecasting requires estimates of future events. Therefore, differences between projected and actual revenues and expenditures are common as circumstances and conditions frequently do not occur as expected. At the time the forecast was submitted, the District was projecting a negative unreserved fund balance beginning in FY 2012-13 of about \$1.3 million (see **Table 2-1**).

The performance audit includes a review of the assumptions that have a significant impact on the forecast, such as general property tax, tangible personal property tax, unrestricted and restricted grants-in-aid, property tax allocation, personal services, employees' retirement and insurance

benefits, purchased services, supplies and materials, and capital outlay. AOS analyzed the District's assumptions and methodologies, and recommended changes where appropriate (see **R2.14**).

### *Financial Operations – Expenditures & Revenues*

The allocation of resources between the various functions of a school district is one of the most important aspects of the budgeting process. Given the limited resources available, operational expenditures by function level should continually be evaluated and prioritized. **Table 2-2** compares Minerva LSD's FY 2007-08 expenditures on a per pupil basis to the peer average. The expenditures in **Table 2-2**, as described by ODE, categorize and report expenses related to the education of pre-kindergarten through twelfth grade students and include more than the general operating funds accounted for within the five-year forecast.

**Table 2-2: FY 2007-08 Expenditure per Pupil Comparison**

	Minerva LSD			Peer Average			Difference Per Student	Percent Difference
	Total \$	\$ Per Student	Percent of Total	Total \$	\$ Per Student	Percent of Total		
<b>Administration</b>	\$2,197,646	\$1,025	12.7%	\$1,750,815	\$1,037	11.8%	(\$12)	(1.1%)
<b>Operations Support</b>	\$3,020,896	\$1,409	17.5%	\$2,975,063	\$1,708	20.0%	(\$299)	(17.5%)
<b>Staff Support</b>	\$112,183	\$52	0.6%	\$379,964	\$194	2.6%	(\$141)	(73.0%)
<b>Pupil Support</b>	\$2,155,718	\$1,005	12.5%	\$1,465,057	\$791	9.8%	\$215	27.1%
<b>Instruction</b>	\$9,789,249	\$4,566	56.7%	\$8,329,290	\$4,770	55.9%	(\$204)	(4.3%)
<b>Total</b>	<b>\$17,275,692</b>	<b>\$8,058</b>	100.0%	<b>\$14,900,189</b>	<b>\$8,499</b>	100%	<b>(\$442)</b>	<b>(5.2%)</b>

Source: Ohio Department of Education

As **Table 2-2** shows, Minerva LSD spent 5.2 percent less per pupil than the peer average in FY 2007-08. The following is a brief explanation of the categories and the differences in spending levels between the District and the peers:

- **Administration:** In FY 2007-08, Minerva LSD spent 1.1 percent less per pupil than the peers. In addition to salary and benefit expenses for administrators, there are costs associated with the board of education, superintendent's office, fiscal services, support services, and building principals (see **human resources**). These expenditures do not relate directly to the education of students. Instead, they encompass expenses relating to planning, research, information services, staff services, and data processing.
- **Operations Support:** When compared to the peers, Minerva LSD's operations support costs were 17.5 percent below the peer district per pupil average. These expenditures are comprised of salaries for the direction of plant maintenance, transportation, and the food service operation (see **facilities**). Operations support also includes facilities-related

operations at the building and central office levels, as well as any purchasing for the enterprise funds, the largest of which is the lunchroom operation (see **food service**).

- **Staff Support:** Minerva LSD spent 73.0 percent less per pupil on staff support than the peer average in FY 2007-08. This cost category includes expenditures for activities such as in-services for District staff, instructional improvement services, and meeting expenses for all staff. Furthermore, any costs associated with staff development, training, retraining, and continuous education courses are also included in this functional area.
- **Pupil Support:** In FY 2007-08 the District spent 27.1 percent more per pupil than the peers (see **human resources**). The Pupil support category includes staff that provides support services to students outside the classroom and beyond academic instruction. Such costs include the management of support services, guidance services, health services, psychological services, speech pathology and audiology services, attendance, and any social work activities, as well as instructional media services for students.
- **Instruction:** In FY 2007-08, Minerva LSD spent 4.3 percent less per pupil on instruction than the peer average. This function includes costs for teachers, teacher aides, and paraprofessionals, in addition to costs associated with instructional materials such as computers, books, and other supplies and materials that are used in the classroom setting. These expenditures are directly related to the education of students.

As **Table 2-2** shows, Pupil support is the only category where the District's expenditures exceeded the peers. Some of these expenditures are attributed to guidance services and supplemental pay towards sports programs. The largest expenditures on guidance services was \$44,120 spent on regular guidance staff and \$35,582 spent on termination benefits. In athletic programs, football supplemental pay was the highest at \$32,804, followed by soccer supplemental pay at \$10,936. The combined supplemental pay for other sports was approximately \$70,000. As **Table 2-2** shows, the District spent \$215 more per pupil on pupil support and \$204 less per pupil on instruction. If the District reallocated approximately \$200 per pupil from pupil support to Instruction, both categories would be more closely aligned with the peer average and resources would be redirected toward student instruction.

**Table 2-3** compares the District's revenue by source to the peer average for FY 2007-08.

**Table 2-3: Five-Year Forecast Revenue Comparison: FY 2007-08**

	Minerva LSD	Minerva LSD \$ Per Student	Peer Average	Peer Average \$ Per Student	Difference Per Student	Percent Difference
<b>General Property Tax</b>	\$4,853,827	\$2,264	\$4,313,615	\$2,421	(\$157)	(6.47%)
<b>Income Tax</b>	\$0	\$0	\$572,177	\$375	(\$375)	N/A
<b>Unrestricted Grants-in-Aid</b>	\$8,812,879	\$4,110	\$6,783,243	\$3,902	\$209	5.4%
<b>Restricted Grants-in-Aid</b>	\$45,988	\$21	\$242,727	\$93	(\$71)	(76.8%)
<b>Property Tax Allocation</b>	\$1,045,438	\$488	\$914,593	\$544	(\$56)	(10.3%)
<b>Other Revenue</b>	\$1,005,354	\$469	\$943,472	\$534	(\$65)	(12.2%)
<b>Total</b>	<b>\$15,763,486</b>	<b>\$7,352</b>	<b>\$13,769,827</b>	<b>\$7,867</b>	<b>(\$515)</b>	<b>(6.5%)</b>

Source: Minerva Local School District and Ohio Department of Education

As shown in **Table 2-3**, the District received less revenue per student in FY 2007-08 than the peer average. The District received 5.4 percent more per pupil of unrestricted grants-in-aid than the peers, with the majority of the variance being attributed to increases in special education and parity aid. Conversely, restricted grants-in-aid revenues were considerably lower than the peers, principally attributed to decreased funding levels in total poverty based assistance and career tech/adult education. Property tax allocation was 10.3 percent less per pupil than the peers, attributed to lower property and tangible personal property valuations within the district.

## **Audit Objectives for the Financial Systems Section**

The following is a list of the audit objectives used to evaluate the District's financial management practices:

- Does the District's financial data appear to be valid and reliable?
- What has been the District's recent financial history?
- How do the District's revenues and expenditures per pupil compare with peer districts?
- Does the District have comprehensive financial policies and procedures that meet leading practices?
- What is the likely financial position of the District based on an updated set of assumptions and the implementation of the performance audit recommendations?
- Does the District report appropriate financial information to management and the community?
- Has the District developed a strategic plan which links educational and operational plans and meets leading practices?
- Does the District have a comprehensive purchasing policy and corresponding procedures that meet leading practices?
- Does the District effectively manage payroll operations?

## Recommendations

### *Planning*

**R2.1 Minerva LSD should combine and update its planning documents and policies into a comprehensive, multi-year strategic plan to guide the District's operations and aid in decision making. The plan should incorporate the Comprehensive Continuous Improvement Plan (CCIP)<sup>3</sup> and any other educational and operational plans into a single document. When developing the strategic planning document, the Board should identify and formally adopt a limited number of District priorities to guide its strategies and major operational, financial, and program decisions. Once a comprehensive strategy is adopted and approved, Minerva LSD should assess all parts of the strategic plan on an annual basis and, as appropriate, amend its priorities to reflect changes in internal and external conditions.**

Minerva LSD has developed a CCIP in accordance with ODE requirements. The District also has a strategic plan that, in addition to its Bylaws and Policies and Administrative Guidelines, contains most elements of a strategic plan, such as a mission statement, identification of critical issues and broad goals, an action plan, and performance monitoring. However, these documents have not been combined into a comprehensive strategic planning document. Furthermore, the District has not addressed other important economic and financial factors that should be taken into account. Lastly, the plan has not been formally approved by the Board. To aid in the development of a strategic plan, the District should incorporate existing plans with their CCIP, Bylaws and Policies, and Administrative Guidelines. In addition, elements suggested by GFOA should be included to aid in the success of a comprehensive strategic plan.

According to *Recommended Budget Practices on the Establishment of Strategic Plans* (GFOA, 2005), entities should develop multi-year strategic plans that provide long-term perspectives for services delivered and budgeting, thus establishing logical links between authorized spending and annual goals based on identified needs, projected enrollment, and revenue. Accordingly, as the District initiates its strategic planning process, it should take the following actions:

- Assess environmental factors and critical issues. Local, regional, national and global factors should be analyzed, including economic and financial factors, demographic trends, legal or regulatory issues, social and cultural trends, intergovernmental issues and technological change;
- Incorporate timeframes for implementation of objectives;

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<sup>3</sup> The Comprehensive Continuous Improvement Plan (CCIP) is a unified grants application and verification system that consists of two parts: The Planning Tool and the Funding Application.

- Obtain approval of the plan;
- Implement the plan; and
- Reassess the strategic plan annually.

The strategic plan should be adopted as part of each school's improvement plan, which links the educational and operational goals to the District overall plan. The goals, objectives, and strategies of the strategic plan should be listed in their order of importance. By enhancing its strategic plan, Minerva LSD can gain a better perspective on its future financial needs and develop a more comprehensive approach to balancing its finances with its educational direction. In addition, a strategic plan could produce the following results:

- Improve communication between the school, community, and town officials;
- Better focus and direction for the Board;
- Align other planning processes to the district-wide strategic plan;
- Establish uniformity among staff in working toward accomplishment of prioritized goals; and
- Align the budget process with strategic plan goals and objectives.

Other operational areas of the District should provide input to the strategic planning process with specific information about particular operations. The strategic plan should lead to the development of a staffing plan (discussed in **R3.8 in human resources**), a comprehensive facilities plan (discussed in **R4.1 in facilities**), a food service strategic plan (discussed in **R6.1 in food service**), and a bus replacement plan (discussed in **R5.3 in transportation**). By implementing a more comprehensive strategic plan, Minerva LSD can gain a better perspective on its future financial needs and develop a more comprehensive approach to balancing its finances with its educational mission. In addition, a strategic plan could help improve communication between the District and community, provide direction for the Board, and align planning and budgeting processes.

### *Financial Reporting*

**R2.2 Minerva LSD should enhance the format of the financial reports Board members receive. These reports should include information and analyses deemed necessary by District officials and Board members to help them understand the District's financial situation and make informed decisions. The reports should be presented in a user-friendly format with explanatory comments and any information needed to explain the financial situation.**

The Treasurer provides the Board with monthly financial reports approximately three days before each Board meeting. Distributed electronically, the reports include monthly



and year-to-date comparison data for nearly all major forecasted line items. The reports also contain summaries of the District's cash accounts and investment funds. In addition to the minutes from previous Board meetings, the Treasurer composes an explanation memo in the report. The reports contain some elements of recommended practices, but could be enhanced to provide the Board and community members with additional information needed for decision making.

*Best Practices in Public Budgeting* (GFOA, 2000) notes that regular monitoring of budget performance provides an early warning of potential problems and gives decision makers time to consider actions that may be needed due to changing circumstances. Districts such as Lebanon City School District in Warren County (Lebanon CSD) provide their Board members with a comprehensive set of monthly reports to facilitate timely, informed decision making. Lebanon CSD's reports are presented in a user-friendly format, which includes narrative updates, charts, and graphs, and include the following components:

- Treasurer's Update – This includes a summary of major transactions and an update on the operations of the Treasurer's Office.
- Financial Notes – This report highlights larger receipts which were received and provides a list of significant expenditures.
- General Fund Monthly Cash Balance – This report includes the recent history and the current cash balance of the General Fund by month.
- General Fund Monthly Expenditures – This report shows recent expenditure history and current total expenses by month.
- General Fund Monthly Revenue – This report shows recent revenue history and current monthly revenue.
- General Fund Cash Flow Analysis – This report details the year-to-date actual revenue and expenditures, the projected totals, and the difference between the two.
- Bank Reconciliation Summary – This report shows the balance of each fund, the bank balance, investment balances, and all outstanding checks.
- Financial Report by Fund (FINSUM) – This report shows the beginning balance of each fund, month-to-date expenditures and receipts, current fund balances, and current encumbrances.
- Monthly Warrant/Refund/Payroll Check – This report shows all investment checks, transfer checks, distribution checks, payroll checks, and missing checks.

The District could improve the quality and clarity of its monthly financial reports by supplementing them with narrative updates, charts, and graphs. Including this information would enable Board members to make more informed decisions based on the financial condition of the District. This approach would also provide an opportunity for the Treasurer to present financial information to other key stakeholders, such as staff,

administrators, community members, and other public officials. The Treasurer should continue to distribute the reports electronically to the Board in advance of Board meetings, as this is an efficient and cost-effective method for distribution.

**R2.3 Minerva LSD should develop a popular annual financial report (PAFR) and consider developing a comprehensive annual financial report (CAFR). These reports should also be reviewed by Board members and administrators as a way to increase their understanding of District finances. The District should also ensure that these reports are readily available and publicized through several forms of communication, such as postings at public libraries, mailings to major businesses, posting on the District's website (see R2.4), and press releases to the local media.**

Historically, Minerva LSD has not published a PAFR or a CAFR. However, the Treasurer stated his interest in publishing a PAFR and CAFR in the future. The Treasurer does provide the Board with some financial information (see R2.2), although it is not distributed beyond the Board and key administrators.

According to *Governmental Accounting, Auditing, and Financial Reporting Practices* (GFOA, 2006), state and local governments should not be satisfied with issuing only the basic financial statement required by GAAP, but should instead publish a comprehensive annual financial report (CAFR). According to *Using Websites to Improve Access to Budget Documents and Financial Reports* (GFOA, 2003), a CAFR is an unparalleled means of demonstrating financial accountability, as recognized by the National Council of Governmental Accounting (NCGA) and reiterated by the Governmental Accounting Standards Board (GASB). The Westerville City School District in Franklin County develops both a CAFR and PAFR, which are used by community members, board members, staff, and local businesses to gain insight into the financial operations of the district.

According to *Preparing Popular Reports* (GFOA, 2001), each government entity should issue a PAFR. A PAFR is designed to assist those who need or desire a less detailed overview of government financial activities than the CAFR provides. A PAFR can take the form of consolidated or aggregated presentations, or a variety of other forms. Although outsourcing the development of a PAFR can be costly, the District can for little cost create a PAFR-like document using the characteristics GFOA recommends.

Providing enhanced financial and statistical reporting through a PAFR and CAFR would provide stakeholders insight into District operations and would encourage a better understanding of the District's financial condition and outlook. Although there are costs associated with the preparation and printing of PAFR and CAFR documents, some components of this work could be performed in-house. The Treasurer's Office could develop the CAFR and the tables and graphs associated with the PAFR and publish these

documents on the District website in electronic form. Using electronic media to publish the PAFR and CAFR would greatly reduce the cost of production and distribution.

**R2.4 Minerva LSD should include financial information on its website that informs and educates its residents about the District’s operations and financial condition. This information should include budget documents, the CAFR and PAFR (see R2.3), the District’s five-year forecast, and copies of the monthly financial reports provided to the Board (see R2.2).**

The District’s website does not have a subsection devoted strictly to financial information. In fact, there are no financial documents published on the District’s website. The website includes a welcome message from the Superintendent and contains links to the other administrative departments, including the Treasurer’s Office; however, these web pages are templates listing only the respective director’s name.

According to *Using Websites to Improve Access to Budget Documents and Financial Reports* (GFOA, 2003), each government entity should publish its budget document and CAFR on its website. GFOA further recommends that governments comply with the following guidelines when presenting these documents on their websites:

- The electronic budget document and the electronic CAFR should be identical to the printed versions of these documents;
- The website should prominently notify users that the information in the CAFR has not been updated for developments subsequent to the date of the independent auditor’s report;
- The website should prominently inform users whether the budget document presented represents the preliminary budget or the approved budget;
- If a government elects to present the budget documents and CAFRs of prior years, the website should clearly identify these documents as “dated information for historical reference only” and clearly segregate them from current information. A “library” or “archive” section of the website is advisable for this purpose; and
- The security of the website should be evaluated to protect it from manipulation by external or unauthorized persons.

School districts in Ohio such as Logan-Hocking Local School District (Athens County), Ridgewood Local School District (Coshocton County), Lakota Local School District (Butler County), Westerville City School District (Franklin County), and Olentangy Local School District (Delaware County) provide a wide range of financial information on their websites. This information includes the following:

- **Levy Information** – Levy facts, reappraised home values and school taxes, property tax calendar, income tax calculator, and a glossary of terms;

- **Expenditures By Object/Function** – Illustrates salaries, benefits, purchased services, capital outlay, maintenance, transportation, and extracurricular expenditures;
- **Budget Appropriations** – Current five-year forecast, tips on understanding the five-year forecast, fiscal year appropriations, fiscal year tax budget, and historical year-end analyses;
- **Taxes/Millage/Valuations** – Tax calculator, presentation of Governor’s Blue Ribbon Task Force on Student Success, county area effective tax rates, tax rate history, and Q&A on taxes and millage;
- **Annual Reports** – Historical information, CAFRs, and PAFRs; and
- **Miscellaneous** – Audit findings, school finance terms, State financial designations, ODE Local District Report Cards, reports on enrollment, and Finance and Audit Committee information.

By providing key financial information to the District’s stakeholders on its website, Minerva LSD can increase public awareness and understanding of its financial condition. Posting financial information on the District’s website also reduces the time needed for public document requests and eliminates the costs associated with providing the information in paper form. In addition, the electronic format provides the users with a computerized tool to find, extract, and analyze data contained in these often lengthy documents. Although staff time is required to develop, maintain, and update the information on the website, Minerva LSD could use its website to enhance the types of financial reports available to the public at little additional cost to the District.

### *Internal Controls*

**R2.5 Minerva LSD should enhance its financial management policies and tailor them specifically to the District and its operations. While the District has existing financial management policies in place, those policies are lacking elements of recommended practices. Once the financial management policies are enhanced by adding elements of recommended practices, the District should ensure that its financial and budgetary practices are consistent with these policies.**

The District has established financial management policies within its *Bylaws and Policies* and *Administrative Guidelines and Forms* with the assistance of NEOLA.<sup>4</sup> These policies address several functions, such as use of federal funds, payment of claims, investments, petty cash, gifts and donations, and accounting for fixed assets. While the financial management policies are detailed in those areas, they do not include all of the elements of leading practices recommended by GFOA.<sup>5</sup>

<sup>4</sup> <http://www.neola.com/Minerva-oh/>

<sup>5</sup> *Best Practices in Public Budgeting* (GFOA, 2000). <http://www.gfoa.org>.

Financial management policies should play an integral role in the development of service, capital, and financial plans and the overall budgeting process. All other adopted practices should be consistent with these policies. To ensure that its financial management practices follow recommended guidelines, Minerva LSD should consider enhancing its existing policies to include elements of the following practices recommended by GFOA:

- **Budget Stabilization Funds** - A government should develop policies to guide the creation, maintenance, and use of resources for financial stabilization purposes. Although the District's policies allow for the creation and maintenance of a budget reserve fund, the policies lack guidance on how and when the fund should be created and the purposes for which the fund can be used.
- **Debt Issuance and Management** – A government should adopt policies to guide the issuance and management of debt. While the District has policies in place pertaining to investments and borrowing, these policies do not address the purposes for which debt may be issued and limitations on the amount of outstanding debt.
- **Debt Level and Capacity** – A government should adopt a policy on the maximum amount of debt and debt service that should be outstanding at any one time. Although Minerva LSD has a borrowing policy in place, the policy is very brief and does not include GFOA-recommended elements such as limitations on outstanding debt, maximum debt service limits, and distinct policies for each type of debt.
- **Use of One-Time Revenue** – A government should adopt a policy limiting the use of one-time revenues for ongoing expenditures. The District does not have a policy in place addressing the use of one-time revenue. By definition, one-time revenues cannot be relied on in future budget periods. A policy on the use of one-time revenues should explicitly define such revenues and provide guidance to minimize disruptive effects on services due to non-recurrence of these sources.
- **Use of Unpredictable Revenues** – A government should identify major revenue sources it considers unpredictable and define how these revenues may be used. The District does not have a policy in place addressing the use of unpredictable revenues. For each major unpredictable revenue source, the District should identify those aspects of the revenue source that make the revenue unpredictable. Most importantly, the District should identify the expected or normal degree of volatility of the revenue source.
- **Revenue Diversification** – A government should adopt a policy that encourages diversity of revenue sources. Although the District's administrative guidelines

identify an attempt to diversify revenue through the use of grants, the District's guidelines and policies do not otherwise address revenue diversification. More diversity in revenue sources could improve the District's ability to handle fluctuations in revenues and better distribute the cost of providing services.

- **Contingency Planning** – A government should have a policy to guide the financial actions it will take in the event of emergencies, natural disasters, or other unexpected events. While the District's administrative guidelines address actions that should be taken when enrollment fluctuates, other unexpected events such as emergencies and natural disasters are not addressed. When emergencies or unexpected events occur, having a policy that can be applied, or at least serve as a starting point, for financial decisions and actions improves the ability of a government to take timely action and aids in the overall management of such situations.

By enhancing its current policies and administrative guidelines to include elements of GFOA-recommended practices, the District can better manage its limited resources and help ensure consistency in financial practices. Such policies can also help the District operate more smoothly, be used as a tool for financial decision making, and improve the ability of the District to take timely action. In addition, strong financial policies aid in the overall management of the budget and achievement of the District's long-range goals.

**R2.6 Minerva LSD should enhance its current ethics policies for administrators and staff to include elements of leading practices suggested by the Ohio Ethics Commission (OEC). The policies should require all administrators and staff, including financial staff, to conduct themselves in a manner that avoids favoritism, bias, and the appearance of impropriety. Once adopted, the enhanced policies should be distributed and discussed with all administrators and staff. The policies should also be posted on the District's website so that they are readily available for others to see.**

The District has not developed an ethics policy that applies specifically to financial staff. However, the District has separate ethics policies in place for administrators and professional and classified staff. While the Treasurer's Office does fall under these categories, the ethics policies lack references to the requirements that pertain to those entrusted with District funds. Furthermore, the District's ethics policies do not contain some elements of leading practices recommended by the OEC. Although there is no evidence of unethical behavior among administrators or staff, enhancing the current policies to include additional elements of leading practices will help ensure that employees are aware of the guidelines for appropriate behavior when acting on behalf of the District.

According to the OEC sample ethics policy for local governments,<sup>6</sup> officials and employees must, at all times, abide by the protections to the public embodied in Ohio's ethics laws. These laws are codified in ORC Chapters 102 and 2921, and have been interpreted by OEC and various Ohio courts. A copy of these laws should be provided to employees and their receipt acknowledged, as required in ORC § 102.09(D). OEC recommends the ethics policy prohibit employees from the following:

- Soliciting or accepting employment from anyone doing business with the [district];
- Being paid or accepting any form of compensation for personal services rendered on a matter before any board, commission, or other body of the [district];
- Holding or benefiting from a contract with, authorized by, or approved by, the [district];
- Voting, authorizing, recommending, or in any other way using his or her position to secure approval of a [district] 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;
- During public service, and for one year after leaving public service, representing 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 [district]; and
- Using, or authorizing the use of, his or her title, the [district's] name, acronym, or logo in a manner that suggests impropriety, favoritism, or bias by the [district] or the official or employee.

