



Mary Taylor, CPA  
Auditor of State

# OREGON CITY SCHOOL DISTRICT PERFORMANCE AUDIT

MAY 7, 2009



# Mary Taylor, CPA

Auditor of State

To the Residents and Board of Education of the Oregon City School District:

In accordance with House Bill 119, a performance audit was conducted in Oregon City School District beginning September 2008. The four functional areas assessed in the performance audit were financial systems, human resources, facilities, and transportation. These areas were selected because they are important components of District operations which support its mission of educating children, and because improvements in these areas can assist the District in improving its financial condition.

The performance audit contains recommendations which identify the potential for cost savings and efficiency improvements. The performance audit also provides an independent assessment of Oregon City School District's financial situation and a framework for its financial recovery plan. While the recommendations contained in the audit report are resources intended to assist in developing and refining the financial recovery plan, the District is 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 discussion of the fiscal caution designation; a district overview; the scope, objectives and methodology of the performance audit; and a summary of noteworthy accomplishments, recommendations, issues for further study and financial implications. This report has been provided to Oregon City School District, and its contents discussed with the appropriate officials and District management. 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

May 7, 2009





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# Executive Summary

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## Project History

In accordance with House Bill (HB) 119, the Auditor of State's Office (AOS) conducted a performance audit of the Oregon City School District (OCSD 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 financial forecast, which showed a negative fund balance in FY 2008-09 that was projected to grow to \$18 million by FY 2011-12. An updated forecast prepared in October showed an FY 2012-13 deficit of \$23.4 million. Due to a significant amount of industry in the area, the District has enjoyed a steady stream of revenue from the tangible personal property tax (TPPT), which will be eliminated under provisions of House Bill 66.

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

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

Audit work concluded in January 2009. The goal of the performance audit process was to assist the OCSD administration and Board of Education in identifying opportunities for cost savings and improving management practices. The ensuing recommendations provide options that the District should consider in its continuing efforts to improve and stabilize its long-term financial condition.

## District Overview

OCSD is located in Lucas County in Northwest Ohio, and in FY 2008-09, provided educational services to 3,872 preschool through grade twelve students. For FY 2007-08, the Ohio Department of Education (ODE) reported that the District received 57.9 percent of its revenue from local sources, 36.9 percent from the State, and approximately 5.2 percent from federal sources. ODE also reported that the District's expenditures per pupil were \$10,863, compared with the statewide average of \$9,939. The District met 23 of 30 academic performance indicators established by ODE in FY 2007-08 and was categorized as an *effective* district.

In FY 2008-09, the District employed approximately 434 full-time equivalent (FTE) staff, consisting of 23 FTE administrators, 261 FTE educational personnel, 11 FTE professional/technical personnel, 53 FTE office/clerical staff, and 86 FTE operations and other staff. The regular education student-to-teacher ratio in FY 2008-09 was 16-to-1. District employees are covered under two bargaining agreements: one for certificated staff and one for classified staff.

OCSD has experienced a slight decline in student enrollment over the past several years, with total enrollment in FY 2007-08 down about 1 percent from FY 2005-06. The District operates seven school buildings: four elementary schools (grades K-5), two middle schools (grades 6-8), and one high school (grades 9-12). In the last few years, OCSD has used its own funding for capital improvements that include renovations to its high school and three elementary schools (Wynn, Jerusalem, and Starr), and the construction of a new school building for Coy Elementary.

OCSD offers a comprehensive career-technical program comprising fourteen different areas of study for juniors and seniors, including a hospitality course for special needs students. The District uses North Point Education Service Center (ESC) for its special needs children in preschool to kindergarten. Also, the District used Lucas County Educational Service Center for its special needs education until recently, when it decided that it was more cost effective to offer special education services in-house.

OCSD is impacted by the economic climate in its region. According to the U.S. Census Bureau, Lucas County's population declined almost 3 percent from 2000 to 2007, despite an overall population increase of 1 percent in the State of Ohio. Furthermore, the poverty rate was almost 17 percent in 2007, compared with the statewide rate of 13 percent. Despite these economic conditions, the residents of Oregon have supported the schools through additional property tax levies within the past ten years, which has allowed the District to offer additional programs and provide attractive salaries and benefits to its employees.

However, recent fiscal conditions challenge OCSD's ability to remain solvent. Areas where efficiency may be realized to help offset deficits include its career-technical education program and building utilization patterns. Moreover, OCSD spends significantly more than peer districts in compensating its employees and requires only a small employee contribution to health insurance premiums, which is significantly below industry averages.