By amending its current ethics policies to include elements of OEC-recommended practices, Minerva LSD can provide better guidance to all staff members, particularly those entrusted with District funds, on how to conduct themselves in a manner that avoids favoritism, bias, or the appearance of impropriety. Furthermore, comprehensive ethics policies provide guidance to employees on how to ensure that their actions are always in the best interest of the District and how they can help the District avoid any appearance of impropriety. After the Board implements enhanced ethics policies that encompass the elements of OEC-recommended practices, it should have staff read and sign the policies to acknowledge their understanding of the Board's expectations.

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<sup>6</sup> The Ohio Ethics Commission's sample ethics policy for local government officials can be found online at: [http://www.ethics.ohio.gov/ModelEthicsPolicy\\_localagencies.html](http://www.ethics.ohio.gov/ModelEthicsPolicy_localagencies.html)

## Purchasing

**R2.7 Minerva LSD should update its policies and procedures to include requirements that are in line with leading practices for the procurement of contracted services. By updating its polices and procedures for the procurement of contracted services, Minerva LSD can ensure proper internal controls exist over its contracting process, while enhancing the accountability of selected vendors.**

Minerva LSD primarily contracts for professional, technical, and property services related to the maintenance and repair of equipment and buildings. In addition, the District also contracts for minor instances of craft and trade services. The District spent approximately \$360,000 on contracted services in FY 2007-08. Minerva LSD has purchasing/contracting policies that address bidding operations and fulfill the requirements established by ORC 3313.46, which requires a competitive bidding process for purchases above \$25,000. The District also has detailed instructions in its administrative guidelines regarding the bidding process. Moreover, Minerva LSD's purchasing policy states that the Superintendent should seek at least two price quotes on purchases of more than \$2,000 for a single item, except in cases of emergency or when the materials purchased are of such a nature that price negotiations would not result in a savings to the District or when the item is subject to formal bid. However, the District's policy does not incorporate all elements of leading practices suggested by the NSAA, particularly in the area of contracted services.

According to *Contracting for Services* (NSAA, 2003), governments should develop policies and procedures for the procurement of contracted services. These policies and procedures should include the following elements:

- **Planning** – Proper planning provides the foundation for awarding and monitoring contracts. Planning identifies what services are needed, how they should be provided, and what provisions should be in the contract.
- **Decision to Contract** – The District needs to determine whether or not to contract for the services. This will determine whether outsourcing or keeping the service in-house is the necessary action.
- **Performance Requirements** – Once the decision to contract has been made, the agency should develop performance requirements that will hold vendors accountable for the delivery of quality services.
- **Request for Proposal Process (RFP)** – The decision to issue a request for proposal commits an agency to a formal process based on fair and open competition and equal access to information.



- **Award Process** – Although evaluation methods vary, the contract award process should ensure vendor proposals are responsive to the District’s needs, consistently and objectively evaluated, and contracts are awarded fairly to responsible vendors.
- **Contract Provision** – Contracting for purchased services should be formalized. Contracts should (1) protect the interests of the District, (2) identify the responsibilities of the parties to the contract, (3) define what is to be delivered, and (4) document the mutual agreement, the substance, and the parameters of what was agreed upon.
- **Monitoring** – Contract monitoring is an essential part of the contract process. Monitoring should ensure that contactors comply with contract terms, performance expectations are achieved, and any problems are identified and resolved. Without a sound monitoring process, the contracting district does not have adequate assurance it will receive what it contracts for.

Policies and procedures surrounding contracted services can be useful to help ensure efficient, effective, and accountable vendors are selected. Furthermore, policies and procedures help ensure consistent application of appropriate internal controls during the procurement process.

**R2.8 Minerva LSD should amend its purchasing policies to increase the effectiveness of internal controls over the purchasing process. The policies should require that documentation is consistently maintained for each purchase. In addition, the District should ensure that its purchasing practices are in line with its written purchasing policies. The purchasing policies and corresponding internal controls should be compiled into a manual and periodically reviewed to determine whether they are being followed and if they are still relevant to the District’s operations.**

Minerva LSD has wide-ranging policies related to the purchasing function that address purchasing, payments, local purchasing, vendor relations, cooperative purchasing, and disposal of surplus property. Also addressed are provisions for *blanket* and *super blanket* certificates, *then and now* certificates, lease-purchase agreements, purchases from the State, quantity purchases, and reverse auctions. Lastly, the District has detailed instructions for preparing different types of purchase orders, including normal purchase orders, subscriptions, library books and supplies, telephone orders to vendors, and purchase orders for preview of materials.

The purchasing function is centralized in the Treasurer’s Office. This promotes consistency of operations and reduces the risk of abuse of the purchasing process. Based on documentation provided by the Treasurer’s Office, the District is abiding by its

policies. However, the District should be consistent in its use of the “blue verification slip.” This slip is signed by the requesting staff member upon verification of correct delivery of goods and then submitted to the Treasurer’s Office. The Treasurer’s Office acknowledged this form is not always submitted, and sometimes the requestor’s signature on an invoice is accepted in lieu of the blue verification slip. In addition, as stated in the District’s payment policy, all payments should be presented to the Board for review. Overall, the District’s purchasing function contains several elements of leading practices. However, some additional internal control procedures should be implemented.

According to *Enhancing Management Involvement with Internal Control* (GFOA, 2006), a sound framework of internal control is necessary to afford a reasonable basis for finance officers to assert that the information they provide can be relied upon. In addition, GFOA recommends that financial managers periodically evaluate relevant internal control procedures to satisfy themselves that those procedures 1) are adequately designed to achieve their intended purpose, 2) have actually been implemented, and 3) continue to function as designed.

While policies establish what an organization requires, procedures describe how policies will be carried out or implemented. According to *Introduction to Public Procurement* (The National Institute of Governmental Purchasing (NIGP), 2004), procedures manuals are not intended to just provide guidance, but also to set out the forms, process requirements, and steps for each procurement action. A procedures manual is best when structured in exactly the same sequence as the procurement cycle, detailing each step in the process and showing the forms to be used, the information required, and the standard length of time necessary to complete any step in the process. This facilitates operational planning and provides benchmarks for monitoring the process. Procedures manuals should be tailored to meet agency requirements and, at a minimum, should include:

- Procurement goals, objectives, and responsibilities;
- Step-by-step outlines of the procurement process, including the processing of requisitions, solicitations, bid evaluations and awards, preparation and issuance of purchase orders and contracts, follow-up, and contract administration;
- Guidelines and steps for client departments for preparing procurement requisitions, developing specifications, receiving and inspecting, and reporting and documenting vendor performance;
- Step-by-step outlines of the property and supply management programs, including inventory control and management and the transfer or disposal of surplus property;
- Other special procedures, such as a description of a cooperative purchasing program, how to process invoices for payment, and how to process call-ups against term contracts and blanket purchase orders; and

- Listing of the important forms used in the procurement process, instructions to bidders and general conditions governing contracting, and a glossary of procurement terms used in the manual.

The manual should be written for the guidance of both the procurement staff and those people in user departments who are charged with initiating requisitions. It is good practice to make direct reference to, and in some cases include a copy of, the enabling regulation or policy in a procedures manual. Procedures manuals sometimes include process flow charts to graphically portray the flow of forms and information through the procurement process.

Some Ohio school districts have developed procedures manuals to guide staff through the purchasing process and ensure district regulations and policies are adhered to. For example, Miami East Local School District in Miami County has a requisition and purchase order handbook that includes reference to ORC statutes for purchase order authorization; detailed procedures for purchase orders, emergency purchases, and creating and managing online requisitions; USAS coding definitions; and sample forms.

While some of the items recommended by NIGP are present in existing policies, Minerva LSD does not have formal procedures in place to guide employees in requisitioning and purchasing. The development, approval, and distribution of a purchasing manual would help the Board, Treasurer, and Superintendent clarify the District's official position on purchasing practices. By amending its purchasing policies to include effective internal controls over purchasing practices, maintaining consistent documentation, creating a purchasing manual, and ensuring that its written policies are relevant to the District's operations, Minerva LSD can improve both the consistency of and accountability over its purchasing practices.

**R2.9 Minerva LSD should update its credit card policy and implement internal controls which are consistent with leading practices to help ensure proper credit card usage and promote accountability. The District should consider canceling its store-issued credit cards and maintaining a single credit card provider in an effort to simplify credit card management and limit the potential for fraud and or abuse. The District's credit card policy should address the competitive selection of a credit card provider that meets the District's needs. Consideration should be given to vendors who can provide automated approval and reconciliation programs that are simple and easy to use. This, combined with appropriate internal controls in accordance with the District's purchasing policy, will promote the ongoing success of a purchasing card program.**

Minerva LSD's credit card policy incorporates guidelines for appropriate use. There are no credit cards issued to specific employees, but the District maintains several store-

issued credit cards. The District indicated that credit card usage among administrators and staff is rare and usage is closely monitored. Notwithstanding this fact, its policy is lacking elements of leading practices. The District should evaluate the need for having multiple store-issued credit cards, cancel them if appropriate, and maintain a single credit card provider that meets its needs.

According to *Purchasing Card Programs* (GFOA, 2003),<sup>7</sup> if not properly monitored, the issuance of purchasing cards or credit cards to employees could result in internal control issues or abuse. Best practice guidelines for the use of purchasing/credit cards include the following:

- Written agreements with the banks;
- Written policies and procedures for internal staff;
- Written acknowledgment of employee responsibility;
- Spending and transaction limits;
- Written requests for higher spending levels;
- Recordkeeping requirements;
- Clear guidelines on the appropriate uses of purchasing cards;
- Guidelines for making purchases by telephone, fax, or internet;
- Periodic audits of card activity;
- Procedures for handling disputes and unauthorized purchases;
- Procedures for card issuances and cancellations, lost or stolen cards, and employee termination; and
- Segregation of duties for payment approvals, accounting, and reconciliation.

According to *Best Practices* (AOS, Winter 2004),<sup>8</sup> appropriate policies and procedures pertaining to credit card use reduce the risks associated with purchasing programs, and help protect against abuse while promoting employee accountability. Furthermore, the cancellation of multiple credit card providers reduces the risk of inappropriate use and unauthorized purchases. Without a comprehensive credit card use policy, the District increases the risk of misuse and abuse of District funds.

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<sup>7</sup> <http://www.gfoa.org/>

<sup>8</sup> [www.auditor.state.oh.us](http://www.auditor.state.oh.us)

*Payroll***R2.10 Minerva LSD should enhance its written payroll policies and guidelines to include comprehensive internal controls. These policies and guidelines should be updated as payroll processes change. Updated procedures for all payroll functions will help ensure the accuracy and efficiency of the payroll process.**

The payroll function is administered by an experienced assistant to the Treasurer, who abides by the District's payroll bylaws and policies and its administrative guidelines. These policies and guidelines govern payroll authorizations, payroll deductions, and timesheet preparation and approval. However, the District's payroll policies and guidelines do not include all of the elements of internal controls recommended by leading practices.

According to *Enhancing Management Involvement with Internal Control* (GFOA, 2004),<sup>9</sup> government entities should maintain clearly documented internal control policies over all program areas, which includes the payroll process. Internal controls should be evaluated periodically to ensure that those procedures are adequately designed to achieve their intended purpose, have actually been implemented, and continue to function as designed. Evaluations should also encompass the effectiveness and timeliness of the entity's response to potential control weaknesses. Furthermore, *Assessing Internal Controls in Performance Audits* (GAO, 1990)<sup>10</sup> recommends a government entity's system of internal controls be clearly documented and address the following issues:

- Recording of transactions and events;
- Execution of transactions and events;
- Separation of duties;
- Supervision; and
- Access to and accountability for resources.

Although Minerva LSD has an experienced person administering its payroll process, it should enhance its written payroll policies and guidelines to improve internal controls as staffing changes will inevitably occur. Clearly documented procedures will reduce payroll errors and, potentially, misuse or abuse of resources. By maintaining appropriate internal controls over payroll operations, the District can promote accountability and accuracy while reducing the risk of possible error.

<sup>9</sup> <http://www.gfoa.org/downloads/caafirmanaginternalcontrol.pdf>.

<sup>10</sup> <http://archive.gao.gov/t2pbat9/142503.pdf>.

**R2.11 If Minerva LSD continues to make lump sum payments outside of its existing salary schedule (see R3.2), it should negotiate a reduction of three payroll cycles per year by including the lump sum payments on regular pay checks rather than issuing separate checks three times a year. The Treasurer's Office can implement the change for little cost and by doing so, reduce the amount of time spent processing payroll and allow more time for reconciliation and other functional duties.**

The District's payroll is processed 29 times per year.<sup>11</sup> Negotiated agreements for classified and certificated staff address regular pay cycles and the payment dates of three lump sum payments, which occur on the Wednesday prior to Thanksgiving, the first day in March, and the last day of school. The lump sum checks are issued separately from regular paychecks, and this requires additional time spent on entering data, processing the payroll, checking and correcting errors, and reconciling. The payroll staff could avoid these additional measures by including the lump sum payments in regular paychecks, saving time and increasing the overall efficiency of the Treasurer's Office.

According to *Payroll Best Practices* (Bragg, 2005), many payroll departments are fully occupied with processing some kind of payroll every week and possibly even several times in one week. Processing multiple payroll cycles consumes most of the free time of the payroll staff, leaving it with little time for cleaning up paperwork or making improvements to its basic operations. Leading practice recommends that districts consolidate their payroll cycles into a single, district-wide cycle. By doing so, the payroll staff at Minerva LSD would no longer have to spend extra time issuing additional checks three times a year, as the lump sum payments would appear in regular paychecks.

By reducing three payroll runs, the Treasurer's Office will have more time to reconcile payroll checks and the total time spent processing payroll will be kept at a minimum. For very little cost, this change would significantly improve the efficiency of the payroll process.

**R2.12 Minerva LSD should approach bargaining unit representatives and request a memorandum of understanding requiring mandatory direct deposit for all employees and long-term substitute teachers, regardless of hire date. Furthermore, the District should discontinue the practice of issuing paper pay stubs and mandate that all employees make use of the electronic pay stubs. By expanding the use of these practices, the District could reduce the supplies and materials costs associated with producing paper pay checks and stubs while improving the efficiency of operations in the Treasurer's Office. In addition, the District's employees would benefit from ease of access to and availability of historical pay stub information. Once the mandatory direct deposit and electronic pay stub programs are developed,**

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<sup>11</sup> The payroll runs do not include supplemental pays.

**the District will need to adopt formal written procedures to govern the programs and their related processes.**

Minerva LSD does not require mandatory direct deposit for certificated and classified employees and long-term substitute teachers, nor does it issue electronic pay stubs. The District is working to get 100 percent direct deposit participation. However, some employees accustomed to receiving a physical check are hesitant to switch. About half of District employees take advantage of direct deposit.

According to the National Automated Clearing House Association (NACHA) / Electronic Payment Association, direct deposits can be very beneficial to both the organization and its employees. Furthermore, the Electronic Payment Association states that employers and employees can financially benefit from the use of electronic pay stubs while simultaneously increasing efficiencies within a payroll department. The employer benefits because electronic pay stubs eliminate the need to print, mail, and distribute pay stubs or reproduce lost pay stubs. At the same time, the employee benefits because he or she can easily access pay information from any computer with a browser and internet connection. Also, a more extensive record of the employee's pay history is available, beginning with the first electronic pay stub. Electronic pay stubs also make it easy for employees to provide pay stub information to third parties, such as accountants, mortgage lenders, and other agencies requiring pay verification. Coventry Local School District (Summit County) is among several school districts that have successfully negotiated mandatory direct deposit programs for all their employees, and have consequently seen improvements and cost savings in their payroll operations.

Computer access for bus drivers and custodians may create a logistical problem; however, Minerva LSD could issue email addresses to these employees and allow these employees access to computers within the District. The District could establish a centralized computer station during the summer months for employees to access their electronic pay stubs or send the pay stubs to private email accounts. Furthermore, by issuing email accounts, Minerva LSD could use email as a form of communications to District employees.

Although the savings associated with implementing mandatory direct deposit and electronic pay stubs is difficult to quantify, the District could save approximately \$250 per pay period from the cost of paper, envelopes, stamps, and associated time to process paper stubs. Also, the time spent printing checks and stuffing envelopes could be reallocated to reconciliation and/or other office activities.

*Five-Year Forecast*

**R2.13 The Treasurer’s Office should revise forecast practices to ensure that all appropriate line items are included within the five-year forecast. The General Fund should be used to cover deficits in other funds within the District and such transfers should be anticipated and reflected in the five-year forecast as *operational transfers - out*. Furthermore, the Treasurer must ensure that all reservations of funds are reflected in the forecast when necessary. Including appropriate information on the forecast will provide management with a more accurate financial outlook, increase the reliability of the five-year forecast projections, and ensure compliance with the ORC and guidelines established by ODE.**

The District’s May 2008 five-year forecasts did not properly reserve funds to meet the unspent textbooks and instructional materials set-aside requirement nor did it include *operational transfers – out* to cover deficits in other funds. The management letter issued by the AOS in the District’s 2007 financial audit stated that the District did not have enough qualifying disbursements to meet the requirements for the textbook and materials reserve. The required fund balance reserve was \$148,669; however, the District had insufficient cash in the General Fund at year-end to cover the reserve. The AOS revised forecast included the required reserve in its forecast projections based on historical qualifying disbursements against projected set-aside requirements (see **Table 2-5**).

The District’s May 2008 five-year forecast also did it include *operational transfers – out* to cover deficits in other funds. This issue was discussed in the 2007 management letter, which showed a Food Service Fund deficit of \$77,620. ORC §5705.10 states that money paid into a fund shall be used only for the purpose for which such fund is established. The existence of a deficit balance in any fund indicates that the money from another fund or funds has been used to pay the obligations of the fund or funds carrying the deficit balance. To account for future General Fund obligations, the average deficit over the prior three fiscal years’ was used to project future transfers to the Food Service Fund. Furthermore, the FY 2007-08 negative ending balance was added to the FY 2008-09 projected transfer amount to eliminate the accumulated deficit in the Food Service Fund. However, the District’s October 2008 forecast showed a \$40,000 transfer to the Food Service Fund, therefore this amount was subtracted from the FY 2008-09 projected transfer.

Chapter Four of the Education Management Information System (EMIS) manual details the accounting codes that should be included in each line item of the five-year forecast. The District should consult Chapter Four of the EMIS manual for guidance on appropriate codes used in the forecast. Properly coding ensures compliance with ORC and forecasting requirements, and provides a more accurate financial condition to management to aid the District in financial decisions and performance measurement.



Additionally, by making sure all items are properly included in the forecast and budget, the District reduces its risk of having insufficient cash balances at year end to cover General Fund obligations

**R2.14 Minerva LSD should revise and fully document its methodology for the major line items in its five-year forecast. The District's forecast methodology should take into account historical trends and include the impact of any known changes in the economy, legislation, educational programs, or District operations. Most importantly, the District's methodology and assumptions should support and explain the basis for its projections. Sufficiently detailed supporting documentation will also allow Minerva LSD to more easily explain forecast adjustments when circumstances or expectations change, make more accurate and timely projections, and better plan educational programs and operations to meet specific District goals.**

Major line items in Minerva LSD's five-year forecast, including tangible personal property tax, State funding, property tax allocation, purchased services, supplies and materials, and capital outlay, were evaluated and adjustments were made to the District's projections based on revised methodologies, historical trends, and other information available at the time of the audit. The impact of these forecast adjustments are shown in **Table 2-4**. The paragraphs that follow explain the adjustments made to the forecast line items and methodologies used to develop revised projections.

#### **Tangible Personal Property Tax**

Tangible personal property tax includes the amount businesses pay on equipment, supplies, and materials they own. This tax on businesses is being reduced by approximately 25 percent per year starting in FY 2005-06. School districts are reimbursed for the lost revenue through FY 2009-10, after which a phase out begins that will last through FY 2016-17.

The District did not have sufficiently detailed documentation to explain the methodology or assumptions it used to forecast tangible personal property tax revenue. The Treasurer generally based projections on County Auditor estimates for the current fiscal year and included the phase out reductions that continue until the tax is eliminated. However the Treasurer did not take into account all necessary calculations and timelines involved with tangible personal property tax revenue.

The revised AOS forecast used a calculation worksheet provided by ODE that takes into account State aid offsets, fixed rate and fixed sum local collections, tax levy losses, millage reimbursements, and telephone utility funds, as well as other historical information available at the time of the audit.

**State Funding (Unrestricted and Restricted Grants-in-Aid)**

State funding is comprised of unrestricted and restricted grants-in-aid received from the State through the State Foundation Program. The funding levels are established by the Ohio General Assembly and the program is administered by ODE. Because funding levels are established biennially, State funding amounts cannot be projected through the five-year period with absolute certainty.

The District did not have sufficiently detailed documentation to explain the methodology or assumptions it used to forecast State funding. The Treasurer only included brief statements in the forecast notes which discussed a projected 1.0 percent increase for unrestricted funding and zero growth for restricted funding throughout the five-year time period.

The projections in **Table 2-5** for State funding were based on a methodology that includes details regarding Average Daily Membership (ADM) projections, State foundation levels, recognized property valuations, special educational weighted funding amounts, career tech/adult education enrollment and funding levels, transportation subsidies, and other categorical items discussed below. These items were based on historical trends and other known factors. In light of the recent economic downturn and State budget reductions, certain items found on the SF-3 were held to lower increases than historical averages. The following major assumptions were used to project State funding levels:

- ADM is projected to decline, according to the Treasurer and supported by recent ADM trends. ADM was decreased by 0.8 percent per year through the forecast period.
- Prior to House Bill (HB) 119, the State operating budget for FY 2007-08 and 2008-09, State foundation levels increased by approximately 2.2 percent per year. However, HB 119 increased foundation levels to 3.0 percent per year during the biennial budget period. Prior to the State's recent economic downturn, it would be reasonable to continue to increase foundation levels by 2 to 3 percent through the forecasted period. However, as recently as December 2008, ODE was required to make additional budget reductions of approximately \$30 million. The reductions did not apply to specific ODE line items for foundation funding, pupil transportation, gifted pupil program, special education enhancements or career/technical education enhancements. Nonetheless, these types of budget cuts would indicate that future growth in SF-3 funding is not likely to increase at historical levels. Therefore, AOS projections reduced the foundation levels to 1.0 percent per year, which is below the levels in place prior to HB 119.

- Special educational weighted amounts increased by an average of 8.6 percent from FY 2002-03 through FY 2007-08. While special education weighted amounts historically increased substantially, large variances between years did not provide a meaningful trend on which to base a solid projection. However, during the past two years, funding levels increased 6.3 percent, indicating increased relative stability. To account for this, a modest increase of 3.0 percent was used for the projection, predicting that this category item will likely continue to increase but not at historical rates.
- Career tech/adult education funding decreased by an average of 4.2 percent from FY 2002-03 through FY 2007-08. However, this line item decreased sharply (by 77.3 percent) in FY 2006-07. During FY 2007-08 and FY 2008-09, funding has remained at much lower levels than in past years, but is showing signs of marginal future increases. As a conservative projection, career tech/adult education projections were held flat at the FY 2008-09 levels through the forecasted period.
- Training and experience funding sharply decreased from FY 2002-03 through FY 2004-05. However, recent years have experienced relative stability with slight increases. To account for the recent gains, a 3.0 percent increase from the FY 2008-09 amount was used.
- Poverty based assistance (PBA) remained flat for five years before decreasing by 22.7 percent in FY 2007-08. It has since increased 3 percent; however, despite an overall decrease in trend, a projected 1.0 percent increase from FY 2008-09 levels was used to account for increases during the most recent time period.
- Parity aid has increased by an average of 23.3 percent from FY 2002-03 through FY 2007-08. However, this level of increase may be unrealistically high for future projections. Despite the fact that parity aid has experienced substantial increases for several years, a more conservative 8.0 percent projection was used beginning from the FY 2008-09 level.
- Gifted aid has remained stable, averaging an increase of only 0.35 percent from FY 2002-03 through FY 2007-08. Therefore a 0.35 percent annual increase was used for the five-year forecast. Transportation funding averaged 1.5 percent increases from FY 2004-05 to FY 2007-08, therefore a 1.5 percent increase was used for the forecast period beginning with the FY 2008-09 amount. Other categorical items were based on historical conservative trends, known factors, and calculations found within the State funding program

*During the course of the audit, the Governor's Office released a proposed budget that, if approved by the Ohio General Assembly, would dramatically change how school districts are funded. Until the biennial budget is approved, school districts should closely monitor the proposed impact potential changes in State funding would have on their particular financial conditions. Using multiple scenarios can be helpful in this regard. Once the biennial budget is approved, Minerva LSD should make the appropriate modifications to its five-year forecast. Regardless of the outcome, Minerva LSD should fully document and outline its forecast assumptions and projections.*

### **Property Tax Allocation**

Property Tax Allocation includes State funds received to offset lost local revenue resulting from the homestead exemption, property tax rollback, and tangible personal property tax reimbursements.

The District did not have sufficiently detailed documentation to explain the methodology or assumptions it used to forecast property tax allocation. The forecast notes explained which elements were included in the line item, such as real estate homestead and rollback provisions. However the forecast notes did not include any figures, calculations, or explanations to explain how the projections were developed.

AOS projected homestead and rollback revenue based on the historical average percent (12.9 percent) of the total general property tax collections. This percentage was then applied to the general property tax projections from the District's October 2008 five-year forecast. Tangible personal property tax reimbursements were projected based on a forecasting tool provided by ODE, and were subsequently summed with the homestead and rollback projections.

### **Purchased Services**

Purchased services accounts for items such as utilities (electricity, gas, water, and sewer), professional and technical services, property services, travel mileage and meeting expenses, communications, contracted craft or trade services, open enrollment tuition, pupil transportation services, and other miscellaneous purchased services.

The District did not have sufficiently detailed documentation to explain the methodology or assumptions to forecast purchased services. The forecast notes offered a brief explanation for purchased service projections based upon open enrollment payments for students leaving the District and historical patterns. However the forecasts notes did not include any figures, calculations or explanations on how the projections were developed.

AOS projections for professional and technical services, utilities, property services, contracted craft or trade services, and pupil transportation services use a conservative 5.0 percent increase, based on historical trends that take into account the line items' average annual percent changes and FY 2007-08 amounts. Tuition is projected to increase by 3.0 percent using the same methodology. Travel mileage and meeting and communications expenditures are projected to increase by 5.0 percent per year based on inflation factors.

### **Supplies and Materials**

Supplies and materials includes items such as general supplies, textbooks, library books, newspapers, supplies and material for resale, food and related supplies and materials, and supplies and materials related to the operation, maintenance, and repair of plant, equipment, and motor vehicles.

The District did not have sufficiently detailed documentation to explain the methodology or assumptions to forecast supplies and materials. The forecast notes offered a brief explanation that historical patterns impacted by a vigorous effort to control costs and concerns over bus fuel were the basis for the projection. However the forecasts notes did not include any figures or explanations for how the projections were calculated.

AOS projections are based on historical changes on a line item basis and known factors. Ideally, educational and operational goals would also be considered when projecting items such as textbooks and operational and maintenance repairs. Projections for general supplies and newspapers, periodicals, and films are based upon FY 2007-08 expenditures per student and expected future enrollment. Projections for textbooks take into account historical expenditures and necessary set-aside requirements. Because the District is not meeting the required expenditures for textbooks, the amount needed to be spent to meet the requirement is "set aside" as a reservation of funds in the forecast (see **R2.13**). Expenditures related to the operation, maintenance, and repair of facilities and vehicles are projected to increase by a conservative 5.0 percent based on average historical increases, average historical amounts spent per vehicle, and the number of vehicles in the fleet.

### **Capital Outlay**

The capital outlay category includes expenditures for the acquisition of, or additions to, fixed assets. Included are expenditures for land or existing buildings, improvements of grounds, construction of buildings, additions to buildings, remodeling of buildings, and new and replacement equipment, furnishings, and vehicles.

The District did not have sufficiently detailed documentation to explain the methodology or assumptions to forecast capital outlay. The forecast notes offered a brief explanation

that capital expenditures will be tightly monitored but balanced by the District's need to keep bus fleet and investments in technology current. However, the forecast notes did not include any figures, calculations, or explanations for how the projections were developed.

AOS projections are made on a line item basis and are based on historical trends. As a result, a conservative 2.0 percent annual increase was applied to each of the above named expenditures.

**Table 2-4** shows the net impact of the AOS revised projections on each line item and the five-year forecast ending balance when compared with the District's May 2008 projections.

**Table 2-4: Net Impact of Revised Five-Year Forecast Projections**

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
<b>Revenue</b>					
Tangible Personal Property Tax	(\$2,393)	\$39,038	\$30,276	\$0	\$0
Unrestricted Grants-In-Aid	\$9	(\$110,420)	\$163,129	\$34,106	(\$24,712)
Property Tax Allocation	(\$73,414)	(\$252,352)	(\$377,229)	(\$520,488)	(\$626,433)
<b>Net Impact on Revenue</b>	<b>(\$75,799)</b>	<b>(\$323,734)</b>	<b>(\$183,824)</b>	<b>(\$486,382)</b>	<b>(\$651,145)</b>
<b>Expenditures</b>					
Purchased Services <sup>1</sup>	\$218,866	\$220,334	\$219,297	\$218,869	\$218,170
Supplies and Materials <sup>1</sup>	\$5,452	(\$32,055)	(\$66,869)	(\$105,447)	(\$142,777)
Capital Outlay <sup>1</sup>	(\$16,260)	\$5,415	\$7,023	\$8,564	\$10,035
Operating Transfers-Out	\$160,031	\$41,430	\$41,430	\$41,430	\$41,430
Textbooks/Instructional Material	\$330,839	\$334,318	\$337,838	\$341,399	\$345,002
<b>Net Impact on Expenditures</b>	<b>\$698,928</b>	<b>\$569,442</b>	<b>\$538,719</b>	<b>\$504,815</b>	<b>\$471,860</b>
<b>Ending Fund Balance</b>					
<b>Net Impact on Fund Balance</b>	<b>(\$774,727)</b>	<b>(\$893,176)</b>	<b>(\$722,543)</b>	<b>(\$991,197)</b>	<b>(\$1,123,005)</b>

Source: Minerva Local School District and AOS

<sup>1</sup> The net impact was included in Minerva LSD's October 2008 five-year forecast presented in **Table 2-1**.

**Table 2-4** shows that the revised projections would negatively impact the ending fund balance of the five-year forecast from FY 2008-09 through FY 2012-13, with a cumulative effect of approximately \$4.5 million. This impact has been applied to the forecast shown in **Table 2-5**.

**R2.15 Minerva LSD should implement the recommendations contained in the performance audit to help offset projected deficits and allow the District to maintain a positive year-end balance through FY 2010-11. In addition, Minerva LSD should update its five-year forecast on a regular basis or whenever material changes in assumptions are made or unanticipated events occur.**

By implementing the performance audit recommendations, including those subject to negotiation, Minerva LSD should be able to maintain a positive fund balance through FY 2010-11. **Table 2-5** demonstrates the impact of the recommendations on the five-year forecast ending fund balances, assuming the recommendations are fully implemented.<sup>12</sup>

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<sup>12</sup> The forecast presented in **Table 2-5** also includes the impact of forecast adjustments that more accurately reflect the District's revenue and financial obligations (see **R2.13** and **R2.14**).

**Table 2-5: Five-Year Forecast with Recommendations (in 000's)**

	Actual			Forecasted				
	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
<b>Revenues:</b>								
General Property Tax	\$4,435	\$4,589	\$4,854	\$5,062	\$5,100	\$5,200	\$5,200	\$5,400
Tangible Personal Tax	\$1,051	\$692	\$518	\$242	\$39	\$30	\$0	\$0
Unrestricted Grants-in-Aid	\$8,717	\$8,740	\$8,813	\$9,316	\$9,383	\$9,752	\$9,718	\$9,757
Restricted Grants-in-Aid	\$71	\$58	\$46	\$36	\$36	\$36	\$37	\$37
Property Tax Allocation	\$660	\$968	\$1,045	\$1,085	\$1,107	\$1,023	\$930	\$849
All Other Revenues	\$958	\$1,012	\$1,005	\$1,007	\$1,012	\$1,020	\$1,030	\$1,040
Total Revenues	\$15,891	\$16,059	\$16,281	\$16,749	\$16,677	\$17,061	\$16,915	\$17,083
Advances-In	\$0	\$0	\$20	\$0	\$0	\$0	\$0	\$0
<b>Total Other Financing Sources</b>	<b>\$0</b>	<b>\$0</b>	<b>\$20</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Total Revenues and Other Financing Sources</b>	<b>\$15,891</b>	<b>\$16,059</b>	<b>\$16,301</b>	<b>\$16,749</b>	<b>\$16,678</b>	<b>\$17,061</b>	<b>\$16,915</b>	<b>\$17,083</b>
<b>Expenditures:</b>								
Personal Services	\$9,818	\$9,958	\$9,519	\$9,776	\$9,533	\$9,875	\$10,214	\$10,559
Employees' Retirement / Insurance Benefits	\$4,039	\$3,862	\$4,435	\$4,066	\$4,254	\$4,557	\$4,883	\$5,616
Purchased Services	\$1,070	\$1,027	\$1,230	\$1,349	\$1,405	\$1,464	\$1,526	\$1,590
Supplies and Materials	\$480	\$575	\$688	\$685	\$862	\$864	\$868	\$872
Capital Outlay	\$78	\$77	\$77	\$166	\$170	\$173	\$176	\$180
Other Objects	\$320	\$318	\$333	\$340	\$347	\$354	\$361	\$368
Total Expenditures	\$15,806	\$15,818	\$16,282	\$16,382	\$16,570	\$17,287	\$18,027	\$19,185
Operational Transfers-Out	\$41	\$361	\$19	\$160	\$41	\$41	\$41	\$41
<b>Total Other Financing Uses</b>	<b>\$41</b>	<b>\$361</b>	<b>\$19</b>	<b>\$160</b>	<b>\$41</b>	<b>\$41</b>	<b>\$41</b>	<b>\$41</b>
<b>Total Expenditures and Other Financing Uses</b>	<b>\$15,846</b>	<b>\$16,179</b>	<b>\$16,301</b>	<b>\$16,542</b>	<b>\$16,612</b>	<b>\$17,329</b>	<b>\$18,068</b>	<b>\$19,227</b>
Result of Operations (Net)	\$45	(\$120)	\$0	\$206	\$66	(\$267)	(\$1,153)	(\$2,144)
Balance July 1	\$93	\$139	\$19	\$19	\$225	\$290	\$24	(\$1,130)
Cash Balance June 30	\$138	\$19	\$19	\$225	\$290	\$23	(\$1,129)	(\$3,273)
Estimated Encumbrances June 30	\$69	\$17	\$13	\$50	\$50	\$50	\$50	\$50
Textbook & Instructional Materials	\$0	\$0	\$0	\$331	\$334	\$338	\$341	\$345
<b>Total Reservations</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$331</b>	<b>\$334</b>	<b>\$338</b>	<b>\$341</b>	<b>\$345</b>
<b>Fund Balance June 30 for Certification of Appropriations</b>	<b>\$70</b>	<b>\$2</b>	<b>\$6</b>	<b>(\$156)</b>	<b>(\$93)</b>	<b>(\$364)</b>	<b>(\$1,521)</b>	<b>(\$3,669)</b>
<b>Unreserved Fund Balance for June 30th</b>	<b>\$70</b>	<b>\$2</b>	<b>\$6</b>	<b>(\$156)</b>	<b>(\$93)</b>	<b>(\$364)</b>	<b>(\$1,521)</b>	<b>(\$3,669)</b>
<b>Performance Audit Recommendation</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$897</b>	<b>\$902</b>	<b>\$907</b>	<b>\$916</b>
<b>Revised Unreserved Fund Balance June 30</b>	<b>\$70</b>	<b>\$2</b>	<b>\$6</b>	<b>(\$156)</b>	<b>\$804</b>	<b>\$537</b>	<b>(\$614)</b>	<b>(\$2,753)</b>

Source: AOS

**Table 2-6** summarizes the cost savings associated with the recommendations contained within the performance audit. Some recommendations and the associated savings are dependent on the outcome of collective bargaining negotiations. Even if successful in fully implementing performance audit recommendations, the District has significant financial challenges ahead if it is to avoid deficits in the future. Minerva LSD will need to secure additional revenue and/or



make reductions beyond what is recommended in this audit to maintain positive fund balances beyond FY 2010-11.

**Table 2-6: Summary of Cost Savings**

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
<b>Not Subject to Negotiations</b>				
<b>R3.1</b> Eliminate 1.0 FTE library aide and office/clerical position	\$56,300	\$58,400	\$60,900	\$64,900
<b>R3.3</b> Reduce extracurricular expenditures	\$53,500	\$53,500	\$53,500	\$53,500
<b>R4.5</b> Reduce custodial staffing by 2.0 FTEs	\$78,100	\$80,500	\$83,000	\$87,800
<b>R6.2</b> Use cost allocation to account for all expenses of the food service operation	\$39,500	\$39,500	\$39,500	\$39,500
<b>Subtotal Cost Savings from Performance Audit Not Subject to Negotiation</b>	<b>\$227,400</b>	<b>\$231,900</b>	<b>\$236,900</b>	<b>\$245,700</b>
<b>Subject to Negotiation</b>				
<b>R3.2</b> Discontinue providing employee pickup	\$418,000	\$418,000	\$418,000	\$418,000
<b>R3.4</b> Increase employee medical insurance contribution to at least 10 percent	\$159,000	\$159,000	\$159,000	\$159,000
<b>R3.5</b> Negotiate an employee dental insurance contribution of at least 6 percent	\$16,000	\$16,000	\$16,000	\$16,000
<b>R3.10</b> Negotiate elimination of retirement incentives	\$77,000	\$77,000	\$77,000	\$77,000
<b>Subtotal Cost Savings from Performance Audit Subject to Negotiation</b>	<b>\$670,000</b>	<b>\$ 670,000</b>	<b>\$670,000</b>	<b>\$ 670,000</b>
<b>Total Cost Savings from Performance Audit Recommendations</b>	<b>\$897,400</b>	<b>\$901,900</b>	<b>\$906,900</b>	<b>\$915,700</b>

**Source:** Performance audit recommendations

**Note:** Total savings reported in the revised forecast may vary due to rounding.



# Human Resources

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## Background

This section of the performance audit focuses on certain human resource (HR) functions in the Minerva Local School District (Minerva LSD or the District) including staffing levels, salary and benefit costs, negotiated agreements, human resource management, board operations, special education costs, and retirement incentives. The purpose of this section is to analyze how the District performs HR functions and, where opportunities exist, develop recommendations to improve efficiency and business practices. The District's HR functions were evaluated against leading practices, industry standards, the Ohio Revised Code (ORC), the Ohio Administrative Code (OAC), and select peer districts.<sup>1</sup> Leading practices and industry standards were drawn from sources including the Ohio Department of Education (ODE), the Society for Human Resource Management (SHRM), the National Education Association (NEA), the Government Finance Officers Association (GFOA), and the State Employment Relations Board (SERB).

### *Organizational Structure*

Minerva LSD does not have a department dedicated to performing HR functions. Instead, these responsibilities are fulfilled by the Superintendent, Treasurer, and a confidential secretary. The Superintendent manages employee recruitment, negotiates union contracts, and maintains personnel files. The Treasurer is responsible for maintaining salary and benefit information for each employee, processing payroll, and administering health insurance benefits. Ensuring accurate reporting of staff and student information in EMIS is the responsibility of the confidential secretary.

### *Staffing*

For FY 2007-08, the District reported 238.6 full-time equivalent (FTE) employees, or 121.3 FTEs per 1,000 students educated. Due to its financial situation, Minerva LSD has made reductions in FY 2007-08 and FY 2008-09, including 4.0 FTE regular teacher positions, 4.5 FTE special education teacher positions, and 2.0 FTE bus driver positions. Consequently, the District's EMIS data was updated to reflect actual staffing levels for FY 2008-09. However, comparisons were made using the peers' FY 2007-08 EMIS staffing data because it was the most

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<sup>1</sup> The peers include: Celina CSD (Mercer County), East Guernsey LSD (Guernsey County), East Holmes LSD (Holmes County), Garaway LSD (Tuscarawas County), Leipsic LSD (Putnam County), Logan-Hocking LSD (Hocking County), New London LSD (Huron County), Ridgewood LSD (Coshocton County), Southeast LSD (Wayne County), and Springfield LSD (Mahoning County).

recent year available. Throughout this section, staffing levels are compared to peer districts on a per 1,000 student basis in order to account for variances in the sizes of the districts.

**Table 3-1** shows Minerva LSD's staffing levels compared to the peer average on both an FTE staff and per 1,000 student basis.

**Table 3-1: Staffing Comparison Summary**

Classification	FTEs			FTEs per 1,000 Students		
	Minerva LSD	Peer Average	Difference	Minerva LSD	Peer Average	Difference
Administrators	13.0	10.7	2.3	6.7	6.8	(0.1)
Office/Clerical	15.3	12.6	2.7	7.8	7.3	0.5
Classroom Teachers	91.2	83.0	8.2	46.3	50.3	(4.0)
Special Education Teachers	14.5	15.9	(1.4)	7.4	9.1	(1.7)
Education Service Personnel	12.6	11.2	1.4	6.4	6.8	(0.4)
Other Certificated Staff	16.0	10.0	6.0	8.1	5.5	2.6
Teacher Aides	10.0	13.4	(3.4)	5.1	7.9	(2.8)
Other Technical/Professional Staff	3.0	2.0	1.0	1.5	1.1	0.4
Other Student Services	3.0	4.5	(1.5)	1.5	1.6	(0.1)
Operations	60.0	45.6	14.4	30.5	27.6	2.9
<b>Total Staffing</b>	<b>238.6</b>	<b>209.6</b>	<b>29.0</b>	<b>121.3</b>	<b>123.9</b>	<b>(2.6)</b>

**Source:** Minerva LSD and peer district FY 2007-08 EMIS staffing report.

<sup>1</sup> Classroom Teachers include Regular and Vocational Teachers and Permanent Substitutes.

<sup>2</sup> Education Service Personnel include ESP Teachers, Counselors, Librarians, Registered Nurses, Social Work, and Visiting Teachers.

<sup>3</sup> Other Certificated Staff include Curriculum Specialists, Remedial Specialists, Tutor/Small Group Instructors, and Other Professionals.

<sup>4</sup> Other Technical/Professional Staff include Library Staff, Computer Support Staff, and Other Professional Staff less librarians.

<sup>5</sup> Other Student Services include Student Services Staff less Counselors, Registered Nurses, Social Work Staff, and Visiting Teachers.

As shown in **Table 3-1**, Minerva LSD's total FTEs per 1,000 students is 2.6 FTE below the peer average, although the District exceeds the peer averages in certain categories. In further assessing the District's staffing levels, AOS used a salaries per student comparison (see **Table 3-2**), which incorporates both staffing levels and average salaries. In some categories, such as other certificated staff, the District's staffing levels exceed the peer averages but its salaries per student are below or in line with the peers. Consequently, no staff reductions are recommended. However, other technical/professional staff and office/clerical staff exceed the peer average in FTEs per 1,000 students and in salary costs per student (see **R3.1**). Operations staffing levels are assessed separately in **transportation, facilities, and food service**.

### Compensation

District employees receive compensation through salaries and wages, lump sum payments, Board pickup of retirement contributions, and in some years, contingency payments. Base salaries and wages for most employees are determined through pay schedules outlined in the District's collective bargaining agreements. Lump sum payments are also stipulated in the negotiated agreements, and provide employees with three separate payments each year, which in FY 2007-08 amounted to 4.5 percent of base salaries. In addition, the Board pays a portion of the employees' required retirement contributions (see **R3.2**). Finally, in any year the District receives non-mandated revenues that exceed projections detailed in the negotiated agreements, 60 percent of that additional revenue is to be used as contingency payments to increase employee compensation (up to a maximum 3.5 percent of base salary). This method for compensating employees makes comparing average salaries to other districts difficult (see **R3.2**).

For the purposes of this performance audit, Minerva LSD's average salaries, as shown in **Table 3-2**, were adjusted to include the lump sum payments, which were not reported in EMIS because they are not included in the District's base salaries.

**Table 3-2: Average Salaries and Salaries per Student Comparison**

Classification	Average Salaries			Salaries per Student		
	Minerva LSD	Peer Average	Percent Difference	Minerva LSD	Peer Average	Percent Difference
Administrators	\$66,513	\$66,524	0.0%	\$439	\$449	(2.2%)
Office/Clerical	\$25,397	\$26,609	(4.6%)	\$197	\$192	2.6%
Classroom Teachers	\$51,292	\$42,075	21.9%	\$2,376	\$2,121	12.0%
Special Education Teachers	\$43,520	\$46,165	(5.7%)	\$321	\$426	(24.6%)
Education Service Personnel	\$48,549	\$49,224	(1.4%)	\$321	\$330	(2.7%)
Other Certificated Staff	\$25,441	\$49,428	(48.5%)	\$207	\$261	(20.7%)
Teacher Aides	\$17,237	\$15,403	11.9%	\$88	\$123	(28.5%)
Other Technical/Professional Staff	\$20,949	\$15,524	34.9%	\$32	\$25	28.0%
Other Student Services	\$46,499	\$24,673	88.5%	\$71	\$50	42.0%
Operations	\$19,236	\$20,290	(5.2%)	\$586	\$556	5.4%

Source: Minerva LSD and peer district FY 2007-08 EMIS staffing reports.

As shown in **Table 3-2**, Minerva LSD's classroom teacher average salaries and salary costs per student exceed the peer averages. This is driven by a certificated salary schedule that, once adjusted to included lump sum payments, exceeds the peer average (see **R3.2**). The District also reports other technical/professional staff and office/clerical staff average salaries and salaries per student above the peers (see **R3.1**). The other student services classification's average salaries

and salaries per student are also above the peers; however, this category includes only 3 FTE employees and amounts to less than 1.5 percent of the District's total salaries.

### *Benefits*

Minerva LSD obtains insurance coverage from the Stark County Schools' Council of Governments (SCSCOG). The SCSCOG provides group health, life, dental, and prescription drug insurance to school districts, educational service centers, and related agencies in an effort to provide cost savings to participating members. SCSCOG offers two health insurance plan options, which have identical premium rates but varying levels of coverage. The District's premium and contribution rates have been compared to the average rates compiled by SERB (*16<sup>th</sup> Annual Report on the Cost of Health Insurance in Ohio's Public Sector, 2007*).<sup>2</sup> For the Akron/Canton region of the State, Minerva LSD's health insurance premiums are 2.1 percent lower than the SERB average for single plans, and 5.5 percent lower for family plans. However, the District's dental insurance premiums are higher than the SERB average and employee contribution rates for health and dental insurance are lower than the SERB average (see **R3.4** and **R3.5**).

### *Collective Bargaining*

Minerva LSD's certificated and classified employees are covered under the following collective bargaining agreements:

- **Minerva Local Education Association (MLEA) and the Minerva Local Board of Education:** The collective bargaining agreement is effective between July 1, 2006 and June 30, 2009. MLEA represents certificated/licensed employees such as teachers, guidance counselors, nurses, Title I teachers, etc.
- **Ohio Association of Public School Employees (AFSCME/AFL-CIO) and the Minerva Local Board of Education:** The negotiated agreement is effective between July 1, 2006 and June 30, 2011. Membership in this collective bargaining unit includes all classified employees, excluding employees engaged in confidential duties and substitute employees.

As part of the performance audit, certain contractual and employment issues were reviewed and compared to surrounding districts and State law. Areas of analysis included common contractual provisions such as maximum sick leave accrual and severance payout, number of vacation days, and number of paid holidays (see **R3.6**).

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<sup>2</sup> 2007-08 SERB average premiums were increased by 6.5 percent to evaluate Minerva LSD's 2008-09 health care premiums.

*Special Education*

In FY 2006-07, Minerva LSD reported a special education cost per special education student of \$9,204 compared to the peer average of \$15,372. In order to control the cost of special education services, the District provides many of its special education services through the Educational Service Center (ESC) and partnerships with neighboring districts. According to the Director of Special Education, the use of the ESC is beneficial because Minerva LSD's special education population tends to fluctuate from year to year. Therefore, it has been much easier for the District to contract for these services rather than change staffing levels each year in order to meet the special education needs of the District's students.

## **Audit Objectives for the Human Resources Section**

The following is a list of the questions used to evaluate the Minerva LSD Human Resources functions:

- Is the District's current allocation of personnel efficient and effective?
- Is the District's compensation package in line with other high performing districts, State averages, and industry practices?
- How does the cost of benefits offered by the District compare with State averages and industry benchmarks?
- Are the District's negotiated agreements in line with peers and best practices?
- Does the District effectively address human resource management and has it created a working environment that enhances its workforce?
- Does the Board operate in an effective manner?
- Does the District provide special education programs for students with disabilities that maximize resources and are compliant with State and federal regulations?
- Would a properly structured retirement incentive be an effective way to reduce long-term personnel costs?