In order to address its projected financial deficits, OCSD administrators and Board members will have to make difficult decisions regarding District operations. Some of the recommendations in this performance audit are subject to negotiations, but represent opportunities for significant cost savings. Additional savings not identified by this performance audit would provide the District a greater range of choices for cost reductions. Conversely, failure to implement cost saving strategies may require OCSD 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.

The overall objective of this performance audit is to assist OCSD in identifying strategies to reduce expenditures and, in turn, help eliminate future deficits. The following presents the major assessments conducted in this performance audit:

- Expenditures, forecasting, planning, budgeting, and purchasing were reviewed in the **financial systems** section.
- District-wide staffing levels, collective bargaining agreements, salary levels, and benefit costs were assessed in the **human resources** section.
- Custodial and maintenance staffing, facility-related expenditures, policies and procedures, preventative maintenance and planning, and the work order system were examined in the **facilities** section.
- Transportation staffing and expenditures, reporting, and policies were reviewed in the **transportation** section.

The recommendations in the performance audit comprise options that OCSD can consider in its continuing efforts to stabilize its financial condition.

This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that AOS plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Audit work was conducted between August 2008 and January 2009.

To complete this report, the auditors gathered a significant amount of data pertaining to the District, conducted interviews with numerous individuals, and reviewed and assessed available information from various sources. District data was deemed reliable unless otherwise noted in the report sections. OCSD's reported ADM figures or student headcounts used in the financial systems and human resource sections were subjected to trend analysis which suggested these

data were reasonable and no further testing was conducted. Peer school district data and other information used for comparison purposes were not tested for reliability, although the information was reviewed for reasonableness and applicability.

The performance audit process involved significant information sharing with the District, 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. Throughout the audit process, input from the District was solicited and considered when assessing the selected areas and framing recommendations. Finally, the District provided verbal and written comments in response to various recommendations, which were taken into consideration during the reporting process. Where warranted, AOS modified the report based on the District's comments.

AOS developed a database of ten districts that was used for peer comparisons. The ten districts are classified as Type 6 school districts (urban/suburban – high median income) by ODE. In addition, these ten school districts met a high number of performance standards, as measured by the Ohio school proficiency tests, at a relatively low cost per pupil. Specifically, the peer districts consist of Anthony Wayne Local School District, Canfield Local School District, Green Local School District, Jackson Local School District, Lake Local School District, North Canton City School District, Northmont City School District, Poland Local School District, Tipp City Exempted Village School District, and Wadsworth City School District. Also, select comparisons were made within the audit to school districts operating within the same geographic region as OCSD. These are termed I-475 Ring districts to denote their proximity to the Toledo beltway. The I-475 Ring districts include: Anthony Wayne Local School District, Lake Local School District, Maumee City School District, Perrysburg Exempted Village School District, Sylvania City School District, Toledo City School District, and Washington Local School District. Furthermore, external organizations and sources were used to provide comparative information and benchmarks, such as the following:

- Government Finance Officers Association;
- State Employment Relations Board;
- American School and University; and
- National Center for Education Statistics.

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



## Noteworthy Accomplishment

This section of the executive summary highlights specific OCSD accomplishments identified throughout the course of the audit.

- OCSD received a \$150,000 grant from the Safe Routes to School program (SRTS) to build a continuous and connecting sidewalk between Starr Elementary and Fasset Middle schools. The SRTS program is designed to improve the ability of primary and middle school students to walk or bike to school safely. The OCSD project was completed in October 2008 and was the first SRTS project completed in Ohio.
- OCSD has pursued grants to study and implement wind generated electricity as a viable and clean source of energy.. A teacher at Clay High School was awarded grants to fund a 45 foot wind turbine. OCSD uses it to power lights, fans, and other electrical components at the soccer concession stand. Any excess energy generated is returned to the utility grid. The wind turbine project is integrated into coursework—students monitor the amount of power the turbine generates, the frequency and speed of the wind that powers the wind turbine, and how much the school saves in energy costs.

## 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 Financial Systems, OCSD should:*

- Develop a District-wide strategic plan which outlines the vision for all operational and educational programs.
- Develop a performance and results oriented annual budget in a manner targeted toward accomplishing the goals and objectives identified in the strategic plan. OCSD should consider obtaining a greater level of input from stakeholders during the budgeting process.
- Develop a comprehensive purchasing manual to provide employees with direction in the procurement of goods and services in accordance with applicable guidelines.
- Enhance its financial management policies to include elements of GFOA recommended practices.

- Continue to closely monitor its discretionary spending patterns. The District should evaluate potential cost reductions for those activities and functions that do not directly support its missions of educating students.

*In the area of Human Resources, OCSD should:*

- Establish a staffing plan to address current and future staffing needs.
- Consider eliminating 3 FTE central administrative positions to achieve a staffing level more comparable to the peers and achieve a savings of \$224,000 annually.
- Consider eliminating 50 regular education teacher positions for an annual savings of \$3,225,000.
- Consider eliminating 11 educational service personnel, 13 teaching aides, and 2 clerical FTEs for a savings of \$1,105,600 annually.
- Seek to address its high salary levels by limiting negotiated wage increases. Furthermore, OCSD should seek to negotiate alterations to its step schedules within the certificated and classified bargaining unit agreements.
- Consider eliminating the retirement pick-up benefit offered to its administrative staff for an annual savings of \$99,400.
- Seek to require all bargaining and non-bargaining unit staff to contribute at least 15 percent of healthcare insurance premiums (including dental and vision), which would still be less than the Kaiser and State Employee Relations Board (SERB) reported standards. This would result in an annual savings of \$599,000.
- Renegotiate conditions in the certificated and classified employee negotiated agreements that are significantly above industry standards and State minimums, such as sick leave accrual, sick leave severance payout, leave incentives, and number of vacation days.
- OCSD should take necessary steps to ensure a more cost effective career-technical education program. At a minimum, the District should consider eliminating or combining classes with low enrollment. In the long-term, the District should consider options that would lead to greater cost savings. One option would be to open up enrollment to other school districts. Another option would be to close its career-technical education program and have its students begin attending a compact or a joint vocational school district. Eliminating 6 vocational education FTEs would result in an annual savings of \$457,000.

*In the area of Facilities, OCSD should:*

- Develop a facilities master plan that contains elements of leading practices, including a five-year capital improvement plan, current enrollment projections, and an updated capacity analysis. To help implement its facilities master plan, the District should develop a formal five-year capital improvement plan (CIP), which is updated on an annual basis to ensure that critical repairs or equipment replacements are completed.
- Consider closing at least one elementary school in order to reduce the District's excess building capacity and its operating costs for an annual savings of \$216,000.
- Establish formal procedures for its maintenance operations. This would help the staff better maintain functional, safe, and clean facilities and to perform at recommended workload levels.
- Develop and implement formal performance standards and measures to consistently evaluate the efficiency and effectiveness of maintenance and operations personnel.
- Eliminate or reduce the number of overtime hours granted for inspecting buildings on weekends and holidays, responding to emergency call outs, and performing duties related to after school activities for an annual savings of \$19,000.
- Establish formal policies and procedures outlining energy efficient practices that District staff should follow to help further reduce energy costs.

*In the area of Transportation, OCSD should:*

- Review its bus capacity levels and alter routes in a manner that coincides with its changes in ridership. The District should increase the number of riders per bus by revising bell schedules to allow for more time between runs. Furthermore, the District should consider increasing the number of buses that it operates on a three-tiered system. Taken collectively, the above strategies should enable the District to eliminate seven active buses for an annual savings of \$115,000.
- Develop formal policies consistent with OAC § 3301-83-16 and ensure that all non-routine billable trips (including athletics and extracurricular activities) are fully reimbursed through user charges based on the District's current cost of providing the services (e.g., salaries and benefits, maintenance and repairs, fuel, and insurance costs).

- Reduce its spare fleet by eight buses for a one-time revenue enhancement of \$35,000 and an annual savings of \$5,800.
- Develop and implement a system of written procedures to ensure transportation data is accurately collected, reviewed, and reported on its T-forms to ODE.