## Recommendations

### Staffing

**R3.1 Minerva LSD should eliminate at least 1.0 FTE library aide position and 1.0 FTE office/clerical position to bring staffing levels more in line with the peer averages and reduce its salary cost per student.**

**Table 3-3** compares the District's library staffing levels per 1,000 students to the peers.

**Table 3-3: Library Staffing Comparison**

	Minerva LSD <sup>1</sup>	Peer Average	Difference from Peer Average
Librarians (FTE)	1.0	1.1	(0.1)
Library Aides, Technicians, & Audio Staff (FTE)	3.0	1.1	1.9
<b>Total FTE Library Staff</b>	<b>4.0</b>	<b>2.2</b>	<b>1.8</b>
Students Educated (FTE) <sup>2</sup>	1,968.0	1,685.3	282.7
Librarians per 1,000 Students	0.5	0.7	(0.2)
Library Aides, Technicians & Audio Staff per 1,000 Students	1.5	0.5	1.0
<b>Library Staff per 1,000 Students</b>	<b>2.0</b>	<b>1.2</b>	<b>0.8</b>
<b>Total FTE Library Staff above the Peers <sup>3</sup></b>			<b>1.6</b>

**Source:** Minerva LSD FY 2008-09 staffing data as of September 2008, and peer FY 2007-08 EMIS staffing data as reported to ODE.

<sup>1</sup> FY 2008-09 FTE employees were provided by Minerva LSD and therefore may not match those reported to ODE through EMIS.

<sup>2</sup> Students Educated equals FTE students receiving educational services from the districts and excludes the percent of time students received educational services outside the district.

<sup>3</sup> Calculated by multiplying the difference per 1,000 students by the number of students educated. This represents the number of FTE employees that, if added or subtracted, would bring the number of employees per 1,000 students in line with the peer average.

As shown in **Table 3-3**, the District reported 4.0 FTE library positions, which equates to 1.0 FTE per school building. Minerva LSD reported 0.2 fewer FTE librarians and 1.0 more FTE library aides per 1,000 students, resulting in 0.8 FTEs per 1,000 above the peer average. The District is in the process of consolidating its two elementary schools, reducing the number of school buildings to three. This consolidation provides the opportunity to eliminate 1.0 FTE library aide position, which would allow the District to continue to have a library position in each school building, while bringing its library staffing more in line with the peer average.

**Table 3-4** compares the District's office/clerical staffing levels per 1,000 students to the peers.

**Table 3-4: Office/Clerical Staffing Comparison**

	Minerva LSD	Peer Average	Difference from Peer Average
Clerical Staff (FTE)	15.3	10.7	4.6
Admin. Assistants/Interns (FTE)	-	0.1	(0.1)
All Other Office Staff (FTE)	-	1.8	(1.8.1)
<b>Total FTE Office/Clerical Staff</b>	<b>15.3</b>	<b>12.6</b>	<b>2.7</b>
Students Educated (FTE)	1,968.0	1,685.3	282.7
Clerical Staff per 1,000 Students	7.8	6.2	1.6
Admin. Assistants/Interns per 1,000 Students	-	0.1	(0.1)
All Other Office Staff per 1,000 Students	-	1.0	(1.0)
<b>Total Office/Clerical Staff per 1,000 Students</b>	<b>7.8</b>	<b>7.3</b>	<b>0.5</b>
<b>Total FTE Office/Clerical Staff above the Peer Average</b>			<b>1.0</b>

**Source:** FY 2007-08 staffing data as of October 2008, and peer FY 2007-08 EMIS staffing data as reported to ODE.  
 Note: Tables may not sum due to rounding.

As shown in **Table 3-4**, Minerva LSD reported 15.3 FTE office/clerical positions, or 7.8 FTEs per 1,000 students. This level of staffing is 0.5 FTE per 1,000 students higher than the peer average. Moreover, **Table 3-2** shows that the District's salary costs per student for office/clerical staff are 2.6 percent higher than the peer average. Reducing 1.0 FTE would bring the District's office/clerical staffing levels and salary costs per student in line with the peer averages.

*Financial Implication:* By eliminating 1.0 FTE library aide position, the District could save about \$30,000 in salaries and benefits in FY 2009-10. By eliminating 1.0 FTE office/clerical position, the District could save an additional \$26,300 in salaries and benefits in FY 2009-10, for a total savings of about \$56,300.

### Compensation

**R3.2 Minerva LSD should renegotiate contractual provisions regarding compensation, specifically those providing lump sum payments and pickup of retirement contributions. The District should seek to discontinue providing lump sum payments and instead increase its base salaries to be in line with the surrounding district average.<sup>3</sup> Doing so would remove the hidden additional salary cost generated through the lump sum payments and make its salary data more transparent and comparable to other districts. Furthermore, Minerva LSD should consider renegotiating to discontinue the practice of paying a portion of its employees' retirement contributions (retirement pickup).**

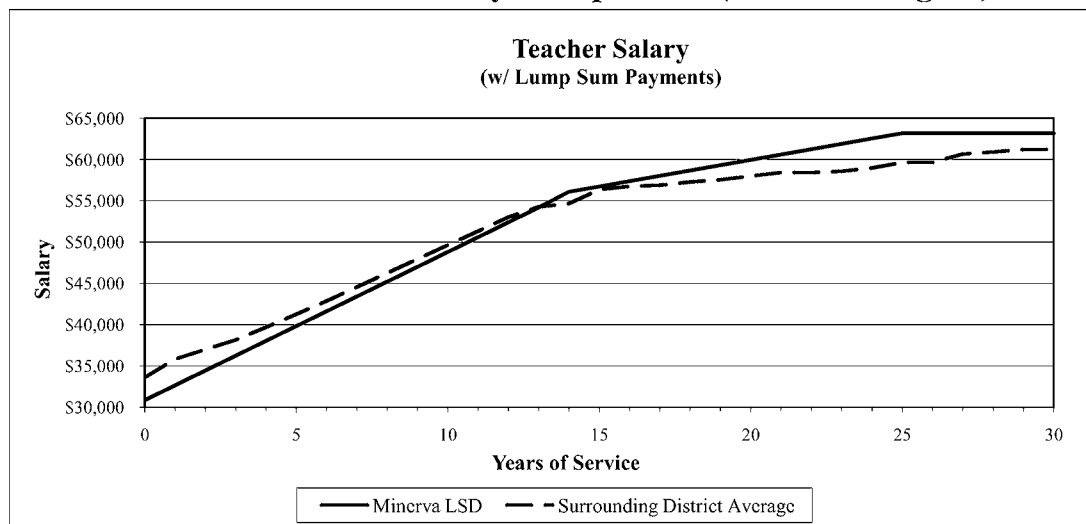
<sup>3</sup> Surrounding districts include: Fairless LSD (Stark County), Marlington LSD (Stark County), Sandy Valley LSD (Stark County), and Southeast LSD (Wayne County).

Because the District’s salary cost per student in the classroom teacher classification was above the peers (see **Table 3-2**) and the staffing assessment did not indicate overstaffing (see **Table 3-1**), Minerva LSD’s certificated salary schedule was compared to surrounding districts.

Although Minerva LSD’s base salaries for certificated staff are below the surrounding district average, the District’s collective bargaining agreement also provides for three lump sum payments annually that provide additional compensation. The lump sum payments equated to 4.5 percent in FY 2007-08. Therefore, actual compensation at each salary step is 4.5 percent higher than stated in the salary schedule. Although the lump sum payments do not increase the District’s base salaries, they are calculated as a percentage of the base. Consequently, as employee salaries increase each year through step increases and negotiated wage increases, the lump sum increases as well.

**Chart 1** compares the District’s FY 2007-08 salary schedule for teachers with Master’s Degrees (including lump sum payments) to the surrounding districts average.

**Chart 1: Teacher’s Base Salary Comparison (Master’s Degree)**



**Source:** Minerva LSD and the surrounding districts’ certificated collective bargaining agreements.

When including lump sum payments in the comparison, the District compensates its teachers \$16,000 more than the average of the surrounding districts throughout the life of the salary schedule. For that reason, the District should negotiate to eliminate lump sum payments and, instead, increase the base salary to a level appropriate for its region and financial condition. Likewise, other employee classifications may have salary schedules that require increases or decreases to be in line with the surrounding districts. Therefore,

Minerva LSD should seek to eliminate lump sum payments and adjust its base salaries as appropriate among its various classifications to bring salary costs more in line.

Furthermore, the District provides its employees with additional compensation by paying a portion of the employees' retirement contributions. The Ohio retirement systems require both employers and employees to contribute specified percentages of the employee's salary to the retirement funds. However, pursuant to the certificated and classified negotiated agreements, Minerva LSD also pays 3.25 percent of the employee contributions (pickup). On top of this amount, the District pays an additional 0.325 percent pickup for its certificated and classified employees, although this payment is not required by the contracts. In addition, the District pays the full retirement contribution (10 percent) and an additional 1.0 percent pickup for its exempt personnel. Therefore, in total, Minerva LSD is providing additional compensation of about 3.6 percent for certificated and classified staff and 11.0 percent for exempt staff through retirement contributions.

For example, when both lump sum payments and retirement pickup are included, Minerva LSD's salary costs for classroom teachers are \$66,000 higher than the surrounding district average throughout the life of the salary schedule. Consequently, the District should discontinue the practice of providing retirement pickup because after eliminating lump sum payments and adjusting the District's salary schedules, retirement pickup will not be necessary to compete with surrounding districts.

*Financial Implication:* By discontinuing employee retirement pickup, Minerva LSD could save \$418,000 per year. The financial implication for eliminating the lump sum payment and adjusting the District's salary schedules depends on the various job categories and the salary schedules of surrounding districts at the time of negotiations, and therefore could not be quantified.

**R3.3 Minerva LSD should bring its extracurricular activity expenditures more in line with the surrounding district average. This may be achieved by reevaluating its supplemental salary schedules to ensure comparable compensation levels and/or reducing the number of supplemental positions.**

*During the course of the audit, the District reported taking steps to reduce extracurricular activity expenses.*

In FY 2007-08, the District spent \$381,000, or \$179 per student, in extracurricular activity expenditures from the General Fund, compared to the peer average of \$154 per student. These expenditures consist of salary costs for supplemental contract positions such as athletic coaches; academic department heads; senior, junior, sophomore, and

freshman class advisors; and band directors. In FY 2008-09, the District provided contracts for 102 supplemental positions, 75 percent of which were for athletic coaches.

Minerva LSD's relatively high extracurricular activity expenditures suggest that the District either has higher supplemental salary schedules compared to the selected surrounding districts, or a larger number of supplemental contracts. A review of select contracts showed that supplemental salary schedules for some positions are higher than the averages in surrounding districts, while the schedules for other positions are below these districts. A detailed comparison of all contracts to determine how the District's salary schedules or number of contracts compare to the surrounding districts could not be conducted as a component of this audit.

Consequently, Minerva LSD should continually monitor its extracurricular activity expenditures and ensure that its salary schedules and number of contracts are appropriate relative to its size and financial circumstances. In so doing, the District can make the adjustments necessary to minimize these costs and bring its cost per student more in line with the surrounding districts.

*Financial Implication:* By reducing its extracurricular expenditures to the surrounding district average of \$154 per student, Minerva LSD could save approximately \$53,500 per year.

### *Benefits*

**R3.4 Minerva LSD should negotiate an increase in the employee contribution toward medical insurance premiums. The District and its employees should engage in a cost-sharing arrangement through which employees contribute at least 10 percent for single and family coverage, which would bring the District more in line with regional averages.**

Prior to FY 2006-07, Minerva LSD required no employee contributions from any of its employees. The certificated negotiated agreement required an employee contribution for the first time effective FY 2006-07, while the classified agreement required a contribution beginning in FY 2008-09, and the contribution amounts were different in the two agreements. However, despite these contract provisions, the District chose to continue paying 100 percent of the health insurance premiums for all employees until FY 2008-09. Moreover, once the District began requiring employees to contribute toward the cost of their health care, the amounts it collected – \$15 for single coverage (3.5 percent) and \$25 for family coverage (2.4 percent) – were consistent with the classified agreement but less than the amounts stipulated in the certificated negotiated agreement. This represented an additional cost to the District of approximately \$20,000.

**Table 3-5** compares Minerva LSD's FY 2008-09 employee medical insurance contribution rates to the SERB averages.

**Table 3-5: Employee Medical Insurance Contribution Comparison**

	Single	Family
Minerva LSD <sup>1</sup>	3.5%	2.4%
<b>SERB Akron/ Canton Region</b>	<b>10.3%</b>	<b>11.0%</b>
SERB School District (1,000-2,499 Students) Average	11.5%	13.5%
SERB School District (150-249 Employees) Average	11.7%	14.3%

**Source:** Minerva LSD FY 2008-09 actual contributions and the SERB 2007 Health Insurance Report.

<sup>1</sup> The amounts presented for Minerva LSD represent the actual amounts collected by the District, which vary from the amounts required in the certificated negotiated agreement.

As illustrated in **Table 3-5**, the District's employee contribution rates are considerably lower than the SERB averages. Based on FY 2008-09 medical premium costs and the contribution rates being applied to Minerva LSD employees, the total cost to the District for health care is about \$2,323,000 per year. *Health Care Cost Containment* (GFOA, 2004) recommends that governments share health care costs with employees in order to realize financial savings and encourage market efficiency by making employees more aware of the true costs of health care.

*Financial Implication:* By negotiating an increase in the employee contribution percentage for health insurance to at least 10 percent, and then enforcing that provision, the District could achieve annual savings in the General Fund of approximately \$159,000.<sup>4</sup>

**R3.5 Minerva LSD should negotiate an employee contribution toward the cost of dental insurance premiums. The District should seek an employee contribution of at least 6 percent for single and family coverage to be more in line with the SERB averages. Additionally, Minerva LSD should work with SCSCOG to bring its dental insurance premium rates more in line with SERB averages.**

The District pays 100 percent of the premium cost for those employees electing to receive dental insurance benefits. The District provides dental insurance to 210 employees, which with no employee contribution, costs the District \$25,568 per month, or about \$307,000 per year. **Table 3-5** compares the Minerva LSDs FY 2008-09 employee dental insurance contribution rates to the SERB averages.

<sup>4</sup> Amounts assume 89.0 percent of employees are paid from the General Fund and the remaining 11.0 percent are paid from grant funding or the Food Service Fund.

**Table 3-6: Employee Dental Insurance Contribution Comparison**

	Single	Family
Minerva LSD	0.0%	0.0%
<b>SERB Akron/ Canton Region</b>	<b>6.1%</b>	<b>8.6%</b>
SERB School District (1,000-2,499 Students) Average	10.3%	30.9%
SERB School District (150-249 Employees) Average	10.5%	18.5%

**Source:** Minerva LSD FY 2008-09 certificated and classified negotiated agreements and medical insurance rate information and the State Employment Relations Board (SERB) 2007 Health Insurance Report.

**Table 3-6** illustrates that the District's employee contribution levels are significantly below the SERB averages. By negotiating an employee contribution rate in line with SERB averages, the District would experience an annual reduction in its dental insurance costs.

**Table 3-7** compares Minerva LSD's dental insurance premium rates to the SERB averages.

**Table 3-7: FY 2008-09 Dental Insurance Premium Comparison**

	Single	Family
Minerva LSD Premiums	\$54.10	\$133.47
<b>SERB Akron/Canton Region</b>	<b>\$37.81</b>	<b>\$65.56</b>
SERB School District (1,000-2,499 Students) Average Premiums	\$46.02	\$95.26
SERB School District (150-249 Employees) Average Premiums	\$41.59	\$82.42

**Source:** Minerva LSD Dental Insurance Rates and the SERB 2007 Health Insurance Report.

As illustrated in **Table 3-7**, although the District obtains its dental insurance through SCSCOG, its premium rates are above the SERB averages. The above average premium rates are due in part to the SCSCOG providing benefit levels which exceed the OEA averages. Assuming the District implements a minimum employee contribution percentage of 6 percent and reduces its dental premium rates to the SERB averages for the Akron/Canton region, it would experience an annual reduction of about \$100,000 in its dental insurance costs. Because SCSCOG is a consortium that offers several health insurance provider options to participating school districts and related agencies, Minerva LSD may be able to achieve lower premium rates and realize savings by either changing its dental coverage and/or provider. Therefore, the District should work with SCSCOG to achieve dental premiums that are more comparable to the SERB averages.

*Financial Implication:* By negotiating a minimum employee contribution of at least 6 percent for single and family coverage, the District could achieve annual savings in the General Fund of approximately \$16,000.<sup>5</sup>

<sup>5</sup> Amounts assume 89.0 percent of employees are paid from the General Fund and the remaining 11.0 percent are paid from grant funding or the Food Service Fund.

*Collective Bargaining***R3.6 Minerva LSD should attempt to renegotiate its certificated and classified bargaining agreements to limit or remove contract provisions that were determined to exceed surrounding district averages or State minimum requirements.**

The following certificated and classified bargaining agreement provisions exceeded the surrounding district or State minimum requirements:

- **Lump Sum Payments:** In FY 2007-08, District employees received three lump sum payments that combined to increase employee salaries by 4.5 percent (see **R3.2**). The District paid \$401,862 in lump sum payments in FY 2008-09.
- **Retirement Pickup:** The District pays 3.25 percent of the employee's retirement contribution in addition to the contribution the Board is required to pay by law. This provision cost the District approximately \$268,000 in FY 2008-09 (see **R3.2** for more discussion about this issue and additional retirement pickup paid by the District beyond the requirements of its negotiated agreements).
- **Sick Leave Accrual:** Certificated employees who work 9.5 months and 10.5 months accrue up to 16 and 17 days of sick leave, respectively, compared to the State minimum of 15 days provided in ORC § 3319.141. Additionally, classified employees who work 10 months or more accrue 16.5 days to 20 days of sick leave, compared to the 15 day State minimum.
- **Maximum Sick Leave Accrual:** All certificated employees can accrue up to 328 days in FY 2007-08 and 332 days in FY 2008-09, which both exceed the FY 2007-08 surrounding district average of 305 days and the State minimum (ORC § 3319.141) of 120 days. Classified employee sick leave accrual is in line with the surrounding district average.
- **Severance Payout:** Certificated employees may receive payment for up to 82 days in FY 2007-08 and 83 days in FY 2008-09 (25 percent of the employee's total accrued but unused sick leave), both of which exceed the FY 2007-08 surrounding district average of 68 days and the State minimum (ORC § 124.39) of 30 days. Likewise, classified employees may also receive payment for up to 82 days in FY 2007-08 and 83 days in FY 2008-09, (slightly more than 25 percent of the employee's total accrued but unused sick leave) both of which exceed the FY 2007-08 surrounding district average of 66 days and the State minimum (ORC § 124.39) of 30 days. In FY 2008-09, the District paid approximately \$23,500 in severance payments for days that exceeded the surrounding district average.



- **Holidays:** The classified bargaining agreement provides custodians and 12 month secretaries with 13 paid holidays, which exceeds the State minimum required (ORC § 3319.087) of 7 days and surrounding district average of 11 paid holidays.

Collective bargaining agreements that provide benefits in excess of State minimum requirements create additional financial burdens for the District. However, benefits that are comparable to the surrounding district may be necessary to remain competitive. Therefore, at a minimum, the District should attempt to negotiate benefits that are more in line with the surrounding district averages.

**R3.7 Minerva LSD should review the salary schedules in its classified contract and adopt hourly pay rates rather than annual salaries for each staffing category. Hourly pay rates will provide the District flexibility to address its staffing needs, modify service levels when appropriate, and ensure that employees are paid for the actual hours they work.**

In its classified employee contract, Minerva LSD lists annual salaries for its various categories of classified staff. The contract explains the factors and underlying assumptions (number of hours per day, number of days per year, etc.) for the annual salaries.

Compensating classified employees on an annual basis reduces the District's flexibility in determining service levels, and makes the process of determining and adjusting staffing levels more difficult. For example, the classified contract contains separate salary schedules for Cafeteria Helpers who work 7 hours, 6 hours, 4 hours, and 2 hours; although the workers are paid the same amount per hour. Simply paying all Cafeteria Helpers an hourly rate, then determining the number of hours each employee should work based on the District's service levels would reduce the complexity of the District's contract and make it easier to change work schedules to meet District needs.

In addition, Minerva LSD's bus drivers are paid an annual salary which is based on a 4 ½ hour work day, although the variability of bus routes makes it unlikely that all bus drivers work the same number of hours (the District does not track bus driver hours worked, so an assessment of the 4 ½ hour assumption could not be conducted). Consequently, the District may be paying drivers for hours not worked, not fully compensating drivers for all hours worked, or a combination of these two scenarios. Moreover, should the District ever decide to change its transportation service levels, the average number of hours worked by bus drivers could change. But rather than adjusting driver compensation based on the actual hours worked, the District would have to negotiate a new salary schedule within the contract.

The nature of the positions covered by the classified employee contract – which often vary in terms of the number of hours required to work – require a certain level of flexibility and call for compensation based on the number of hours worked. The salaries contained in Minerva LSD’s contract reduce the District’s ability to manage its operations, create unnecessarily complicated payroll calculations, and undermine the transparency and accountability of the District’s operations.

### *Human Resource Management*

**R3.8 Minerva LSD should develop a formal staffing plan to address current and future staffing needs. In addition, Minerva LSD should develop a formal comprehensive recruitment plan to address all District staffing needs as identified by the staffing plan. The development and design of a recruitment plan should be aligned with leading practices.**

The District does not have a formal staffing plan or a comprehensive recruitment plan. Instead of a formal staffing plan, the Superintendent has developed an informal process aimed at acquiring staff to meet the specific needs of District students. The process, as described by the Superintendent, includes discussing the potential for hiring or reducing staff and reviewing program needs and student to teacher ratios. Before staffing changes occur, the Superintendent reviews the District’s local report card to identify areas of strength and weakness, and areas that require additional support, and defines the qualification requirements for prospective applicants. The Superintendent then assembles a team of relevant District personnel to develop interview questions and assist building principals in conducting initial interviews.

Once a candidate is selected, the building principal and team make a recommendation to the Superintendent. The Superintendent conducts a final interview and makes a recommendation to the Board for final approval. Lastly, although the District has not developed a comprehensive recruitment plan, it solicits applicants by posting available positions in its buildings and on its web site, as well as on the Stark County ESC and State web sites. The District also attends local area college recruiting events.

*Strategic Staffing Plans* (SHRM, June 2002) notes that high performing organizations use plans and a system to monitor and control the cost of engaging human capital. A strategic staffing plan forms an infrastructure to support effective decision-making in an organization. In addition, *Estimating Future Staffing Levels* (SHRM, 2006) maintains that the most important question for any organization is what type of workforce it will need in order to successfully implement its business strategy. Once this question is answered, the organization must focus on recruiting, developing, motivating and retaining the number and mix of employees that will be required at each point in time.

Additionally, school districts like the Tulsa Public Schools (TPS) in Oklahoma and the Lakota Local School District in Ohio have established staffing plans which incorporate staffing allocation factors that include state and federal regulations, workload measures, and leading practices. In general, staffing benchmarks in these plans are based on General Fund revenues, which assist in ensuring a balanced budget. Staffing plans are not only used as guides for determining staffing levels on an annual basis, but aid in determining mid-year staffing levels should changes be necessary.

Likewise, the Cincinnati City School District (CCSD) has developed a staffing plan that incorporates state requirements, contractual agreements, available resources, and educational goals. In addition, CCSD includes central and site-based administrators and personnel in the process of developing its staffing plan. The plan employs a staffing template that mirrors the Tulsa template and serves as a planning tool for the district's leadership teams.

By having a formalized staffing plan, Minerva LSD can openly communicate its decisions regarding staffing strategies and priorities, as well as contingency plans should the District need to address a deficit. Furthermore, the District can explain its decisions to hire or reduce personnel based on the objective analysis and clear reasoning that a staffing plan offers.