## Summary of Financial Implications

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

### Summary of Performance Audit Recommendations

Recommendation	One-Time Revenue Enhancement	Estimated Annual Cost Savings
<b>Recommendations Subject to Negotiations</b>		
R3.5 Eliminate the retirement benefit (pick-up) for 17 administrators		\$99,400
R3.6 Increase employee health care contributions for medical and start employee contributions for dental and vision of 15 percent		\$599,000
<b>Subtotal: Subject to Negotiations</b>		<b>\$698,400</b>
<b>Recommendations NOT Subject to Negotiations</b>		
R3.2 Eliminate 3 central administrator FTEs		\$224,000
R3.3 Eliminate 50 regular education teacher FTEs		\$3,225,000
R3.4 Eliminate 11 ESP, 13 teaching aides and 2 clerical FTEs		\$1,105,600
R3.10 Eliminate 6 career-technical teacher FTEs		\$457,000
R4.2 Close one elementary school		\$216,000
R4.5 Reduce non-fee related overtime		\$19,000
R4.6 Develop formal energy conservation policy		\$25,000
R5.1 Eliminate seven active buses	\$25,600	\$115,400
R5.3 Eliminate eight spare buses	\$29,300	\$5,800
<b>Subtotal: NOT Subject to Negotiations</b>	<b>\$54,900</b>	<b>\$5,392,800</b>
<b>TOTAL RECOMMENDATIONS</b>	<b>\$54,900</b>	<b>\$6,091,200</b>

Source: AOS recommendations

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# Financial Systems

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## Background

This section focuses on the financial systems and strategic management function in the Oregon City School District (OCSD, or the District). It analyzes the current and future financial condition of OCSD 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> in order to develop recommendations that will improve efficiencies and business practices. Leading practices and industry standards were drawn from various sources including the Ohio Department of Education (ODE), the Government Finance Officers Association (GFOA), and the Government Accounting Office (GOA).

### *Treasurer's Office Operations*

The Treasurer's Office is responsible for processing payroll, administering accounts payable/receivable, administering employee benefits, and reporting District finances to the Board of Education (the Board) and general public. The Office consists of four full-time and one part-time staff members. The Treasurer reports to the Board. Additionally, the Payroll/Benefits clerks, Accounts Payable Clerk and the Budgetary Computer Operator report to the Treasurer. The Treasurer has been with the District since August 2006. All members of the Treasurer's staff have been with the District for more than 10 years. The Treasurer's Office operations are guided by Board-approved Ohio School Boards Association Fiscal Management Policies, which contain some elements of recommended practices, including budgeting, fiscal planning, purchasing, and payroll procedures.

### *Financial History and Condition*

Until recently, OCSD has maintained a relatively stable financial position over the past decade. Heavy industry corporations located in the District have provided a steady funding stream of tangible personal property tax receipts and provided additional funds through tax abatement agreements. However, with the change in the application of tangible personal property tax under State law, coupled with rapidly increasing expenditures, OCSD has experienced instability in its financial condition. The District's general operating revenues did not keep pace with increasing operating expenditures from FY 2005-06 through FY 2007-08, and operating losses have reduced

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<sup>1</sup>See the **executive summary** for a description of the 10 peer districts.



General Fund balances. In FY 2008-09, OCSD reduced expenditures by approximately 4 percent, primarily through staff reductions.

OCSD receives local property tax revenues through continuous operating levies—the most recent, a 5.9 mill levy, passed in August 2008. Building improvements have been financed through a \$45 million, twenty-eight year bond issue that was passed in 2004. In November 2008, the District also renewed a 2 mill five-year permanent improvement levy.

The Amended Substitute House Bill (HB) 66 “phase-out” of tangible personal property tax has significant implications for OCSD. In FY 2006-07, tangible personal property taxes (TPPT) made up 23 percent of the District’s total revenue. To some extent, the District has been buffered by a “hold harmless” period during which the State has reimbursed districts for declining TPPT revenue under HB 66. The “hold harmless” period extends through FY 2009-10, after which the State reimbursement will be phased out through FY 2016-17.

### *Financial Forecast*

Ohio Revised Code (ORC) § 5705.391 requires each city, local, exempted village, and joint vocational school district to submit a five-year forecast of general operating revenues and expenditures to ODE. The forecast format consists of three years of historical data, projections for the current and four ensuing years, and a summary of key assumptions. When this audit was initiated, the October 2008 five-year forecast was the most recent projection available. According to the October 2008 five-year forecast filed with ODE, the District was projecting a negative ending fund balance beginning in FY 2009-10.

The OCSD October 2008 forecast is presented as **Table 2-1** and illustrates actual revenues, expenditures, and ending fund balances for fiscal years 2006, 2007, and 2008, as well as projected revenues, expenditures, and fund balances for fiscal years 2009, 2010, 2011, 2012, and 2013.