*Meeting the Challenges of Recruitment and Retention* (NEA, 2003) recommends that school districts develop comprehensive recruiting plans to address staffing needs. A district should first gather a recruitment team to evaluate the district's needs, identify resources, and recommend a list of desired changes in policies and practices. The recruitment team should include administrators, teachers, union members, parents, representatives from higher learning institutions, and community leaders. The recruitment plan should then:

- Assess the needs of the district to determine the number of teaching staff needed as well as the curriculum areas;
- Examine the culture within the district to ensure that a positive working environment exists;
- Clarify the academic mission and how that impacts what new teaching staff should be able to provide; and
- Identify the population of potential teachers and how to appeal to their interests as well as how to attract them to the community.

Once developed, the District should determine which recruitment methods are effective, ineffective, or require alterations, and should ensure that accurate staffing data is maintained throughout the recruiting process.

### *Board Operations*

**R3.9 Minerva LSD should comply with its Board policies by evaluating the Superintendent and Treasurer on an annual basis. The Board should evaluate its own performance on an annual basis as well.**

The Board policies state the Superintendent should be evaluated annually, no later than June 30. However, the most recent evaluations the District was initially able to provide for the Superintendent and Treasurer were from 2005. More recent but limited evaluations were provided to top administrators in December. However, the Board should ensure it completely fulfills its policy and provides high quality, regular feedback to its top administrators. Additionally, the District's Board policies do not include a provision for Board self-evaluations.

Ohio Revised Code sections 3319.01 and 3313.22 require school boards to establish procedures for the evaluation of their superintendents and treasurers, respectively. Moreover, according to *Becoming a Better Board Member* (NSBA, 1996), board members need to engage in regular self-evaluations to make sure they continue to exercise the most effective leadership possible. The self-evaluations should include both elements and desired outcomes such as:

- An evaluation should be constructive;
- Board members should develop the standards for self-evaluation;
- Evaluation should be based on board goals, not on district-wide goals;
- The evaluation process should include establishment of goals and strategies for improving performance;
- The board should not limit itself to those items that appear on the evaluation form;
- Formal evaluations should occur on a fixed annual schedule;
- A composite picture of board strengths and weaknesses is best; and
- The board should be evaluated as a whole, not as individuals.

Conducting annual evaluations enables the District to identify weaknesses and provide timely feedback to remedy potential issues, both for District staff and for the Board itself. Additionally, the District can use routine evaluations to clearly communicate goals and expectations for District staff.

*Retirement Incentive*

**R3.10 Minerva LSD should attempt to remove the retirement incentive provision from its certificated and classified employee bargaining agreements. Additionally, the District should follow GFOA recommendations for evaluating future retirement incentives. Specifically, Minerva LSD should establish goals for the incentive, perform a thorough cost analysis, estimate the budget impact, and develop an implementation plan before offering a retirement incentive. Performing these actions would ensure the District has effectively evaluated the costs and benefits associated with the incentive.**

The District offers a retirement incentive in both the certificated and classified employee bargaining agreements. Pursuant to the classified agreement, only those employees who retire the first year they are eligible receive the incentive payments, which range from \$1,660 for 2-hour school aides to \$11,320 for custodians. Certificated employees, on the other hand, receive a retirement incentive of \$7,500 regardless of whether or not it is the first year in which the employee is eligible for retirement. In other words, the retirement incentive is offered to classified employees only when they are first eligible to retire, but is offered to certificated employees each year after they are eligible to retire. In this respect, the retirement incentive has become an accrued benefit, which is in addition to any severance that employees receive at retirement. Moreover, the District has not conducted a cost/benefit analysis to ensure the retirement incentives, which it is contractually obligated to offer each year, have a beneficial effect on its financial condition.

The retirement incentives offered by Minerva LSD totaled more than \$218,000 from FY 2005-06 to FY 2007-08. This amount was in addition to \$539,000 in severance pay. The District could not quantify the cost savings achieved through this incentive and, therefore, does not know if the incentive was cost effective for the District.

An example of a properly developed retirement incentive exists in the Worthington CSD (Franklin County) certificated agreement. To ensure adequate savings, Worthington CSD has determined the required number of staff and levels of experience that would need to be met in order for the incentive to be beneficial to the district. The agreement also reserves the right to provide the incentive only if enough employees apply for the incentive. By including these stipulations, Worthington CSD is able to provide the incentive only when it yields a savings to the District.

To assist it in the development of an effective retirement incentive, Minerva LSD should consider GFOA's *Evaluating the Use of Early Retirement Incentives* (October 2004), which recommends that governments exercise extreme caution if considering ERIs. Governments should take several actions prior to the decision to offer an ERI in terms of

goal-setting, cost/benefit analysis, and budgetary analysis. Governments should also develop an implementation plan. The following is a brief description of what each of these actions should include:

- **Goal-Setting:** Governments should be explicit in setting documented goals for the ERI. Goals can be financial in nature, such as realizing permanent efficiencies in staffing or achieving budgetary objectives. ERIs can also be designed to achieve human resource goals, such as creating vacancies that allow for additional promotion opportunities and allowing management to bring in new staff. Any ERI goals should not conflict with other retirement plan goals (e.g., features increase retention).
- **Cost/benefit analysis:** In judging whether an ERI should be offered, governments should assess the potential costs and benefits of the proposals, and the cost/benefit analysis should be linked to the goals of the ERI. For example, if a government sets a financial goal of obtaining long-term staffing efficiencies, then an independent cost/benefit analysis should determine whether the ERI will actually bring about such staffing efficiencies.
- **Budgetary considerations:** In order to develop accurate budgetary estimates for the ERI, it is necessary to estimate the incremental cost of the ERI, which will vary according to the level of employee participation. Any budgetary analysis should project multiple scenarios for employee participation levels.
- **Implementation Plan:** Governments should consider a communication plan to help employees understand the ERI in the context of overall retirement planning. It may also be necessary to gain input from collective bargaining units. Governments should consider the impact upon service delivery after employees retire, with identification of critical personnel whose services must be maintained. The duration of the window should take into account the ability of retirement staff to manage retirement application workloads, among other factors. Lastly, performance measures should be used to ensure ERI goals are met.

By performing the actions recommended by the GFOA and removing the provision from its collective bargaining agreements, the District could evaluate the costs and benefits and determine the appropriateness of offering the retirement incentive. This would ensure that any retirement incentive offered by Minerva LSD has a positive impact on the District's finances.

*Financial Implication:* The number of District employees who are eligible for the incentive and choose to retire will fluctuate from year to year. Using the Treasurer's methodology for accounting for the incentive in the District's five-year forecast, negotiating the elimination of the retirement incentive would save the District approximately \$77,000 per year.

## Financial Implications Summary

The following table summarizes estimated annual cost savings associated with the implementation of recommendations in this section of the performance audit.

### Summary of Financial Implications for Human Resources

<b>Recommendation</b>	<b>Estimated Annual Cost Savings</b>
<b>R3.1</b> Eliminate 1.0 FTE library aide and office/clerical position	\$56,300
<b>R3.2</b> Discontinue providing employee retirement pickup	\$418,000
<b>R3.3</b> Reduce extracurricular expenditures	\$53,500
<b>R3.4</b> Increase employee medical insurance contribution to at least 10 percent	\$159,000
<b>R3.5</b> Negotiate an employee dental insurance contribution of at least 6 percent	\$16,000
<b>R3.10</b> Negotiate elimination of retirement incentives	\$77,000
<b>Total Financial Implication</b>	<b>\$779,800</b>

Source: AOS recommendations





# Facilities

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## Background

This section focuses on the maintenance and operations (M&O) of facilities in the Minerva Local School District (Minerva LSD or the District), including assessments of staffing levels, planning efforts, expenditures, policies, and operating procedures. The District's operations were evaluated against leading practices and operational standards derived from the American School and University Magazine (AS&U), the National Center for Education Statistics (NCES), the International Sanitary Supply Association (ISSA), the United States Department of Energy (DOE), the Government Finance Officers Association (GFOA), and other school districts.

Minerva LSD has four school buildings but is in the middle of an Ohio School Facilities Commission (OSFC) project, through which the District constructed a new middle school in 2004, demolished the old middle school in 2005, and renovated its high school in 2008. The final phase of the project will consolidate the two elementary schools into one new elementary school building scheduled to open late in 2009. Administrative offices are located in two small residential houses (approx. 3,100 square feet) near downtown Minerva. The bus garage (approx. 2,500 square feet) is in a very small, aging facility in the same residential setting. Finally, the District owns three undeveloped properties. One property is 0.5 acres of farmland in the northern section of the Paris Township which is not expected to be used in the future. The second is an 11.8 acre tract just outside the Village, which was originally considered for a new bus garage. The third property is where the former middle school stood. During the course of the audit, the District discussed plans to build a new building on this property to house a bus garage and administrative complex (see **issues for further study** in the **executive summary**).

Enrollment projections were developed for the OSFC project but they have not been updated. The OSFC projections were compared to actual District enrollment from FY 2005-06 to FY 2007-08 and found to be reasonably accurate. AOS developed updated enrollment projections as a component of this audit. These projections indicate a declining trend in enrollment of about 33 students per year.

### Staffing

The Minerva LSD M&O Department is responsible for the upkeep of the District's facilities and grounds. **Table 4-1** presents the FY 2008-09 staffing levels of the M&O Department.

**Table 4-1: Maintenance and Operations Staffing**

Classification	Number of Positions	Number of FTEs
Administrative	1	0.3
Maintenance Director	1	0.6
Custodian	12	11.5
<b>Total</b>	<b>14</b>	<b>12.4</b>

Source: Minerva LSD

The administrative position shown in **Table 4-1** represents the District's Business Manager, who provides administrative support to the M&O Department, such as reviewing expenditures and managing personnel issues. The Maintenance Director is a part-time employee who performs all maintenance functions and also purchases supplies for the maintenance and custodial areas. The 12 custodians are responsible for cleaning the buildings. The custodians report to building principals during the year and to the Maintenance Director during the summer. Groundskeeping functions are performed primarily through contracted services and therefore are not included in **Table 4-1**. The custodians do not clean the administrative offices or bus garage.

### Key Statistics

Key statistics used to assess workloads based on FY 2007-08 data are presented in **Table 4-2**.

**Table 4-2: Key Statistics and Workload Comparisons**

Key Statistics	
Number of Buildings <sup>1</sup>	7
Square Feet Maintained <sup>2</sup>	307,012
Square Feet Cleaned <sup>3</sup>	274,872
Workload Comparison (Sq. Ft./ FTE)	
Maintenance Standard - AS&U Cost Survey National Median <sup>4</sup>	95,000
Minerva LSD Maintenance Workload	511,687
Custodial Standard - NCES Planning Guide <sup>5</sup>	29,500
Minerva LSD Custodial Workload	23,902
• High School	27,213
• Middle School	22,007
• West Elementary School	20,667
• Mary Irene Day Elementary School	23,000

**Source:** Minerva LSD, NCES, and AS&U Magazine.

**Note:** Totals may vary due to rounding.

<sup>1</sup>Includes 4 schools, 2 administrative buildings, and a bus garage.

<sup>2</sup> Square feet maintained includes all major buildings and auxiliary facilities maintained by the District.

<sup>3</sup> Square feet cleaned is reduced since custodial staff are not responsible for cleaning all District facilities. In addition, mechanical rooms in school buildings were identified and removed from analysis.

<sup>4</sup> The AS&U study is based on a national survey which is released in April each year.

<sup>5</sup> According to the NCES, 28,000 to 31,000 square feet per FTE custodian is the norm for most school facilities. The level of cleanliness that is achievable with this workload ratio is acceptable to most stakeholders and does not pose any health issues.

**Table 4-2** shows that Minerva LSD's maintenance staff has a high workload, significantly exceeding the national median. This level of productivity is possible because of the newer buildings and the level of experience of the Maintenance Director (see **issues for further study** in the **executive summary** for a discussion of the impact of new construction on maintenance activities.) However, the District also operates with an overall custodial productivity level of approximately 23,900 square feet per FTE, which is 19 percent less than the benchmark of 29,500 square feet per FTE. In order to increase the level of productivity to a level that is in line with national standards, Minerva LSD would need to reduce custodial staffing by 2.0 FTE positions (see **R4.5**).

The District maintains 68.3 acres but primarily uses contracted groundskeeping services to perform this function. Based on the AS&U national median of 45 acres per FTE, the District would need 1.5 FTE staff positions. The District spent an average of \$28,800 on groundskeeping over the past three years. Based on the District's entry level salary schedule for custodians, 1.5 FTE would cost \$36,900 plus benefits. Therefore, the outsourced function appears cost-effective for the District.

*Financial Data*

**Table 4-3**, summarizes expenditures reported by the District to maintain and operate its facilities for FY 2005-06 through FY 2007-08.

**Table 4-3: Historical Expenditures on Facilities**

Cost Category	FY 2005-06	FY 2006-07	Percent Change	FY 2007-08	Percent Change
Salaries and Wages	\$436,359	\$416,539	(4.5%)	\$431,491	3.6%
Benefits	\$201,211	\$195,216	(3.0%)	\$234,874	20.3%
Purchased Services	\$475,411	\$445,517	(6.3%)	\$375,857	(15.6%)
Supplies and Materials	\$50,721	\$65,992	30.1%	\$63,166	(4.3%)
Capital Outlay	\$4,530	\$7,430	64.0%	\$0	(100.0%)
Other	\$1,042	\$2,063	97.9%	\$408	(80.2%)
<b>Total General Fund</b>	<b>\$1,169,274</b>	<b>\$1,132,757</b>	<b>(3.1%)</b>	<b>\$1,105,794</b>	<b>(2.4%)</b>
Other Funds	\$14,582	\$5,050	(65.4%)	\$14,682	190.7%
<b>Total All Funds</b>	<b>\$1,183,856</b>	<b>\$1,137,807</b>	<b>(3.9%)</b>	<b>\$1,120,477</b>	<b>(1.5%)</b>

**Source:** Minerva LSD year-end financial records.

**Note:** Tables may vary due to rounding.

As shown in **Table 4-3**, total facility expenditures decreased by 3.9 percent in FY 2006-07 and by 1.5 percent in FY 2007-08. The following is a brief explanation of some of the variances from year to year:

- **Salaries and Wages:** The Maintenance Director works part-time so his hours fluctuate based on the needs of the District, so some fluctuation in salary expenditures is expected. In addition, the District had a severance payment of \$13,400 in FY 2007-08 which contributed to the increase.
- **Benefits:** In FY 2007-08, benefits increased by 20.3 percent, which was primarily due to an employee hospitalization premium payment that had been deferred from FY 2006-07 (for more information on District benefits, see **human resources**).
- **Purchased Services:** Expenditures decreased in this category by 20.9 percent, or \$99,600, over the three-year period, primarily due to decreases in natural gas costs. A recoding of property insurance payments also contributed to the decrease.
- **Supplies and Materials:** This category increased by \$15,271 or 30.1 percent from FY 2005-06 to FY 2006-07. However, the increase represents only 1.3 percent of the total cost to the General Fund for maintenance and operations and is more than offset by decreases in other spending categories.

- **Capital Outlay and Other Spending:** Although these categories had fluctuations, the combined spending in these categories is less than 2.0 percent of overall expenditures and therefore is not considered significant.

**Table 4-4** compares Minerva LSD's expenditures per square foot on facilities to the American School and University (AS&U) national median. Expenditure categories that exceed the AS&U national median may indicate operational inefficiencies and may represent opportunities for further cost reductions.

**Table 4-4: FY 2007-08 Facility Expenditures per Square Foot**

Cost Category	Minerva LSD	Per Square Foot			
		Minerva LSD Expenditures Per Square Foot	AS&U	Above/Below AS&U	Percent Difference
Salaries & Benefits	\$666,365	\$2.17	\$2.05	\$0.12	5.9%
Purchased Services <sup>1</sup>	\$107,933	\$0.35	\$0.21	\$0.14	67.4%
Energy <sup>2</sup>	\$242,650	\$1.79	\$1.25	(\$0.46)	(36.8%)
Other Utilities <sup>3</sup>	\$16,415	\$0.05	\$0.22	(\$0.17)	(75.7%)
Trash Disposal	\$8,859	\$0.03	\$0.05	(\$0.02)	(42.3%)
Materials & Supplies	\$63,166	\$0.21	\$0.38	(\$0.17)	(45.9%)
Other <sup>4</sup>	\$15,090	\$0.05	\$0.40	(\$0.35)	(87.5%)
<b>Total Expenditures</b>	<b>\$1,120,477</b>	<b>\$3.65</b>	<b>\$4.56</b>	<b>(\$0.91)</b>	<b>(20.0%)</b>

**Source:** District financial reports for Fiscal Year 2007-08, AS&U 37<sup>th</sup> Annual Cost Study 2008

**Note 1:** The AS&U study is based on a national survey which is released in April each year.

**Note 2:** Totals may not sum due to rounding.

<sup>1</sup> Excludes utilities, energy, and trash collection.

<sup>2</sup> Includes electricity, gas, and other fuels.

<sup>3</sup> Includes water, telephone, and cable.

<sup>4</sup> Other includes miscellaneous expenditures and spending from other governmental funds.

As shown in **Table 4-4**, Minerva LSD's overall spending per square foot of \$3.65 is \$0.91 per square foot lower than the AS&U national median of \$4.56. The District is notably lower in all categories except salaries and benefits (\$0.12 higher) and purchased services (\$0.14 higher). While the District's cost for purchased services exceeded the national median, the District has reduced costs in this category over the past three years.

## **Audit Objectives for the Facilities Section**

The following is a list of the audit objectives used to evaluate the District's custodial, maintenance, and groundskeeping operations:

- How does the District's facility maintenance compare with the peers and leading practices regarding organizational structure and staffing levels?
- Does the Maintenance and Operations Department have written operational procedures and performance standards that meet leading practices?
- Are District energy management practices comparable to leading practices?
- Would enrollment trends suggest the District change how it plans to use its buildings?
- Does the District meet leading practices for planning and maintaining its facilities?
- Does the District have an effective and equitable system for managing maintenance needs?

## Recommendations

### *Facilities Planning*

**R4.1 Minerva LSD should develop maintenance and capital improvement plans. Specifically, the District should establish a formal preventative maintenance (PM) program based on elements of the Maintenance Business Plan and the Facility Maintenance Report received during the OSFC. Furthermore, comprehensive building audits should be conducted of all District buildings. The building audits will enable the District to identify important maintenance and safety issues, assess the overall condition of District facilities and equipment, and provide a reference for capital improvement planning. Minerva LSD should also develop a five-year capital improvement plan that identifies the expected life cycle of equipment and facilities. The capital improvement plan will help ensure that critical repairs or equipment replacements are completed and capital assets are maintained for as long as possible. A capital improvement plan will also help the District anticipate future costs and set aside funds for large capital purchases.**

Minerva LSD does not have a formal facility maintenance or capital improvement program that incorporates elements of leading practices. However, as part of the OSFC project, the District received a Maintenance Business Plan and the Facility Maintenance Report for the middle school, although it has not been incorporated into any planning process or into practical use. The maintenance and custodial staff perform PM activities as needed based on professional experience. However, Minerva LSD has not developed a written PM program that identifies regular maintenance items and ensures the activities are performed District-wide. Furthermore, Minerva LSD does not conduct formal building audits or regular inspections of its buildings. The Maintenance Director conducts informal visual inspections during the course of responding to work order requests, but it is not a planned or documented activity.

*Creating a Successful Facilities Master Plan* (DeJong, 2001) states that school districts should develop long-term facilities master plans that contain information on capital improvements, preventative maintenance, and building conditions. The plans should be developed based on foundations of sound data and community input. A district-wide facilities master plan is typically a 10-year plan that should be updated periodically to incorporate improvements that have been made, changes in demographics, or other educational directions.

*Preventative Maintenance for Local Government Buildings* (Minnesota Office of the Legislative Auditor, 2000) describes a capital improvement plan as a schedule of capital improvement projects listed in priority order over a number of years (usually five or



more). Capital improvement plans typically include remodeling and new construction as well as major maintenance projects.

*Planning Guide for Maintaining School Facilities* (NCES, 2003) recommends that all districts have formal PM programs focused on regularly scheduled equipment maintenance to prevent sudden unexpected equipment failure. NCES notes that many school districts practice “breakdown maintenance,” whereby maintenance problems are fixed as they occur. This method often defers major repairs and allows damage to compound over time. A well-designed management system generally encompasses four categories of maintenance: emergency (or response), routine, preventative, and predictive. Maintenance tasks should be scheduled through the work order system and are typically based on manufacturer recommended service intervals.

Furthermore, NCES recommends that facility audits become a routine part of the facilities maintenance program. Facility audits assist a school district in establishing baselines for measuring the conditions and needs of equipment and facilities. Audits are comprehensive reviews that document the condition of the facilities, their service histories, and their maintenance needs in order to help planners, managers, and staff know the life cycles of buildings, grounds, and equipment. Once initiated, audits must be performed on a regular basis (e.g., annually) because conditions change constantly. Furthermore, by integrating the findings of annual audits over time, planners can uncover information on the impact of various maintenance strategies and the demands placed on the infrastructure. This information can be used to increase the efficiency and cost-effectiveness of future maintenance efforts.

With relatively new buildings, the District has not considered long- and short-term facility plans as a priority. However, by improving its facility planning processes, the District will be better positioned to advance its educational mission through the quality and configuration of its facilities. Also, planning for preventative maintenance and capital improvements will help it better budget for these costs and ensure its new facilities are maintained effectively.

### *Operations*

**R4.2 Minerva LSD should develop and implement formal performance standards and measures to clarify staff expectations, evaluate individual performance, and assess the overall effectiveness of maintenance and operations activities. By developing formal performance measures, the District can consistently evaluate the efficiency and effectiveness of operations. Increased efforts to measure and track performance can improve decision-making and resource allocation and may help reduce operating costs. Additionally, the District should evaluate the performance of all M&O Department staff annually based on the established performance measures.**

**The performance measures should be based upon and be consistent with the procedures identified through an operating handbook or written guidelines (see R4.3) to ensure that all staff are properly informed of expectations related to their positions.**

As a practice, Minerva LSD uses performance standards for some staffing decisions but not as a consistent measure of M&O Department efficiency. The District also conducts performance evaluations, but these are informal and not based on consistent standards. The District has therefore not established productivity benchmarks that ensure the efficiency and effectiveness of maintenance and custodial operations.

*Best Practices in Public Budgeting* (GFOA, 2000) recommends that organizations develop and use performance measures for functions, programs, and/or activities. Performance measures should be linked to specific program goals and objectives. The measures should be valid, reliable, and verifiable. Whenever feasible, they should be expressed in quantifiable terms. Measures should be reported in periodic reviews of functions and programs and should be integral to resource allocation decisions.

According to *A Game Plan for Productivity: Tactics for Holding Down Labor Costs and Helping the Bottom Line* (FacilitiesNet, 1999), a school district can experience savings as maintenance and operations managers measure the productivity of the custodial function and increase the productivity of the people who perform these activities. Facilities managers who apply recommended practices can increase the productivity of their custodial operations by 10 to 25 percent and decrease their overall labor budgets. Productivity measures should include the following:

- Square feet cleaned per hour or per shift;
- Costs per square foot to clean a facility;
- Quality of service;
- Definitions for productivity and performance; and
- Customer input.

As a small school district, Minerva LSD has assigned staff to certain buildings and has tended to use direct supervision rather than written performance standards to guide custodial activities during the workday. While the District has considered performance measures, such as square feet cleaned per hour, it has not created a consistent set of performance measures to communicate to staff. Without a formal set of performance standards for measuring the M&O Department, the District limits its ability to objectively evaluate staff and organizational performance. Evaluating the operation through objective criteria can establish a baseline performance measure that can then be used for comparing whether changes affect operational performance. Implementation of performance standards and measures, coupled with formal job expectations (R4.3), could raise the

level of service provided by the M&O Department with little additional cost to the District.

**R4.3 Minerva LSD should develop a formal handbook for the M&O Department. The handbook should address topics such as the mission statement, personnel policies, purchasing regulations, accountability measures, safety procedures, repair standards, vehicle use guidelines, and security standards. It should contain specific instructions on the performance of routine and non-routine tasks; detail time standards for accomplishing tasks, and provide directions for operating any equipment to be used in completing the tasks. Once developed, the handbook should be updated when procedures change, and should also be used as a training tool (see R4.4).**

Minerva LSD has no M&O Department procedures manual or handbook that describes its cleaning, maintenance, and groundskeeping functions. The District uses custodial checklists, assignments, and job descriptions as a basis for guiding staff responsibilities and functions. However, these types of lists do not include specific procedures for performing custodial or maintenance tasks or for providing guidance on the use of equipment as recommended by leading practices.

According to the *Planning Guide for Maintaining School Facilities* (NCES, 2003), every maintenance and operations department should have a policies and procedures manual that governs day-to-day operations. The manual should be readily accessible (ideally through the District's intranet or Internet sites). NCES recommends that management:

- Establish goals;
- Create an evaluation instrument (e.g., a checklist);
- Be as detailed and specific as possible;
- Define the performance scale (e.g., 0 = poor to 5 = excellent);
- Be flexible (i.e., acknowledge extraordinary circumstances when they arise);
- Convey expectations to affected staff people; and
- Review the performance standards on a regular basis (e.g., annually).

The International Sanitary Supply Association (ISSA) has developed a handbook designed to help train and guide custodians. The handbook details the correct cleaning methods as well as the proper use of custodial equipment and offers guidelines and tips on the following:

- Floor finish application;
- Auto scrubbing;
- Carpet care and maintenance;

- Damp/wet mopping;
- Proper dilution methods;
- Dust mopping;
- Oscillating and multiple brush floor machines;
- Scrubbing/stripping;
- Spray buffing/ high speed burnishing;
- Wall washing;
- Washroom cleaning;
- Wet/dry vacuums; and
- Window cleaning.

The custodial and maintenance procedures manuals used by Lancaster City School District and Oregon City School District are considered industry standards. Both manuals provide details on areas of responsibility, including equipment use and general expectations. In addition, Oregon City School District has developed extensive scheduling, workload, and staffing expectations based on ISSA guidelines.

Without a formal policies and procedures handbook to guide maintenance and operations, procedures and standards may not be consistently followed. Developing and incorporating policy and procedures manuals and standards for all M&O Department staff will help ensure more efficient and effective cleaning. A maintenance and operations handbook will help effectively communicate management expectations as to the quality of work and performance standards. Written policies and procedures would also help ensure that issues are managed in a consistent manner.

### *Staffing*

**R4.4 Minerva LSD should establish an orientation program for maintenance and operations staff and conduct annual training based on specific staff needs and organizational performance goals. The District should build on existing health and safety training by offering an annual training program focused on methods for improving productivity in order to meet performance standards (R4.2). Furthermore, the training program should include reviews of policy and procedures documented in the M&O Department handbook (R4.3). By more effectively training personnel and creating clear expectations, the District should be able to improve productivity and reduce costs.**

Minerva LSD provides training for M&O Department staff when required to comply with State and federal health and safety guidelines or when provided by the vendor as part of a new equipment purchase. However, the District does not offer annual comprehensive

training for maintenance and operations employees. Although some training is provided, it is not scheduled on a regular basis and is not documented.

According to the *Planning Guide for Maintaining School Facilities* (NCES, 2003), preparing staff through training sessions will help ensure work is done properly, efficiently, and safely, which is cost-effective in the long run. Training should encompass the following areas:

- Orientation of the organization's facilities;
- Orientation of the person's work area;
- Equipment instructions;
- Task-oriented lessons;
- Expectations; and
- Evaluation information.

NCES identifies the parties who should provide the training, including product vendors, managers who evaluate the work, vocational education staff, or other staff who have demonstrated expertise with the equipment or skill in performing the task.

Training helps staff members achieve and retain the skills necessary to perform at an efficient level on a day-to-day basis. *21st Century Staffing* (FacilitiesNet, 2002) notes that training is one of the most important ingredients for developing and maintaining an effective work force because it improves customer satisfaction and employee morale, which in turn reduces the risk of costly waste and abuse. Creating training programs ensures that all maintenance and custodial staff are using the most current procedures for equipment. Developing a training program provides an opportunity for all staff to discuss leading practices, standardize routines, and develop efficient duties. The District could improve productivity within the M&O Department by providing formal training linked to documented work procedures (see **R4.3**) and performance standards (see **R4.2**).

**R4.5 Minerva LSD should consider reducing 2.0 FTE custodians to bring M&O Department staffing closer to the productivity benchmark of 29,500 per FTE and reduce its salary and benefit costs.**

Based on **Table 4-2**, the District operates with an overall custodial productivity level of about 23,900 square feet per FTE, 19 percent less than the benchmark of 29,500 square feet per FTE. Because of the lower workload, Minerva LSD spends more in salaries and benefits than is necessary for the District's square footage. In order to increase productivity to a level more in line with national standards, the District should consider reducing custodial staffing by 2.0 FTEs. During the course of the audit, the District indicated that it was in the process of reducing 1.0 custodial FTE through attrition.

The *Planning Guide for Maintaining School Facilities* (NCES, 2003) states that a range between 28,000 and 31,000 square feet per custodial FTE allows school districts to maintain a level 3 of cleanliness. According to NCES, level 3 cleanliness is the norm for most school facilities, is acceptable to most stakeholders, and does not pose any health issues.

Without formal plans and performance standards, Minerva LSD has developed its staffing levels based on informal assessments of facility needs. Aligning staffing with national benchmarks will assist the District in maintaining proper staffing levels and becoming more operationally efficient. Further, the cost savings will allow the District to reallocate funding to educational programming or assist the District in alleviating future General Fund deficits.

*Financial Implication:* Eliminating 2.0 FTE custodial positions would save approximately \$78,100 in salaries and benefits in FY 2009-10.

## Financial Implications Summary

The following table presents a summary of the estimated annual cost savings and one-time implementation costs identified in recommendations presented in this section of the report. Only recommendations with quantifiable financial implications are listed.

### Summary of Financial Implications for Facilities

<b>Recommendation</b>	<b>Estimated Annual Cost Savings</b>
<b>R4.5</b> Reduce custodial staffing by 2.0 FTEs.	\$78,100
<b>Total</b>	<b>\$78,100</b>

Source: AOS recommendations





# Transportation

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## Background

This section of the performance audit focuses on the Minerva Local School District's (Minerva LSD or the District) transportation operations. Transportation operations were evaluated against best practices, operational standards, and selected peer school districts.<sup>1</sup> Comparisons were made for the purpose of developing recommendations to improve the efficiency and effectiveness of business practices and, where appropriate, to reduce expenditures. Throughout this section, leading practices and operational standards were drawn from various sources, including the Ohio Department of Education (ODE), Legislative Office of Education Oversight (LOEO), American Association of School Administrators (AASA), Government Finance Officers Association (GFOA), and National Association of State Directors of Pupil Transportation Services (NASDPTS).

### *Transportation Policy*

Ohio Revised Code (ORC) § 3327.01 requires that, at a minimum, school districts provide transportation to and from school to all students in grades kindergarten through eight (K-8) who live more than two miles from their assigned schools. Districts are also required to provide transportation to community school and non-public school students on the same basis as provided to their own students. In addition, districts must provide transportation to disabled students who are unable to walk to school, regardless of the distance. Finally, when required by an individualized education program (IEP), districts must provide specialized, door-to-door transportation to special needs students based on the unique needs of the student.

Minerva LSD's Board of Education (the Board) policy states that the District will provide transportation for students in all grades who live beyond the corporate limits of the Village of Minerva, regardless of the distance. In practice, some students who live within the village limits are also transported due to safety issues such as highway crossings, road construction, railway crossings, and lack of sidewalks. The District's policy generally matches its practice with regard to the level of service provided, and is appropriate for Minerva LSD due to the fact that there are no sidewalks outside the village limits.

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<sup>1</sup> The peers include: Ridgewood LSD (Coshocton County), Logan-Hocking LSD (Hocking County), Garaway LSD (Tuscarawas County), Leipsic LSD (Putnam County), New London LSD (Huron County), Springfield LSD (Mahoning County), East Guernsey LSD (Guernsey County), Celina City LSD (Mercer County), Southeast LSD (Wayne County), and East Holmes LSD (Holmes County).

The District has compiled a School Bus Driver Handbook which outlines the various Board policies and administrative guidelines related to student transportation, job descriptions, performance evaluations, and other forms that are used by drivers. The development and use of a drivers' handbook represents a leading practice for school district transportation operations.

### *Operating Environment*

Minerva LSD offers Type I yellow bus transportation,<sup>2</sup> using Board-owned and operated buses to transport regular and special needs student riders. In addition to the students at the District's four school buildings, transportation is provided to special education students who receive services both inside and outside of the District. The District's transportation operations fall under the direction of the Transportation Supervisor, who is primarily responsible for bus routing, scheduling, and other transportation-related issues. In FY 2007-08, the Transportation Department consisted of 35 employees: 18 bus drivers, 9 substitute drivers, 3 bus aides, 1 substitute bus aide, 2 full-time mechanics, and 2 office staff. In FY 2008-09, the District eliminated one special education bus route, although it did not eliminate the corresponding bus driver position. Instead, the bus driver for the eliminated route has been reassigned to another bus and route, replacing a substitute driver who had driven the route in the prior year.

Minerva LSD has employed a number of routing methods to improve efficiency. The District uses multi-tiered routing, staggered bell schedules, and cluster stops around neighborhoods to balance the need for efficiency with the desire to avoid requiring any children to cross major intersections to get to their bus stops. School buses provide door-to-door service in the more rural areas of the District where there are no sidewalks. The District currently routes its buses manually, rather than through an electronic system. However, it has recently purchased routing software and plans to implement electronic routing in FY 2009-10.

### *Operating Statistics*

In FY 2007-08, Minerva LSD provided transportation to 1,556 students, 99.8 percent of whom were transported on District owned yellow buses. Public regular needs riders comprised 98.9 percent of all students transported, and special needs riders comprised 0.9 percent. The District also transported three students using payment in lieu of transportation, which comprised only 0.2 percent of the students transported. In FY 2007-08, the District used 25 buses (19 active buses and 6 spares) to provide transportation services to its students. As previously mentioned, the District eliminated one special needs route in FY 2008-09, reducing its number of active buses to 18.

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<sup>2</sup> ODE classifies pupil transportation ridership by the following types: Type I (riders on Board-owned yellow buses), IA (riders on another district(s) buses), II (riders on outsourced/leased, contractor-owned buses), III (riders on public transportation such as taxis), IV (payment in lieu), V (riders on Board-owned vehicles other than buses), VI (riders on privately-owned vehicles), and VII (community school riders).

**Table 5-1** compares the District's transportation statistics to the peer averages for FY 2007-08. Minerva LSD has a higher student enrollment, but at 81 square miles, it is significantly smaller geographically. In FY 2007-08, the District transported 29 percent more yellow bus riders than the peer average. The District also has a slightly larger fleet that travels more annual routine miles per active bus.

**Table 5-1: Pupil Transportation Operating Statistics**

	MNLSD	Peer Average	Percent Above (Below)
<b>Square Miles</b>	<b>81</b>	<b>141.0</b>	<b>(42.5%)</b>
<b>ODE Enrollment</b>	<b>2,143</b>	<b>1,789.2</b>	<b>19.8%</b>
<b>Total Students Transported (All Types)</b>	<b>1,556</b>	<b>1,207.7</b>	<b>28.8%</b>
<b>Yellow Bus Riders</b>	<b>1,553</b>	<b>1,183.0</b>	<b>31.3%</b>
Regular Riders	1,536	1,177.0	30.5%
• Public	1,536	1,142.1	34.5%
• Non-Public <sup>1</sup>	0	34.9	(100.0%)
• Community School	0	0.0	N/A
Special Needs Riders <sup>2</sup>	17	6.0	183.3%
<b>Buses <sup>3</sup></b>			
• Regular Buses	16	17.1	(6.4%)
• Special Needs Buses	3	0.6	400.0%
• Active Buses	19	17.7	5.6%
• Spare Buses	6	5.5	9.1%
<b>Miles</b>			
• Annual Routine Miles <sup>4</sup>	<b>327,420</b>	<b>297,666</b>	<b>10.0%</b>
<b>Operating Ratios</b>			
• Daily Miles per Rider	1.2	1.4	(14.1%)
• Riders Per Square Mile	19.2	10.3	86.0%
• Enrollment Per Square Mile	26.5	14.9	77.7%
<b>Regular Riders Per Regular Bus</b>	<b>96.0</b>	<b>68.5</b>	<b>40.0%</b>
<b>Yellow Bus Riders Per Active Bus</b>	<b>81.7</b>	<b>65.8</b>	<b>24.1%</b>
<b>Routine Miles Per Active Bus</b>	<b>17,233</b>	<b>15,629</b>	<b>10.3%</b>

Source: Minerva LSD and ODE

Note: Totals may not sum due to rounding.

<sup>1</sup> Excludes peers that reported zero Type I and II non-public/community school riders.

<sup>2</sup> Excludes peers that reported zero Type I and II special needs riders.

<sup>3</sup> Includes Type I and II buses.

<sup>4</sup> Trips necessary for the daily attendance of children in their educational programs. "Non-routine miles" typically refers to field trips and related trips for which expenditures are not reimbursed by ODE.

As **Table 5-1** shows, the regular ridership at Minerva LSD was 96.0 riders per bus in FY 2007-08, which was 40 percent higher than the peer average of 68.5. The District's ridership level also exceeded the target efficiency benchmark of 88.8 students per bus, determined based on the rated capacity of its bus fleet and industry benchmarks established by the American Association of

School Administrators (AASA, 2005).<sup>3</sup> When special needs students are included, Minerva LSD's riders per yellow bus dropped to 81.7, which is still about 24 percent higher than the peer average of 65.8. One potential reason for its higher level of efficiency is that the District is more densely populated than the peers, with 86.0 percent more riders per square mile.

### *Operating Expenditures*

**Table 5-2** compares Minerva LSD's Type I (i.e., yellow bus) transportation expenditures to the peer averages. In FY 2007-08, Minerva LSD spent nearly \$1.1 million to provide Type I pupil transportation services. Of this amount, the District received about 49 percent (\$525,000) in State reimbursement from ODE, about 8.5 percent below the peer average.

**Table 5-2: Type I Pupil Transportation Expenditures Per Yellow Bus Rider**

Expenditure Category (Per Rider)	MNLSD	Peer Average	Percent Above (Below)
Salaries	\$266.38	\$285.27	(6.6%)
Benefits <sup>1</sup>	\$222.90	\$215.81	3.3%
Maintenance and Repairs <sup>2</sup>	\$79.80	\$97.07	(17.8%)
Fuel	\$98.17	\$115.96	(15.3%)
Bus Insurance	\$11.36	\$11.28	0.6%
All Other Costs	\$10.57	\$11.74	(9.9%)
<b>Total Type I Expenditures</b>	<b>\$689.52</b>	<b>\$736.03</b>	<b>(6.3%)</b>

Source: Minerva LSD and ODE

Note: These figures exclude non-reimbursable General Fund expenditures for capital outlay and non-routine transportation, per ODE instructions.

<sup>1</sup> Includes retirement, workers' compensation, and employee insurance.

<sup>2</sup> Includes mechanic salaries, mechanic helper wages, maintenance and repairs, tires and tubes, and maintenance supplies.

As **Table 5-2** shows, on a per rider basis, Minerva LSD spends 6.3 percent less than the peers in overall transportation expenditures. Only the District's benefit costs exceed the peer averages (see the **human resources section** for an assessment of benefits).

### *Fuel Security*

Minerva LSD does not have a centralized fuel tank. Instead, the District participates in the Stark County Schools Council of Governments (SCSCOG) gas/diesel fuel contract, which allows its bus drivers to refuel at specified gas stations throughout the area. Each school bus is issued a key card that authorizes the driver to refuel as needed. The cards contain a number of security precautions to ensure that they are not misused, and to allow the Transportation Department to

<sup>3</sup> The majority of Minerva LSD's fleet is 65 passenger buses. The District owns and operates only two 72 passenger buses.

track the use of fuel within the District. The Transportation Department also engages in a reconciliation process which, although informal, provides a level of assurance and monitoring of the District's fuel usage.

### *Special Needs Transportation*

Ohio law and Minerva LSD's transportation policy state that temporary or permanently disabled children are entitled to bus transportation between their homes and their schools. The Board policy also states that transportation may be provided via Board-owned vehicles, through cooperation with other districts, through commercial carriers, or by other means in the most efficient and economical manner.

During FY 2007-08, the District used three active special needs buses that were fully devoted to transporting special needs students on special needs routes. The District also has three vans, and uses them to transport some special needs riders when it is more efficient than using school buses. For FY 2008-09, however, the District has eliminated one special needs route and is using only two buses for its special needs transportation.

Minerva LSD mainstreams onto regular bus routes those special needs students who are non-violent and don't have specific physical needs which would require the use of a special needs bus. The process of determining which students are assigned to regular buses and which are assigned to special needs buses is carried out primarily by the Special Education Coordinator, who notifies the Transportation Department that a special needs student requires transportation, and who determines the manner in which the student will be transported (see **R5.5**).

## **Audit Objectives for the Transportation Section**

The following is a list of the questions used to evaluate the Minerva LSD transportation function:

- How do the District’s transportation policies and procedures compare with best practices and how do they impact operations?
- How can the District improve the accuracy and reliability of its transportation data?
- How does the District’s “yellow bus” transportation service compare with peer districts and/or industry standards?
- How can the District improve its operating efficiency?
- How can the District improve the cost-effectiveness of transportation operations through improved human resource management?
- Does the District have sufficient controls in place to ensure the security of its buses, equipment, parts, supplies, and fuel?
- How does the District ensure it gets the best value when purchasing transportation related items?
- Is the District effectively and efficiently maintaining and managing its fleet?
- Is the District providing specialized transportation service in an effective and efficient manner?

## Recommendations

### *Policies, Plans, Procedures, and Guidelines*

**R5.1 Minerva LSD’s Board should revise its policies and administrative guidelines on non-routine transportation to reflect its actual practices and eliminate ambiguity. Specifically, the Board policies should be limited to authorizing the charging for non-routine use of buses and requiring the District to establish a method through its administrative guidelines for recovering these costs. The administrative guidelines should document the District’s methodology, insurance requirements, and other provisions for recovering the costs of non-routine transportation. Through its administrative guidelines, the District should reserve the right to change its rates during the school year if its actual costs change significantly.**

The Ohio Administrative Code (OAC) defines “non-routine transportation” as the transportation of passengers for any purpose other than regularly scheduled routes to and from school. Minerva LSD’s Board policies contain somewhat conflicting provisions on non-routine transportation. One policy states that a mileage charge will be assessed to the sponsoring organization or a designated fund to cover the cost of the driver and fuel. A separate provision of the policy states that the cost of non-routine transportation shall be reimbursed to the District in accordance with administrative guidelines developed by the Superintendent, which should include provision for insurance coverage among other things. The administrative guidelines state that insurance for non-routine transportation shall be provided in accordance with the District’s Board policy, but do not discuss how costs of non-routine transportation (either driver’s salary or a mileage charge) are to be determined or recovered.

Neither the Board policy nor the administrative guidelines establish specific practices or a methodology for determining specific amounts to be charged with regard to non-routine trips, such as athletic events, field trips and other extra-curricular trips. However, in FY 2008-09, Minerva LSD’s bus drivers are paid \$11.00 per hour plus benefits for non-routine trips and sponsoring organizations are charged an additional \$1.00 per mile. Drivers are paid for a minimum of two hours for each non-routine trip. The costs for non-routine transportation are charged to the relevant programs and appropriate funds. For example, athletic trip charges are billed to the Athletic Fund. When outside organizations use the school buses, they are required to pay these charges as well.

OAC § 3301-83-16 requires school districts to recover an amount, not to exceed the actual operational costs associated with the non-routine use of school buses, with the exception of field trips that are extensions of the instructional program. The levels and types of non-routine transportation can range, and include organizations both internal and

external to the District. Minerva LSD is following the recommended practice by charging program funds for non-routine transportation.

However, policies and procedures that do not reflect the actual intent and practices of the District could lead to misunderstanding or inconsistent application. The GFOA recommends that government policies on charges and fees identify the factors used to price a good or service, and that both direct and indirect costs be incorporated when determining the cost of a service (GFOA, 2001). While Minerva LSD's practices with regard to non-routine transportation may be sound, its policies and administrative guidelines fail to clearly communicate the factors used to determine its charges and other practices. Revising the policies and guidelines will provide a greater level of consistency in the District's practices, and help ensure that all parties understand the basis for the recovery of the costs of non-routine transportation.

### *Standard Operating Procedures*

**R5.2 Minerva LSD should document its procedures for completing, reconciling, and submitting transportation data (T-forms). Most importantly, the methodology for separating and allocating costs should be documented to ensure compliance and consistency in reporting transportation costs to ODE. Formal procedures which document the activities of all positions responsible for collecting and ensuring accurate data will help ensure the reliability of the data reported, the continuity of the process, and compliance with State requirements. The District should also ensure that it allocates vehicle insurance premium costs so that only coverage for buses is reported on its T-2 forms.**

On an annual basis, each school district in Ohio is required to report detailed information to ODE about the district's transportation operations. ODE uses this data to develop funding formulas, calculate payments to school districts, and conduct other analyses. The T-1 form is used to report the actual number of students transported, the number of buses used by the district, and the total daily miles traveled. The T-2 form is used to report the actual expenses incurred in the transportation of students. ODE has developed an online School Foundation Payment System with instructions to ensure that these reports are submitted in an accurate and timely manner.

Minerva LSD's Transportation Secretary and Treasurer prepare and review the District's T-forms electronically. The Transportation Secretary is primarily responsible for completing the T-1 form, while she and the Treasurer are responsible for separate portions of the T-2 form. Both the T-1 and T-2 forms must be reviewed and signed by the Treasurer and Superintendent before being submitted to ODE. According to the Transportation Supervisor and the Secretary, the T-forms are completed by following the instructions on the ODE website.



The District has not developed formal standard operating procedures for collecting, submitting, and verifying T-form data to ODE. For example, there is no formal collaboration between the Transportation Department and the Treasurer to ensure the accuracy and validity of data. Moreover, the District has no documentation identifying which officials are responsible for which aspects of T-form reporting, how various data is obtained, or how costs are allocated.

In reviewing the District's T-2 forms, AOS determined that Minerva LSD has misreported data in its T-2 reports, attributable to errors caused by an overall lack of internal controls or standard operating procedures. For example, the District's T-2 reports include bus insurance premium costs for all vehicles owned by the District, which includes seven non-school bus vehicles – three vans, three trucks, and one jeep. In contrast, ODE instructions require that only insurance for the bus fleet be reported. As a result, Minerva LSD's reported insurance expenditures for FY 2007-08 were 11.2 percent higher on a per bus basis than the peer district average. However, when the premium cost of \$2,495 for the seven additional non-bus vehicles is excluded from the total, Minerva LSD's per bus expenditures are 4.5 percent lower than the peer average.

The 2003 LOEO report *Student Transportation in Ohio* identified that accuracy problems for transportation-related data exist in a number of school districts. One recommendation put forth by the LOEO was for ODE to continue working with school districts to improve the accuracy of the data submitted regarding the number of students transported, the average daily bus miles per student, and the cost of transportation services. The first step in ensuring accurate data is for a district to create and adhere to documented procedures for the submission of district T-forms.

According to *Documentation of Accounting Policies and Procedures* (GFOA, 2002 and 2007), government agencies should develop formal documentation of accounting policies and procedures. A well-designed and properly maintained system of documenting policies and procedures enhances both accountability and consistency. The resulting documentation can also serve as a useful training tool for staff and can help ensure consistency through staff turnover. The documentation of policies and procedures should delineate the authority and responsibility of all employees, especially the authority to authorize transactions and the responsibility for the safekeeping of assets and records. Likewise, it should indicate which employees are to perform which procedures, and procedures should be described as they are actually intended to be performed.

School districts account for their transportation costs and riders through their T-forms. As such, it is important that these forms be accurate and that the processes for completing them be documented. In the case of Minerva LSD, although some errors were found in its T-2 reporting, the District provided adequate explanations and AOS was able to adjust the T-2 data to make it more reliable.

The lack of formalized standard operating procedures weakens internal controls, especially in the event of employee turnover or absence, and also leads to questions about the reliability of the District's data. The failure to document how data is collected or how costs are allocated increases risks associated with misreporting transportation data, which may affect future reimbursement rates.