**Table 2-1: OCSD Five-Year Forecast (in 000s)**

	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	\$15,981	\$16,161	\$16,637	\$18,522	\$20,084	\$20,092	\$20,205	\$20,630
Tangible Personal Property Tax	\$9,211	\$7,709	\$4,944	\$2,723	\$134	\$67	\$0	\$0
Unrestricted Grants-in-Aid	\$10,215	\$8,762	\$9,044	\$8,785	\$11,186	\$11,843	\$11,865	\$11,887
Restricted Grants-in-Aid	\$0	\$417	\$317	\$337	\$337	\$337	\$337	\$337
Property Tax Allocation	\$2,107	\$4,527	\$6,415	\$7,956	\$6,656	\$5,607	\$4,926	\$4,252
All Other Revenue	\$3,001	\$2,544	\$1,925	\$1,604	\$1,355	\$1,280	\$1,280	\$1,256
<b>Total Revenue</b>	<b>\$40,515</b>	<b>\$40,120</b>	<b>\$39,282</b>	<b>\$39,926</b>	<b>\$39,752</b>	<b>\$39,226</b>	<b>\$38,612</b>	<b>\$38,362</b>
Advances-In	\$56	\$70	\$139	\$150	\$150	\$150	\$150	\$150
All Other Financial Sources	\$199	\$89	\$11	\$15	\$15	\$15	\$15	\$15
<b>Total Other Financing Sources</b>	<b>\$254</b>	<b>\$159</b>	<b>\$151</b>	<b>\$165</b>	<b>\$165</b>	<b>\$165</b>	<b>\$165</b>	<b>\$165</b>
<b>Total Revenue and Other Financing Sources</b>	<b>\$40,770</b>	<b>\$40,278</b>	<b>\$39,433</b>	<b>\$40,091</b>	<b>\$39,917</b>	<b>\$39,391</b>	<b>\$38,777</b>	<b>\$38,527</b>
<b>Expenditures</b>								
Personnel Services	\$24,971	\$25,354	\$24,146	\$24,521	\$24,660	\$25,142	\$25,091	\$25,593
Employees' Retirement/Insurance Benefits	\$8,602	\$9,282	\$8,975	\$9,774	\$10,448	\$11,439	\$12,566	\$13,848
Purchased Services	\$4,797	\$5,243	\$5,083	\$4,747	\$4,984	\$5,233	\$5,495	\$5,769
Supplies and Materials	\$1,458	\$1,413	\$1,494	\$1,560	\$1,580	\$1,580	\$1,580	\$1,580
Capital Outlay	\$276	\$154	\$123	\$253	\$150	\$150	\$150	\$150
Debt Service: Principal-Notes	\$110	\$284	\$301	\$186	\$195	\$204	\$214	\$224
Debt Service: Interest and Fiscal Charges	\$17	\$178	\$165	\$149	\$140	\$131	\$121	\$111
Other Objects	\$473	\$538	\$495	\$540	\$540	\$540	\$540	\$540
<b>Total Expenditures</b>	<b>\$40,703</b>	<b>\$42,445</b>	<b>\$40,782</b>	<b>\$41,730</b>	<b>\$42,696</b>	<b>\$44,420</b>	<b>\$45,757</b>	<b>\$47,816</b>
<b>Other Financing Uses</b>								
Operational Transfers – Out	\$0	\$0	\$2	\$0	\$0	\$0	\$0	\$0
Advances – Out	\$70	\$139	\$105	\$75	\$75	\$75	\$75	\$75
All Other Financing Uses	\$4	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total Other Financing Uses</b>	<b>\$74</b>	<b>\$139</b>	<b>\$107</b>	<b>\$75</b>	<b>\$75</b>	<b>\$75</b>	<b>\$75</b>	<b>\$75</b>
<b>Total Expenditures and Other Financing Uses</b>	<b>\$40,777</b>	<b>\$42,584</b>	<b>\$40,889</b>	<b>\$41,805</b>	<b>\$42,771</b>	<b>\$44,495</b>	<b>\$45,832</b>	<b>\$47,891</b>
<b>Result of Operations (Net)</b>	<b>(\$7)</b>	<b>(\$2,305)</b>	<b>(\$1,456)</b>	<b>(\$1,713)</b>	<b>(\$2,854)</b>	<b>(\$5,104)</b>	<b>(\$7,055)</b>	<b>(\$9,364)</b>
Balance July 1	\$6,431	\$6,424	\$4,118	\$2,662	\$949	(\$1,906)	(\$7,010)	(\$14,065)
Cash Balance June 30	\$6,424	\$4,118	\$2,662	\$949	(\$1,906)	(\$7,010)	(\$14,065)	(\$23,429)
Outstanding Encumbrances June 30	\$458	\$617	\$381	\$0	\$0	\$0	\$0	\$0
Fund Balance June 30 for Certification of Appropriations	\$5,965	\$3,501	\$2,281	\$949	(\$1,906)	(\$7,010)	(\$14,065)	(\$23,429)
<b>Unreserved Fund Balance June 30</b>	<b>\$5,965</b>	<b>\$3,501</b>	<b>\$2,281</b>	<b>\$949</b>	<b>(\$1,906)</b>	<b>(\$7,010)</b>	<b>(\$14,065)</b>	<b>(\$23,429)</b>