### *Maintenance, Repairs, and Bus Replacement*

**R5.3 Minerva LSD should establish and implement a formal preventive maintenance plan to ensure that its buses are properly maintained and remain safe for students. As the plan is implemented, the District should document fleet maintenance and repair activities and their associated costs. A formal plan will improve efficiency, accountability, and productivity through prioritized scheduling of routine maintenance and non-routine (i.e., emergency) repairs.**

**In addition, Minerva LSD should develop a formal bus replacement plan in conjunction with the preventive maintenance plan to help ensure that bus replacement needs are effectively evaluated and communicated. This plan should account for enrollment and ridership trends, industry standard age and mileage replacement criteria, and maintenance costs per bus. Furthermore, this plan should be linked to the District's budget so that bus replacement funds are available when needed.**

According to the Transportation Department, the District's mechanics conduct routine maintenance of the buses, including greasing chassis, changing oil, replacing filters, brake services, and other specific preventive maintenance services at regularly scheduled intervals. For significant repairs (engine, transmission, etc.), the Transportation Supervisor outsources such services. The bus drivers are responsible for performing daily pre-trip bus inspections (e.g., checking lights, hoses, and fluid levels).

As **Table 5-3** shows, Minerva LSD's maintenance and repair costs are below the peer district average on a per rider and per routine mile basis. This suggests that Minerva LSD is able to efficiently manage its maintenance and repair costs. The District also keeps all maintenance records for each bus in its fleet to track maintenance costs by bus. However, the District does not have a formal preventive maintenance plan. In addition, the District does not have a bus replacement plan. According to District officials, Minerva LSD purchases buses on an "as needed" basis, based on the availability of funds.

**Table 5-3: Maintenance & Repair Expenditure Comparison**

	Minerva LSD	Peer Average	% Difference vs. Peers
<b>Maintenance &amp; Repairs Total Cost</b>	<b>\$123,931</b>	<b>\$115,367</b>	<b>7.4%</b>
· Per Yellow Bus Rider	\$79.80	\$97.07	(17.8%)
· Per Active Bus	\$6,523	\$6,321.50	3.2%
· Per Routine Mile	\$0.38	\$0.42	(9.5%)

Source: ODE T-2 reports

The *North Carolina School Transportation Fleet Manual* (adopted May 2006) states that effective documentation and planning for preventive maintenance are essential components of an effective, safe, and cost-efficient maintenance program. Moreover, this documentation serves as the basis for an organization to justify its budget needs and allocations.

In the same manner, 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 an important resource for the district. The plan can incorporate the maintenance data collected by the district 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.

Minerva LSD appears to have an appropriate preventive maintenance program, which contributes to the District's lower maintenance and repair costs compared to the peer average. However, the failure to formally plan preventive maintenance or associated expenditures in these areas inhibits the District's ability to evaluate information to make appropriate decisions about its vehicle fleet. Ultimately, this hinders its ability to communicate with the public about its fleet needs and maintenance accomplishments.

**R5.4 Minerva LSD should involve transportation personnel in the individualized education program (IEP) process for students with transportation as a related service. At a minimum, transportation staff should be consulted once the IEP is developed to help determine how to transport these students. Involving the transportation staff in these decisions will help ensure that Minerva LSD is complying with Ohio law and that each special needs student is being transported in the safest and most cost-effective manner possible.**

At Minerva LSD, the responsibility to evaluate a student with an IEP, conduct meetings with the parents of the student, and make decisions on how to transport the student lies with the special education office. The District does not include Transportation Department staff in the IEP process when transportation is a required service. Consequently, the Transportation Department does not provide input into the decisions about transporting students with IEPs, and only becomes aware of their transportation needs when it receives authorization to transport them.

Special needs transportation is governed by State law and is dependent on each child's IEP. OAC § 3301-51-10 (C)(2) stipulates that "school district transportation personnel shall be consulted in the preparation of [IEPs] when transportation is required as a related service and when the child's needs are such that information to ensure the safe transportation and well-being of the child is necessary to provide such transportation."

*Transporting Students with Special Needs Can be Typical: A Guide for School Transportation Professionals* (ODE, 2005) states that school transporters are essential participants in the decision as to whether transportation is a related service for a particular child. Because the type of special needs transportation service is identified in the IEP, the Transportation Supervisor should provide input into the feasibility of the proposed transportation method. Moreover, the IEP describes accommodations, modifications, and supports that must be provided to the child, and transportation personnel are best able to help determine what assistive resources are available and how they can be used. In other words, the transportation staff is an essential resource in determining the safest and most efficient manner in which to meet the child's needs.

By not involving its transportation staff in the IEP process, Minerva LSD may be missing out on opportunities to improve its transportation efficiency and realize cost savings in the transportation of special needs students. The involvement of transportation staff in the IEP process can help ensure that the District is complying with Ohio law and that special needs students are receiving safe but cost-effective transportation. The goal for transporting all District students, including those with special needs, should be to provide transportation services that meet the needs of the student while minimizing the costs to the District.



# Food Service

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## Background

This section focuses on the operational efficiency of the Minerva Local School District (Minerva LSD or the District) food service program. The procedures and financial condition of the District's food service program were analyzed for the purposes of developing recommendations for improvements in processes and identifying opportunities to increase efficiency. The District's operations were evaluated against best practices and operational standards including the National Food Service Management Institute (NFSMI), the United States Department of Agriculture (USDA), the Government Finance Officers Association (GFOA), and selected peer<sup>1</sup> and adjacent<sup>2</sup> districts.

Minerva LSD's Food Service Department is responsible for serving breakfast and lunch to all students at the District. The Business Manager and a Secretary, both of whom have other responsibilities within the District, oversee the Department. Together, they manage the food service staff, purchase food and supplies, plan menus, submit reimbursement claims, and certify eligibility for free and reduced price meals. Each of the District's four schools has a separate kitchen where food is prepared. Lunch and breakfast are served in accordance with the National School Lunch Program (NSLP). The elementary and middle schools provide breakfast at no charge to students, thus relying upon reimbursements from NSLP to fund operations (see **R6.3**).

### *Summary of Operations*

Minerva LSD sends applications to parents for free and reduced priced meals at the beginning of the school year. In addition, the District uses a list from the Ohio Department of Education (ODE) that identifies students qualified to receive food stamps or other State assistance to directly certify eligibility. The Food Service Secretary verifies all the applications in compliance with ODE's instructions. Data collection and cash handling is managed through a point-of-sale system developed in-house by the District's Technology Director.

The District participates in consortiums to purchase its food supplies through the Stark County Council of Governments. Until recently, purchasing was conducted by staff in each kitchen.

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<sup>1</sup> The peers include Ridgewood LSD (Coshocton County), East Guernsey LSD (Guernsey County), New London LSD (Huron County), Springfield LSD (Mahoning County), East Holmes LSD (Holmes County), Logan-Hocking LSD (Hocking County), Garaway LSD (Tuscarawas County), Leipsic LSD (Putnam County), Southeast LSD (Wayne County), and Celina CSD (Mercer County).

<sup>2</sup> Adjacent districts include Brown LSD (Carroll County), Carrollton EVSD (Carroll County), Osnaburg LSD (Stark County), Marlinton LSD (Stark County), United LSD (Columbiana County), and West Branch LSD (Mahoning County).

However, the Business Manager began overseeing the Food Service Department, centralizing all purchasing and planning functions through his office. The Food Service Secretary now plans monthly menu purchases based on maximizing the consortium and commodity discounts.

### *Productivity*

In FY 2007-08, Minerva LSD had 19 cafeteria staff working shifts of 7.5 hours for head cooks and shifts ranging between 2.0 and 7.0 hours for other food service staff. **Table 6-1** shows FY 2007-08 total meal equivalents (breakfast, lunch, and a la carte) served per day and the total labor hours worked at each school. Dividing the number of meal equivalents by the labor hours establishes the meals per labor hour (MPLH), an industry measure of productivity. The industry standard for MPLH, which assumes greater efficiency when more meal equivalents are served per day, is applied to each building in **Table 6-1**, and the labor hours required by the standard are compared to the labor hours used per day at Minerva LSD.

**Table 6-1: Labor Hours per Day Comparison**

<b>Building</b>	<b>FY 2007-08 Meal Equivalents Served/Day</b>	<b>Industry Standard<sup>1</sup> MPLH</b>	<b>Labor Hours Needed per Day at Industry Standard</b>	<b>Minerva LSD's Labor Hours per Day</b>	<b>Labor Hours Over (Under) Benchmark</b>
Mary Irene Day Elementary	687	20.0	34.3	27.5	(6.8)
West Elementary	194	14.0	13.9	13.5	(0.5)
Minerva Middle	549	19.0	28.9	22.5	(6.4)
Minerva High	528	19.0	27.8	29.5	1.7
<b>Total</b>	<b>1,958</b>	<b>NA</b>	<b>105.0</b>	<b>93.0</b>	<b>(12.0)</b>

**Source:** ODE, Minerva LSD, and NFSMI

**Note:** Totals may not equal due to rounding.

<sup>1</sup>The industry standard is derived from *Foodservice Management for the 21st Century* (Pannell-Martin, 1999) and based on a convenience system, which assumes that a maximum amount of food is pre-made.

**Table 6-1** shows that in FY 2007-08, three of the District's schools used fewer labor hours per day than suggested based on the industry standard for MPLH. In particular, Mary Irene Day Elementary and Minerva Middle School used significantly fewer hours than the benchmark, making them highly productive operations. Only Minerva High School used more labor hours per day than the benchmark. This result is typical, as high school operations often use more labor hours because they provide more menu options than elementary and middle schools.

### Financial Condition

The food service program is accounted for in a separate, restricted fund. Only revenue and expenditures related to the operation of the food service program can be recorded in the Food Service Fund. The Food Service Fund is an enterprise fund, which means it is intended to function in a manner similar to private business, where expenditures are offset by charges and reimbursements for services. **Table 6-2** presents Minerva LSD's Food Service Fund revenues, expenditures, and other financing activities for FY 2005-06 through FY 2007-08.

**Table 6-2: Food Service Fund, Three Year History**

	FY 2005-06	FY 2006-07	Percent Change	FY 2007-08	Percent Change	Change vs. FY 2005-06
<b>Operating Revenue</b>						
Student Charges	\$329,105	\$303,386	(7.8%)	\$300,405	(1.0%)	(8.7%)
<b>Non-Operating Revenue</b>						
State Grants-in-Aid	\$22,203	\$21,502	(3.2%)	\$18,764	(12.7%)	(15.5%)
Federal Grants-in-Aid <sup>1</sup>	\$378,505	\$392,202	3.6%	\$393,448	0.3%	3.9%
Subtotal of Non-operating Revenue	\$400,709	\$413,704	3.2%	\$412,211	(0.4%)	2.9%
<b>Total Revenue</b>	<b>\$729,814</b>	<b>\$717,090</b>	<b>(1.7%)</b>	<b>\$712,616</b>	<b>(0.6%)</b>	<b>(2.4%)</b>
<b>Operating Expenditures</b>						
Personal Services – Salaries <sup>2</sup>	\$252,433	\$230,592	(8.7%)	\$252,391	9.5%	0.0%
Employee Retirement and Insurance <sup>2</sup>	\$171,221	\$160,515	(6.3%)	\$209,387	30.4%	22.3%
Purchased Services <sup>3</sup>	\$1,867	\$3,459	85.2%	\$2,417	(30.1%)	29.4%
Supplies and Materials	\$340,274	\$316,892	(6.9%)	\$335,598	5.9%	(1.4%)
Capital Outlay	\$3,462	\$0	(100.0%)	\$0	n/a	(100.0%)
Other Objects	\$776	\$794	2.4%	\$819	3.1%	5.5%
<b>Total Expenditures</b>	<b>\$770,033</b>	<b>\$712,251</b>	<b>(7.5%)</b>	<b>\$800,611</b>	<b>12.4%</b>	<b>4.0%</b>
<b>Revenues Over (Under) Expenses</b>	<b>(\$40,218)</b>	<b>\$4,839</b>	<b>112.0%</b>	<b>(\$87,995)</b>	<b>(1918.5%)</b>	<b>(118.8%)</b>
<b>Transfers/Advances</b>						
Transfers-In	\$40,587	\$0	(100.0%)	\$0	0.0%	(100.0%)
<b>Net Transfers/Advances</b>	<b>\$40,587</b>	<b>\$0</b>	<b>(100.0%)</b>	<b>\$0</b>	<b>0.0%</b>	<b>(100.0%)</b>
<b>Revenues Over (Under) Expenses (Including Net Transfers / Advances)</b>	<b>\$368</b>	<b>\$4,839</b>	<b>1,213.2%</b>	<b>(\$87,995)</b>	<b>(1,918.5%)</b>	<b>(23,979.8%)</b>
<b>Beginning Fund Balance</b>	<b>(\$26,397)</b>	<b>(\$26,029)</b>	<b>1.4%</b>	<b>(\$21,190)</b>	<b>18.6%</b>	<b>19.7%</b>
<b>Ending Fund Balance</b>	<b>(\$26,029)</b>	<b>(\$21,190)</b>	<b>(18.6%)</b>	<b>(\$109,185)</b>	<b>415.3%</b>	<b>(319.5%)</b>

Source: Minerva LSD financial reports and ODE claims reports

<sup>1</sup>Amounts may have been adjusted to reflect the federal reimbursement claims during the fiscal year rather than when dollars were actually received.

<sup>2</sup>Does not include an allocation for salary and fringe benefits for the Food Service Secretary (see **R6.2**).

<sup>3</sup>Does not include an allocation of utilities and supplies used by the food service program (see **R6.2**).



According to **Table 6-2**, Minerva LSD's Food Service Fund has historically ended the year with a negative fund balance. Although revenue exceeded food service expenditures in FY 2006-07, the excess revenue was only about \$4,800 and could not offset the Fund's deficit at that point. In FY 2007-08, the difference between revenues and expenditures increased to its highest level with a deficit of \$88,000 for the year. This increased the accumulated Food Service Fund deficit to \$109,200. In addition, the Food Service Fund did not include all food service-related expenditures (see **R6.2**). Had the District charged the Food Service Fund for all food service-related salaries and benefits and a share of utility and supply costs, the deficit would be larger than illustrated in **Table 6-2**.

Decreases in the amount of revenue (2.4 percent from FY 2005-06 to FY 2007-08) are due to declining participation in the food service program. In contrast, total expenditures increased by 4.0 percent during the same three year period. The majority of this increase is based on employee retirement and insurance, which increased by 30.4 percent in FY 2007-08. While a portion of this was due to appointing a Food Service Director to the previously unfilled position, the Treasurer also noted that the District paid extra hospitalization premium payments that had been deferred from previous years. Expenditures in the categories of capital outlay and purchased services fluctuated but were a relatively small percentage of overall expenditures.

**Table 6-3** shows adjusted financial data for FY 2006-07 and FY 2007-08 and compares Minerva LSD's food service operation revenues and expenditures to the peer average on a per meal equivalent basis.<sup>3</sup>

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<sup>3</sup> Per meal equivalents are based on definitions from the NFSMI. The conversion of meal equivalents used is as follows: 1 lunch = 1 meal equivalent; 3 breakfasts = 2 meal equivalents; a la carte meal equivalents = a la carte sales divided by free lunch reimbursements plus commodity value per meal (\$2.40 + \$0.1700 in FY 2006-07 and \$2.47 + \$0.1875 in FY 2007-08).

**Table 6-3: Revenue and Expenditures per Meal Comparison**

	MNLSD		Peer Average	Difference vs. Peer Average
	FY 2007-08	FY 2006-07	FY 2006-07	FY 2006-07
<b>Total Meal Equivalents Served</b>	340,685	355,878	250,368	42.1%
<b>Revenues per Meal Equivalent</b>				
Student Charges	\$0.88	\$0.85	\$1.43	(40.6%)
State and Federal Reimbursements	\$1.21	\$1.16	\$1.00	16.4%
<b>Total Revenue per Meal Equivalent</b>	<b>\$2.19</b>	<b>\$2.01</b>	<b>\$2.43</b>	<b>(17.2%)</b>
<b>Expenditures per Meal Equivalent</b>				
Salaries <sup>1</sup>	\$0.74	\$0.65	\$0.87	(25.5%)
Fringe Benefits <sup>1</sup>	\$0.61	\$0.45	\$0.55	(17.7%)
Purchased Services <sup>2</sup>	\$0.01	\$0.01	\$0.09	(89.7%)
Supplies and Materials	\$0.99	\$0.89	\$0.90	(0.7%)
Capital Outlay	\$0.00	\$0.00	\$0.01	(100.0%)
Other	\$0.00	\$0.00	\$0.00	(0.4%)
<b>Total Expenditure per Meal Equivalent</b>	<b>\$2.35</b>	<b>\$2.00</b>	<b>\$2.42</b>	<b>(17.2%)</b>
<b>Total Gain or (Loss) per Meal Equivalent</b>	<b>(\$0.16)</b>	<b>\$0.01</b>	<b>\$0.02</b>	<b>(18.0%)</b>

Source: Minerva LSD FY 2006-07 and FY 2007-08 4502 reports, MR reports, and peer data

<sup>1</sup> FY 2006-07 and FY 2007-08, salaries and benefits did not include expenditures for the Food Service Secretary who was paid from the General Fund. See **R6.2**.

<sup>2</sup> FY 2006-07 and FY 2007-08 purchased services did not include certain indirect costs such as utilities. Utility costs were paid from the General Fund. See **R6.2**.

In FY 2006-07, Minerva LSD spent less per meal equivalent on food service expenditures in all categories, but generated less revenue than the peer district average (see **Table 6-3**). However, by keeping expenditures low, the District generated enough revenue to offset expenditures. In FY 2007-08, expenditures increased by 17.5 percent while revenue increased by only 9.0 percent, thus creating a deficit of \$0.16 per meal equivalent. The large difference in revenue generated through student charges shown in **Table 6-3** suggests that the District may not have been sufficiently charging for meals in FY 2006-07 and FY 2007-08. During the course of the audit, Minerva LSD increased lunch prices for FY 2008-09 by \$0.25 at all schools, which will bring the revenue from student charges more in line with peer districts. By raising prices, the District will increase revenue generated through student charges and offset the operating costs. However as shown in **Table 6-2**, the District has accumulated a significant deficit in the Food Service Fund.

## **Audit Objectives for the Food Service Section**

The following is a list of the audit objectives used to evaluate the District's food service operations:

- What is the financial status of the District's Food Service Fund?
- How can the District improve the efficiency of its food service staff?
- What steps can the District take to minimize the cost of food service items?
- Are the District's meal prices in line with area peer districts?
- What can the District do to maximize program participation?
- Does food service management effectively use data to make strategic plans and operational decisions?
- Are there costly or inefficient items in the classified employee negotiated agreement that limit or hinder the food service program's ability to remain self-sufficient?

## Recommendations

**R6.1 Minerva LSD should develop a strategic plan for its food service operation. It should contain specific goals and objectives which support and are consistent with District-wide strategic planning efforts (see R2.1 in financial systems). Based on identified goals and objectives, the District should also develop a budget and five-year forecast for the Food Service Fund and a comprehensive set of performance measures. This will assist management in proactively addressing or minimizing operating deficits, ensuring progress toward operational goals and objectives, and maintaining alignment with the District's strategic initiatives.**

Minerva LSD does not have a strategic plan for its food service operation to guide it in setting and achieving operational goals or measuring progress towards those goals. With the position of Food Service Director vacant for several years, the purchasing and menu planning have only recently returned to centralized control. The District indicated that staffing costs and productivity are considered when making labor decisions. Data available through the point-of-sale system is reportedly used to review the cost of meals, building-level meal statistics, individual student purchases, and other data. While the Business Manager and Food Service Secretary have used these statistics for informal cost analyses and decision-making, the District has not developed formal performance measures, long-term financial projections, or operational plans for the food service operation.

*District Leadership, Organization, and Management* (Texas School Performance Review, 2003) recommends the development of a strategic plan related to food service operations. Documents and plans needed to develop a food service strategic plan include the following:

- Food service mission and goals;
- Facility plans as they pertain to kitchens and cafeterias;
- Department preventative maintenance schedule or plan;
- Cafeteria capital improvement plans;
- Budget planning documents;
- Budgets for food service for the last five years;
- List of student and staff meal prices;
- Paid and reduced price meal participation rates for the last three years;
- Standard operating and management reports for the last two years, including profit and loss statements, budget variance reports, and other financial reports used regularly for financial management;
- Annual budgets and financial records showing budgeted and actual costs and revenues for food service for the last three years and showing the fund balance;

- Any recent Food Service Department customer survey instruments and results; and
- Student, parent, teacher, and staff survey results as they pertain to food service.

An important component of a strategic plan for the food service operation is a current year budget and a longer-range forecast. *School Foodservice Management for the 21st Century* (Pannell-Martin, 1999) states that a budget can be used as a plan for financial management, allowing a manager to forecast revenue and expenses based on the prior year's data, estimates, and planned changes. The budget can also serve as a tool for identifying potential problems by contrasting actual financial activity with projected activity, and can provide a basis for comparison. Finally, it can be used to set performance standards, control erratic expenditures, and help a manager determine if the program can afford to make purchases. Pannell-Martin recommends forecasting revenue and expenditures over a five-year period for long-range planning. Forecasting can give the administration sufficient notice of emerging issues so that action can be taken to correct them.

Finally, performance measures can be used to document progress towards food service operational goals. *Quality Financial Decision Making* (NFSMI, 2002) provides a list of performance measures that a school district should use when evaluating food service operations. These include

- Cost of purchased food and the value of commodities used;
- Total per meal cost and meal cost per expenditure category;
- Food and labor cost percentages;
- Revenue to variable cost ratio;
- Meals per labor hours; and
- Average daily participation.

Springfield Local School District (Summit County) tracks the performance of its food service operation on a monthly basis. Analyses are performed at the building and District-wide levels. Measures used to analyze the food service operation include operating profit (loss), labor costs per meal, meals per labor hour (MPLH), food costs per meal, and the level of free and reduced lunches at the school level.

By articulating goals and identifying standards of performance, the District can ensure that operational decisions are aligned with those goals. Having a formal plan will help the Food Service Department better communicate its needs and coordinate functions such as bus times and bell schedules. In addition, the development of performance measurements can provide the District a reliable method for objectively reviewing workloads and efficiency within the food service operation. Moreover, a forecast of the Food Service Fund will provide a complete picture of the operation's finances and may aid in the

development and execution of the strategic plan. By establishing strategic goals and estimates of the District's food service revenues and expenditures, the District will have a more concrete vision for the financial and operational management of the food service operation.

**R6.2 Minerva LSD should charge all food service-related expenses to the Food Service Fund, regardless of the Fund's ability to maintain a positive fund balance. Allocating all food service expenses to the fund will provide a more accurate financial picture and help improve financial and operational decision-making.**

Minerva LSD does not identify and allocate all direct costs to the Food Service Fund. These costs are instead paid out of the General Fund. Specifically, the District has not been allocating salary and benefit costs for the part-time Food Service Secretary to the Food Service Fund. This amounted to \$21,500 in FY 2006-07 and \$19,700 in FY 2007-08. In addition, the District does not allocate a portion of utility and supply expenditures consumed by the food service operations. One method of allocating costs to the Food Service Fund is to calculate the percentage of square footage used by the food service operation and apply that percentage to the utility costs and custodial supplies. Using this method, the food service operations used utilities and other supplies with an estimated value of \$27,500 in FY 2006-07 and \$23,000 in FY 2007-08. **Table 6-4** presents the impact on the Food Service Fund when adjustments are made for these costs.

**Table 6-4: Impact of Charging All Food Service Related Costs**

	FY 2006-07	FY 2007-08
<b>Reported Revenue Over (Under) Expenditures</b>	<b>\$4,839</b>	<b>(\$87,995)</b>
Adjustment – Salaries and Benefits Expenditures	\$21,500	\$19,700
Adjustment – Utilities Expenditures	\$27,500	\$23,000
<b>Adjusted Revenue Over (Under) Expenditures</b>	<b>(\$44,161)</b>	<b>(\$130,695)</b>

Source: Minerva LSD financial reports

According to Ohio Revised Code (ORC) § 3313.81,

“All receipts and disbursements in connection with the operation of food service for school food service purposes and the maintenance, improvement, and purchase of equipment for school food service purposes shall be paid directly into and disbursed from the food service fund which shall be kept in a legally designated depository of the Board.”