**Source:** OCSD October 2008 Five-Year Financial Forecast (Treasurer's Office and ODE)

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

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. The performance audit includes a review of the assumptions that have a significant impact on the forecast, such as general property tax, unrestricted and restricted grants-in-aid, personnel services, and employees' retirement and insurance benefits. The Auditor of State's Office (AOS) analyzed the District's assumptions and methodologies for these line items,

and determined that the forecast reasonably represents the District's revenue and expenditures for future years with the exception of the outstanding encumbrances line item. Encumbrances are typically projected based on historical information to account for future expenditures that will likely be outstanding at year end. The District did not include encumbrances in the forecast. However, according to the Treasurer, these encumbrances have always been included in reports to the Board of Education. Therefore, based on historical trends, the Treasurer agreed that forecasting \$500,000 for this line item is reasonable based on the three-year historical average of \$485,000. AOS included encumbrances in the Financial Recovery Plan presented in **Table 2-5**.

At the time of the forecast, the District projected a negative unreserved fund balance beginning in FY 2009-10 that was expected to grow to a deficit of nearly \$23.5 million by FY 2012-13. With the inclusion of encumbrances, the District's projected deficit grows to \$24 million in FY 2012-13. Because of the magnitude of its projected deficit, OCSD will need to consider substantial reductions in several areas. A summary of the recommended reductions is shown in **Table 2-6**.

### *Revenues and Expenditures*

**Table 2-2** shows OCSD's General Fund revenues and expenditures per pupil compared with the peer average.

**Table 2-2: Revenues and Expenditures per Student**

	<b>OCSD FY 2006-07</b>	<b>OCSD FY 2007-08</b>	<b>Peer Avg. FY 2007-08</b>	<b>Difference</b>	<b>% Difference</b>
Property & Income Tax	\$6,190	5,598	\$4,361	\$1,236	28.4%
Intergovernmental Revenues	\$3,537	\$4,076	\$3,436	\$640	18.6%
Other Revenues	\$696	\$531	\$399	\$132	33.0%
<b>Total Revenue</b>	<b>\$10,423</b>	<b>\$10,205</b>	<b>\$8,197</b>	<b>\$2,008</b>	<b>24.5%</b>
Wages	\$6,558	\$6,243	\$4,775	\$1,468	30.7%
Fringe Benefits	\$2,403	\$2,326	\$1,711	\$615	36.0%
Purchased Service	1,359	\$1,317	\$818	\$499	61.0%
Supplies & Textbooks	\$366	\$387	\$271	\$116	42.8%
Capital Outlays	\$40	\$32	\$141	(\$109)	(77.3%)
Debt Service	\$120	\$121	\$2	\$119	6673.9%
Miscellaneous	\$139	\$128	\$160	(\$31)	(19.7%)
Other Financing Uses	\$36	\$28	\$176	(\$148)	(84.2%)
<b>Total Expenditures</b>	<b>\$11,021</b>	<b>\$10,582</b>	<b>\$8,053</b>	<b>\$2,529</b>	<b>31.4%</b>

**Source:** OCSD and peer 4502 and SF3 Reports

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

**Table 2-2** shows that OCSD's total revenue per student was higher than the peer average in FY 2007-08, due to higher property tax collections and other revenues. From FY 2006-07 to FY 2007-08, the District's revenue decreased 2 percent as a result of declining tangible personal

property taxes and other revenues. However, intergovernmental revenue increased 15 percent during the same period.

Total expenditures per student also decreased by nearly 4 percent during this period, but were still higher than the peer average by \$2,529 per student. All expenditure categories were higher than the peers except capital outlay, miscellaneous, and other financing uses. Specifically, in FY 2007-08, the District's wages were nearly 31 percent higher; fringe benefits were 36 percent higher (see **human resources** for further analysis); and purchased services were 61 percent higher than the peers, which is related various areas of spending and educational service center costs. The debt service expenditures are short-term principal and interest payments resulting from funds borrowed for the District's Energy Conservation Project (HB 264). OCSD's payments on this debt continue through FY 2014-15.

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 2-3** shows a breakdown of OCSD's expenditures per pupil in comparison with the peer averages on a function basis.

**Table 2-3: Governmental Expenditures by Function**

USAS Function Classification	OCSD FY 2006-07		OCSD FY 2007-08		Peer Avg.	
	\$ Per Pupil	% of Exp	\$ Per Pupil	% of Exp	\$ Per Pupil	% of Exp
<b>Instructional Expenditures:</b>	<b>\$6,937</b>	<b>60.0%</b>	<b>\$6,730</b>	<b>59.6%</b>	<b>\$5,073</b>	<b>59.4%</b>
Regular Instruction	\$4,685	40.5%	\$4,557	40.4%	\$4,008	47.0%
Special Instruction	\$971	8.4%	\$979	8.7%	\$808	9.4%
Vocational Education	\$929	8.0%	\$904	8.0%	\$144	1.7%
Adult/Continuing Education	\$186	1.6%	\$236	2.1%	\$1	0.0%
Extracurricular Activities	\$0	0.0%	\$0	0.0%	\$0	0.0%
Classroom Materials and Fees	\$0	0.0%	\$0	0.0%	\$0	0.0%
Miscellaneous	\$0	0.0%	\$0	0.0%	\$0	0.0%
Other Instruction	\$166	1.4%	\$55	0.5%	\$112	1.3%
<b>Support Service Expenditures:</b>	<b>\$4,317</b>	<b>37.3%</b>	<b>\$4,260</b>	<b>37.7%</b>	<b>\$3,137</b>	<b>36.8%</b>
Pupil Support Services	\$674	5.8%	\$711	6.3%	\$466	5.4%
Instructional Support Services	\$769	6.7%	\$749	6.6%	\$346	4.1%
Board of Education	\$12	0.1%	\$12	0.1%	\$31	0.4%
Administration	\$707	6.1%	\$688	6.1%	\$636	7.5%
Fiscal Services	\$257	2.2%	\$235	2.1%	\$191	2.3%
Business Services	\$80	0.7%	\$74	0.7%	\$36	0.4%
Plant Operation & Maintenance	\$1,271	11.0%	\$1,178	10.4%	\$843	9.9%
Pupil Transportation	\$546	4.7%	\$610	5.4%	\$497	5.8%
Central Support Services	\$1	0.0%	\$4	0.0%	\$90	1.1%
<b>Non-Instructional Service Expenditures</b>	<b>\$74</b>	<b>0.6%</b>	<b>\$48</b>	<b>0.4%</b>	<b>\$57</b>	<b>0.7%</b>
<b>Extracurricular Activity Expenditures</b>	<b>\$232</b>	<b>2.0%</b>	<b>\$252</b>	<b>2.2%</b>	<b>\$273</b>	<b>3.2%</b>
<b>Total Governmental Fund Operational Expenditures</b>	<b>\$11,560</b>	<b>100.0%</b>	<b>\$11,291</b>	<b>100.0%</b>	<b>\$8,539</b>	<b>100.0%</b>

Source: OCSD and peer 4502 and SF-3 Reports

Note: Totals may vary due to rounding.

As shown in **Table 2-3**, OCSD's total Governmental Fund expenditures per student declined 2.3 percent from FY 2006-07 to FY 2007-08, but were still \$2,752 higher than the peer average in FY 2007-08. In general, OCSD's governmental expenditures are comprised primarily of salaries and benefits. In addition, vocational education<sup>2</sup> (\$904) and adult/continuing education (\$236) make up about half of the difference in the instructional expenditure total compared with peers. Explanations of line item variances, including those primarily driven by salary and benefit expenditures, are included below:

<sup>2</sup> See the **human resource** section for additional analyses on vocational education revenues and expenditures.

**Instructional Expenditures:**

- *Vocational Education* – OCSD is a comprehensive technical education district, which means that it offers career-technical education programs for its students. None of the Type 6 peers represented in **Table 2-3** have in-house vocational education programs. Therefore, the higher expenditures per student for vocational education reflect the comprehensive career-technical education program offered by OCSD. Furthermore, these higher costs are reflective of the District’s salaries and benefits (see **human resources** section for further discussion).
- *Adult/Continuing Education* – Similar to the vocational education category, peer districts do not provide adult/continuing education services. Of OCSD’s total adult/continuing education expenditures, approximately 27.2 percent are paid from the General Fund.
- *Other Instructional Expenditures* – This category captures expenditures not accounted for in the previous categories, including tuition, which is the primary cost driver. The change in expenditures between FY 2006-07 and 2007-08 is attributed to a large decline in tuition payments.