Moreover, *Measuring the Cost of Government Services* (GFOA, 2002) suggests that governments should measure the full costs of their services, which encompass all direct and indirect costs related to that service. Direct costs include the salaries, wages, and benefits of employees while they are exclusively working on the delivery of the service,

as well as the materials and supplies, and other associated operating costs such as utilities, rent, training, and travel.

Even when the Food Service Fund faces deficits, it is important to account for all costs related to the operations of the program. Not charging all food service-related expenditures to the Food Service Fund creates an inaccurate depiction of the costs of operations and may create the illusion of a surplus. Accurately capturing all costs in the Food Service Fund will help the District better evaluate the efficiency and performance of its food service operations and effectively plan for future operational changes (see **R6.1**).

*Financial Implication:* Reallocating the food service-related salaries and benefits to the Food Service Fund would decrease General Fund obligations by approximately \$16,500 in FY 2009-10. In addition, if the District allocates utility and supply expenditures to the Food Service Fund, the General Fund purchased services would decrease by approximately \$23,000 in FY 2009-10.

**R6.3 Minerva LSD should consider implementing a charge for breakfast meals at the elementary and middle schools in order to reduce the annual Food Service Fund deficit. This would help reduce the amount the General Fund subsidizes the food service operation.**

Minerva LSD implemented a policy of serving breakfasts at no charge to students in the elementary and middle school in order to encourage breakfast participation and emphasize the importance of breakfast. The breakfast program in these buildings generates revenue only through State and federal reimbursements received through the National School Lunch Program (NSLP).

**Table 6-5** compares the breakfast prices at the six adjacent peers.<sup>4</sup>

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<sup>4</sup> Districts with high poverty rates often achieve efficiencies with universal breakfast programs. Minerva LSD's rate, however, is only 36.6 percent, similar to the average of 34.4 percent for the adjacent districts.

**Table 6-5: FY 2008-09 Breakfast Prices**

	Minerva LSD	Brown LSD	Carrollton EVSD	Osnaburg LSD	Marlington LSD	United LSD	West Branch LSD	Average
Elementary School	\$0.00	\$0.00	\$1.00	\$0.70	\$1.00	\$0.75	\$0.75	\$0.70
Middle School	\$0.00	\$1.25	\$1.00	\$0.70	n/a	\$0.75	n/a	\$0.93
High School	\$1.50	\$1.25	\$1.00	\$0.70	n/a	\$0.75	n/a	\$0.93

**Source:** Minerva LSD and adjacent districts

**Note:** Adjacent districts were used to reflect regional pricing.

**Table 6-5** shows that only one adjacent district provides free breakfast to all students in its elementary schools. None of the districts that serve breakfast in the middle schools offer free breakfast to all students. The average price of breakfast at the adjacent district elementary schools is \$0.70. When Brown LSD – the only district that does not charge for breakfast – is excluded, the average price at the elementary schools increases to \$0.84. The average price at the four districts that serve breakfast at the middle school level is \$0.93.

Minerva LSD has accumulated a deficit in the Food Service Fund, and the cost of the breakfast program has contributed to this deficit. By charging for breakfast at rates consistent with adjacent districts, the District could offset the costs of its breakfast programs. Further, charging for breakfasts would not impact low-income students who will still be eligible for meals at free or reduced prices.

*Financial Implication:* Establishing breakfast charges of \$0.70 for paid meals and \$0.30 for reduced priced meals, which would match the lowest price of the adjacent districts (Osnaburg LSD), Minerva LSD would generate \$54,700 in additional revenue based on its FY 2007-08 participation rates.

**R6.4 Minerva LSD should seek to expand participation in the lunch program in an effort to address the accumulated deficit and avoid potential future deficits in the Food Service Fund. Increasing reimbursable participation in the lunch program would generate additional revenues to help offset fixed costs within the food service operation.**

**Table 6-6** presents Minerva LSD's participation rates compared to the peers for FY 2006-07 and FY 2007-08. Average daily participation of average daily attendance provides an indicator of the percent of students who are purchasing lunch, including those receiving free, reduced price, and full price meals. Total participation includes students purchasing all types of meals plus a la carte items.



**Table 6-6: Participation Rates Comparison**

	Total Lunch Meals Served	Average Daily Participation	% Free of Total	% Reduced Price of Total	Ave. Daily Participation of Ave. Daily Attendance	% Total Participation
<b>FY 2006-07</b>						
<b>Minerva LSD</b>	206,719	1,188	36.6%	12.2%	56.2%	67.5%
<b>Peer Average</b>	198,290	1,126	31.5%	11.8%	67.5%	78.5%
<b>Difference</b>	<b>8,429</b>	<b>62</b>	<b>5.1%</b>	<b>0.5%</b>	<b>(11.3%)</b>	<b>(10.9%)</b>
<b>FY 2007-08</b>						
<b>Minerva LSD</b>	206,367	1,186	36.1%	12.0%	55.7%	55.7%
<b>Peer Average</b>	202,319	1,159	32.7%	12.4%	69.4%	78.3%
<b>Difference</b>	<b>4,049</b>	<b>27</b>	<b>3.4%</b>	<b>(0.4%)</b>	<b>(13.7%)</b>	<b>(22.6%)</b>

Source: Minerva LSD and peer district MR 60 for FY 2006-07 and FY 2007-08.

As **Table 6-6** indicates, Minerva LSD's participation in lunch meals decreased slightly from 56.2 percent in FY 2006-07 to 55.7 percent in FY 2007-08. In both years, the District was below peers in the percentage of students purchasing meals.

Since Minerva LSD has a lower participation rate for lunches than peer districts that have similar poverty levels, the District has an opportunity to increase the number of lunches served. **Table 6-7** shows the potential financial revenue from increasing student participation in lunches from 55.7 percent in FY 2007-08 to a conservative level of 65.0 percent, which is still below the peers.

**Table 6-7: Potential Reimbursement Revenue Increase**

Targeted percentage of lunches	65.0%
Number of additional meals to serve daily	207
Number of additional meals to serve annually	36,009
<b>Annual additional revenue from reimbursements and student charges</b>	<b>\$92,544</b>
Cost of Labor & Food Supplies	\$71,638
<b>Annual additional revenue minus costs</b>	<b>\$20,906</b>

Source: Minerva LSD FY 2007-08 MR 60 Report

As **Table 6-7** illustrates, the District could potentially increase net revenue from reimbursements by as much as \$20,900 by increasing the number of lunches served. With a 65 percent lunch participation rate, the District would be more in line with levels achieved by other Districts. The revenue generated through increased participation would help offset fixed costs within its food service program.

During the course of the audit, the Business Manager indicated that the District reduced the level of a la carte options at the high school in FY 2008-09 in an effort to increase the purchase of reimbursable lunches and maximize reimbursements. Actions which

encourage students to purchase reimbursable meals, such as removing a la carte options, can improve participation and therefore generate necessary revenue to cover operational expenditures. The District should continue to monitor and attempt to increase participation to help the food service program become sustainable without relying on General Fund transfers.

*Financial Implication:* If the District achieved a 65 percent participation rate, it would see an increase in reimbursements of \$92,500 and an increase in food costs and labor hours. Based on per meal equivalent expenditures in FY 2007-08, those food and labor costs are estimated to be \$71,600. Thus, the increase in lunch participation can be expected to generate additional net revenue of about \$20,900.

**R6.5 Minerva LSD should periodically explore the benefits and costs of contracting for food service by implementing a competitive request for proposal (RFP) process. Once multiple RFPs are obtained from providers, the District should analyze the proposals to determine whether contracting for food service would reduce costs and improve, or at least maintain, service quality.**

Minerva LSD does not regularly review the option of privatization of the food service operations. However, the District indicated that a private management company had recently provided a demonstration on privatizing the food service operations and that this information was being used for comparing operational costs.

According to *Best Practices in Public Budgeting* (GFOA, 2000), entities should evaluate alternative delivery mechanisms to ensure the best approach is selected for delivering a service. A government should institute a process to review existing service delivery methods in the context of how well they meet programmatic and operating policies and plans. The process should include an examination of how a government traditionally provides the service versus whether the service could be delivered more effectively or more efficiently if provided in a different way, either by the government itself or by entities outside of the government. Considerations in evaluating service delivery mechanisms, whether provided directly by a government or contracted out, include:

- **Cost of service:** including short- and long-term direct costs, costs to administer and oversee the service, impact on rates and charges, and impact on costs of other government services.
- **Service quality and control:** including safety and reliability, ability to control service levels and who receives the service, ability of the government to make internal changes to improve its own performance, ability to change the delivery mechanism in the future, and risk of contractual nonperformance and default.

- **Management issues:** including the quality of monitoring, reporting, and performance evaluation systems, public access to information, and ability to generate or sustain competition in service delivery.
- **Financial issues:** including the impact on outstanding debt and grant eligibility.
- **Impact on stakeholders:** including government employees, customers, and taxpayers.
- **Statutory and regulatory issues:** including impact on federal and state legal and regulatory requirements and liability.

Southern LSD (Perry County) is an example of a District that has contracted with a food service management company (FSMC) to direct and manage its food service operations. The Food Service Director is a full-time employee of the FSMC, and acts as the on-site manager. Per the contract with the FSMC, the fees for services include the following:

- An annual management fee (\$12,247);
- An annual administrative fee (\$12,247);
- The salary and benefits of the Food Service Director (\$34,164); and
- A per diem for each meal served.<sup>5</sup>

For these fees, the FSMC supervised and managed the food service employees, purchased materials for food service operations, planned menus, and kept records as required by ODE.

While the Business Manager and Secretary have been working on program improvements, they have not yet compared the contracted service prices to the costs of operations. Nevertheless, the District should periodically assess the relative costs and benefits from contracting these services. Issuing a request for proposals (RFP)<sup>6</sup> every two to three years will allow the District to evaluate the cost-effectiveness of continuing to operate food services in-house. This recommendation could be implemented at no additional cost to the District and it would help the District determine if it is managing the food service operation in an efficient manner.

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<sup>5</sup> Subject to change upon contract renewal.

<sup>6</sup> An RFP will typically include general information, functional or general specifications, statement of work, proposal instructions, and evaluation and ranking criteria.

**R6.6 Minerva LSD should develop a comprehensive procedures manual and a formal training program for the food service operation. The manual should identify performance expectations by compiling food service-related Board policies, describing specific food service operational issues, clarifying job responsibilities, and including new equipment procedures. It should be updated as needed and should be used as the basis for developing new employee training. While the District has created a library of safety manuals and focuses on mandated safety training for staff, a training program would ensure that staff can maintain current productivity standards.**

Minerva LSD does not have a procedures manual for food service operations. Most of the staff is experienced and since the administration of the food service program was decentralized, manuals and training have not been a priority. The District provides training to food service staff primarily for the purpose of complying with State requirements for health and safety issues. Training beyond safety programs is provided only as necessary for new kitchen equipment or procedures. Documentation is not retained for trainings and several food service staff had outdated certificates. Although the District has compiled mandated components for safety manuals, it has not completed a procedures manual that is customized to its operations and that includes District-specific policies. Aside from safety and cash collection, the only written performance expectations are in the job descriptions for each employee, which are available through the Treasurer.

The Food Service Supervisor at Chardon LSD (Geauga County) has developed a comprehensive operations manual that communicates critical areas of departmental operations to District food service employees. This manual outlines board policies, cash control, receipt of goods, inventory procedures, ordering of food and supplies, production record keeping, sanitation and food safety, employee safety, and procedures for emergencies or in case of injury. A manual enables staff to reference instructions and policies as needed so that all members of the staff are aware of job responsibilities and procedures.

According to the United States Department of Agriculture (USDA), standard operating procedures (SOPs) should be developed for all food service operations. These should include procedures for the following:

- Cleaning and sanitizing food contact surfaces;
- Controlling time and temperature during preparation;
- Cooking potentially hazardous foods;
- Cooling potentially hazardous foods;
- Date marking and ready-to-eat, potentially hazardous foods;
- Handling a food recall;

- Holding hot and cold foods;
- Personal hygiene;
- Preventing contamination at food bars;
- Receiving deliveries;
- Reheating foods;
- Serving foods;
- Storing and using poisonous or toxic chemicals;
- Using and calibrating thermometers;
- Using suitable utensils when handling ready-to-eat foods;
- Washing fruits and vegetables;
- Washing hands; and
- Record keeping logs for food safety.

According to *School Foodservice Management for the 21st Century* (Pannell-Martin, 1999), training is the key to a strong successful school food service program. Training must be an ongoing process and should take place not only when a new employee is hired, but also when new equipment is purchased, when government regulations or other procedures are changed, and when the need arises for retraining. The use of “hands-on” experience should be provided as much as possible for maximum retention of learning. The National Registry of Food Safety Professionals recommends the following topical areas be included in training: food safety, food protection, receiving and storing food and supplies, and preparing and serving foods.

Since Minerva LSD has new equipment in its school buildings, the procedures and expectations for food service staff may change and the District needs a mechanism for training staff on new methods. In addition, newer equipment may require more than one training until all staff is familiar and comfortable with the new procedures for cooking with and maintaining these units. Developing written procedures for new equipment presents an opportunity for the District to develop a more customized procedures manual to be used for training programs. The new manual should incorporate the new equipment information and seek input from the experienced staff on training information. The manuals and training programs will ensure that the skill level of staff is retained even as experienced workers retire or move to new employment.

**R6.7 Minerva LSD should incorporate existing feedback activities into a formal set of customer satisfaction surveys to gather information about the food service program from students, parents, administrators, teachers, and other stakeholders. By developing formal methods for feedback, the District can gather information to be used for measuring performance, evaluating operational efficiency, and determining planning goals.**

The Business Manager has conducted a few surveys of students during the year to develop ideas and gain feedback in an effort to increase food service program participation. The Business Manager has not regularly retained these surveys. In addition, the Business Manager has had occasional discussions with parents during community meetings to discuss changes in food service.

According to *Recipes for Practical Research in Child Nutrition Programs* (NFSMI, 1998), school food service programs should seek customer feedback from students and parents. Surveys are one method for gathering information from a large group of people in a short period at moderate cost. Valid and reliable data gathered from students should be the basis for developing enhancements in school food service and nutrition programs. By evaluating customer feedback and working to continually improve operations, the school food service and nutrition program will ensure a sound customer base and financial stability.

Additionally, surveys should be designed specifically for the population targeted and the objectives to be accomplished (students, parents, and teachers). In addition to standardized surveys, it is important to obtain specific comments about the food service program, such as one thing should not change about the food service operation and one thing that should be changed. NFSMI suggests a series of steps to successfully execute a survey, including: (1) determining the objective of the survey, (2) gaining approval from the school community, (3) determining when the survey should be conducted, (4) determining how many individuals to survey, and (5) determining where the survey should be conducted.

According to *School Foodservice Management for the 21st Century* (Pannell-Martin, 1999), in addition to formal questionnaires and surveys, there are four techniques for communicating with customers (students and parents) regarding their preferences, which include: (1) informal interviewing of students and parents, (2) small group discussions, (3) suggestion boxes, and (4) taste parties or sampling.

Although the District conducts some types of student surveys, it has low lunch participation in comparison to peer districts. Because of this, Minerva LSD should develop a more extensive customer satisfaction survey, then use the results to make informed decisions about menu items, prices, food quality, and service. The District can also use the survey to establish performance measures and develop a baseline and evaluate changes in program performance over time.

## Financial Implications Summary

The following table is a summary of estimated annual cost savings, revenue enhancements, and implementation costs.

### Financial Implications for Food Service

Recommendation	Potential Annual Revenue / Savings	Annual Implementation Costs
<b>R6.2</b> Use cost allocation to account for all expenses of the food service operation.		\$39,500 <sup>1</sup>
<b>R6.3</b> Establish breakfast meal price of \$0.70 at elementary and middle schools.	\$54,700	
<b>R6.4</b> Increase lunch participation.	\$20,900	
<b>R3.4 - R3.5</b> Impact on Food Service Fund to increase employee contributions for medical and dental insurance.	\$21,700	
<b>Total Audit Recommendations for the Food Service Fund</b>	<b>\$97,300</b>	<b>\$39,500</b>

Source: AOS recommendations

<sup>1</sup> Includes \$16,500 for the Food Service Secretary's salary and benefits and \$23,000 for utility expenditures.

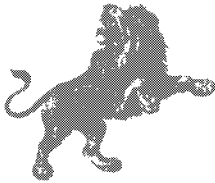
**DISTRICT RESPONSE**



## **District Response**

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



## MINERVA LOCAL SCHOOL DISTRICT

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 *ATTACKING THE NEEDS OF MINERVA'S YOUTH . . . TOGETHER!*

June 18, 2009

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

Dear Auditor Bennington:

We appreciate your efforts in identifying opportunities for cost savings and for the improvement of management practices. Our school system desires to provide the best education possible to the students of Minerva through the most efficient management of our financial resources. We value your recommendations and will consider all of them in our continuing efforts to improve and stabilize the District's long-term financial condition.

In the area of finance and strategic management we are committed to the highest standards of accounting and financial reporting. We desire to present information that demonstrates our accountability to the citizens of our community. We depend on our local populace for the resources to educate our youth and fully recognize our responsibility to present the information necessary in order for our citizens and taxpayers to make informed decisions. In reviewing your recommendations in the area of strategic and financial reporting we feel that we are making progress and will continue to strive for improvement. We currently have a strategic plan in place and will continue our efforts to further refine this plan. We want our strategic plan to guide our operations and aid in decision-making. Financial reporting will be improved and will further include the strengthening of internal controls to protect district assets and sustain the reliability of our financial reporting.

Personnel is the largest area of expenditure for us. We are constantly evaluating our management in the area of human resources. We work hard to operate within the framework of our negotiated agreements to provide appropriate wage and fringe benefits to attract and retain quality employees. Our recently completed negotiations with Certified employees resulted in their agreement for increased employee health insurance contributions. During the past five years we have documented savings of over \$2.2 million in wage and fringe expenditures due to the non-replacement of departing employees. As a further note we had five retirements at the end of the current school year, which will not be replaced, and amount to over \$390,000 in annual savings. We will continue to be diligent in our efforts to control costs while still providing an excellent cost effective education to the students of Minerva Local Schools.

We are very thankful to our community for their support, which has allowed our district to build new state of the art buildings through our partnership with the Ohio School



Leadership

Achievement

Collaboration

Standards

Success



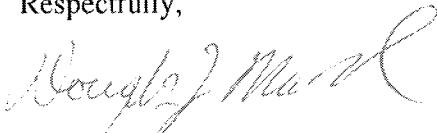
Facilities Commission. We appreciate all your comments and recommendations relating to the effective maintenance and operations of our facilities. The Board of Education is committed to the maintenance of what amounts to over \$42 million in capital investment. We further appreciate your support for a new transportation and administrative office complex and will be exploring ways that this can be brought to fruition.

In regards to transportation we are very proud of our transportation department and their continued efforts, which allows us to run one of the most cost effective school transportation systems in the state. We are absolutely committed to properly maintained buses, which guarantee safe transportation for our students. We feel that we have a good system of transportation cost reporting but we will continue to strive for improvement in the area of cost reporting.

Every recommendation and then some will be examined and reviewed relating to our food service operations. We simply must be able to manage a self-sufficient food service operation. This will be a top priority for the next school year. It must also be noted that we believe the design of our new elementary building will greatly aid our efforts in these areas.

Thank you for the help and assistance provided by your staff. We are very appreciative of the team's effort and thoroughness demonstrated during the engagement. Minerva Local Schools will benefit greatly from the Performance Audit.

Respectfully,



Douglas J. Marrah  
Superintendent



Michael C. Pence  
Treasurer

Attachments

TITLE OF RECOMMENDATION	DISTRICT RESPONSE	DISTRICT ACTION
Reduce Custodians	Custodians are responsible for the following maintenance items: <ul style="list-style-type: none"> <li>• changing light bulbs</li> <li>• changing ballast's</li> <li>• changing filters</li> <li>• light plumbing</li> <li>• painting</li> <li>• light electrical</li> </ul>	Continue to assess the balance of Cleaning/custodial responsibilities vs maintenance duties for all district custodians
Insurance Contributions Certified	All certified staff will increase their insurance contributions as listed below: <ul style="list-style-type: none"> <li>• 2009/2010 - \$50.00 per family</li> <li>• 2010/2011 - \$ 75.00 per family</li> <li>• 2011/2012 – one month's premium spread over one year</li> </ul>	Met goal of employees sharing a percentage Of yearly health care premiums
Insurance Contributions Classified	All classified staff will increase their insurance Contributions as listed below: <ul style="list-style-type: none"> <li>• 2009/2010 - \$50.00 per family</li> <li>• 2010/2011 - \$75.00 per family</li> </ul>	2011/2012 Subject to negotiations

<p>Retirement Incentives</p>	<p>Carl Moore – Transportation Supervisor</p> <ul style="list-style-type: none"> <li>• Salary - \$ 48,507</li> <li>• Retirement Incentive - \$ 15,270</li> <li>• Insurance - \$ 5,612.28</li> <li>• Retirement - \$ 12,126.75</li> <li>• Workers Comp - \$ 305.59</li> <li>• Total: \$ 66,551.62 (81,821.62)</li> </ul> <p>Employee shared with us that he decided to take This first time eligible offer due to not being able to refuse the incentive to remain our employee.</p>	<p>Combined duties under Business Operations  Manager job description  District savings for not replacing  Transportation Director is approximately  \$ 56,000.00 a year</p>
<p>Retirement Incentives</p>	<p>Mary Finnigin: Custodian</p> <ul style="list-style-type: none"> <li>• Salary - \$ 36,468</li> <li>• Retirement Incentive - \$ 11,320</li> <li>• Insurance - \$ 13,773</li> <li>• Retirement - \$ 6,539</li> <li>• Workers Comp - \$ 250</li> <li>• Total - \$ 57,030 (\$ 68,350)</li> </ul> <p>Employee shared with us that she decided to take This first time eligible offer due to not being able to refuse the incentive to remain our employee.</p>	<p>Savings for not replacing this custodian  Will be \$ 56,879.60</p>

<p>Reduce operating expenses</p>	<p>We will reduce the following positions fiscal year 2010:</p> <ul style="list-style-type: none"> <li>• Transportation Director - \$ 74,496</li> <li>• Middle School Industrial Technology Teacher - \$ 80,602</li> <li>• Middle School Band Director - \$ 92,054</li> <li>• Elementary Art Teacher - \$ 88,224</li> <li>• Elementary Custodian - \$ 56,120</li> </ul> <p>Eliminations of the final three positions is made possible by our consolidation of the elementary schools from two locations to one location.</p>	<p>Transportation Director is now the responsibility of the Business Manager. The other four positions will not be replaced For FY 2010.</p>

BUDGET REDUCTIONS

FOLLOWING POSITIONS IN EFFECT NOT REPLACED RESULTING IN DISTRICT SAVINGS

NAME	SALARY/FRINGE
TOM BOYD	71,166
LINDA DRAMBLE	85,639
ROBERT WILEY	85,639
WENDY TARBET	80,809
KAY STAFFORD	78,089
ROBERT KOHL	78,909
LINDA BLISS	68,314
MARY ANN DOWELL	72,957
KATHLEEN WILEY	71,437
JOANNE BURKHARDT	79,559
ROGER HEGNAUER	84,911
JOHN STADLER	100,755
JOHN STADLER	100,755
PAUL STOCKER	71,447
PHYLLIS SHEARER	78,247
PAM SWALLEN	76,155
KAREN TAFFINI	33,567
ALEX ALBERT	80,384
JERRY HILL	81,232
LINDA BECKLEY	86,986
JULIE HUTCHISON	86,986
JERRY NEWELL	79,401
DIANA RICHESON	86,986
RETIREMENT AT END OF FISCAL 2009	
CARL MOORE	74,496
CHUCK GROSS	80,602
DEB TISSOT	92,054
JAN SYVERSON	88,224
MARY FINNEGAN	56,120
TOTAL	2,211,826

OTHER RETIREMENTS ETC. REPLACED WITH LESS COSTLY PERSONNEL

LEWIS WHAN  
LEE IDEN  
CAROL KRABIL  
JANET NEWELL  
LIZ SMITH  
JEANNE HUNSTON  
KAREN SCHONAUER  
BARBARA BALOGH  
BARB CLARK  
KRISTINE STOCKER  
LINDA BRENNEMAN  
JOANNE BURKHARDT  
JERRY HILL

TITLE I REVAMP  
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**Auditor of State  
Mary Taylor, CPA**

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