**Support Services Expenditures:**

- *Fiscal Services* – This category accounts for expenditures associated with the financial operations of the District, including auditing and fiscal services rendered by persons in the Treasurer’s Office. Approximately 92 percent of OCSD’s fiscal services were paid from the General Fund in FY 2007-08. Of the total, approximately 38 percent is comprised of salaries and benefits and approximately 48.5 percent is comprised of audit and State exam fees. According to the Treasurer, costs within this category also include the prior Treasurer’s early retirement incentive plan that the District is still paying.
- *Plant Operation and Maintenance* – Expenditures in this category account for those associated with keeping the buildings operational, comfortable, and safe; and keeping the grounds, buildings, and equipment in an effective working condition. In FY 2007-08, approximately 98.6 percent of these expenditures were paid by the General Fund. About 50 percent of these expenditures were salaries and benefits. The remaining expenditures include refuse removal, building repairs, property insurance, equipment rentals, and utilities (see **facilities**).
- *Pupil Transportation* – This category accounts for expenditures associated with transporting individuals to and from school, as required by State law. The category also includes transportation to school activities between home and school. In FY 2007-08 OCSD’s expenditures were 22.7 percent higher than the peers and increased 11.7 percent from the prior year. In FY 2007-08, 88.5 percent of pupil transportation expenditures were

paid from the General Fund. Salaries and benefits made up approximately 67.6 percent of the costs (see **human resources**), while bus supplies and maintenance, bus replacement, and insurance accounted for the majority of the remaining expenditures (see **transportation**).

- *Non-Instructional Service Expenditures* – This category accounts for activities associated with providing non-instructional services to students, staff, or the community. In FY 2006-07 and FY 2007-08, expenditures were made entirely from special revenue funds. From FY 2006-07 through FY 2007-08, expenditures declined approximately 35 percent as a result of a decrease in auxiliary services equipment expenditures.

**Table 2-4** shows discretionary spending for OCSD and the peers. Discretionary expenditures are items not governed by negotiated agreements, administrative contracts, or statutory requirements, so a district has a degree of control over these expenditures in the short-term.

**Table 2-4: General Fund Discretionary Expenditures**

	OCSD FY 2006-07		OCSD FY 2007-08		Peer Avg. FY 2006-07	
	Per ADM	% of Exp	Per ADM	% of Exp	Per ADM	% of Exp
Professional and Technical Services	\$349.33	3.2%	\$434.84	4.1%	\$145.93	1.8%
Property Services	\$200.19	1.8%	\$146.62	1.4%	\$147.76	1.8%
Mileage/Meeting Expenses	\$35.16	0.3%	\$19.71	0.2%	\$16.49	0.2%
Communications	\$31.67	0.3%	\$30.07	0.3%	\$21.33	0.3%
Contract, Craft or Trade Services	\$1.96	0.0%	\$0.41	0.0%	\$1.80	0.0%
Pupil Transportation	\$0.00	0.0%	\$6.99	0.1%	\$4.48	0.1%
Other Purchased Services	\$0.19	0.0%	\$2.66	0.0%	\$17.55	0.0%
General Supplies	\$165.63	1.5%	\$154.67	1.5%	\$87.65	1.1%
Textbooks/Reference Materials	\$35.73	0.3%	\$42.88	0.4%	\$47.94	0.6%
Supplies & Materials for Resale	\$0.00	0.0%	\$0.00	0.0%	\$0.32	0.0%
Food & Related Supplies/Mat	\$1.86	0.0%	\$0.01	0.0%	\$0.33	0.0%
Plant Maintenance and Repair	\$66.09	0.6%	\$75.12	0.7%	\$49.94	0.6%
Fleet Maintenance and Repair	\$96.85	0.9%	\$114.52	1.1%	\$84.71	1.1%
Other Supplies & Materials	\$0.00	0.0%	\$0.00	0.0%	\$0.35	0.0%
Land, Building & Improvements	\$0.00	0.0%	\$0.00	0.0%	\$33.01	0.4%
Equipment	\$39.84	0.4%	\$31.85	0.3%	\$75.80	0.9%
Buses/Vehicles	\$0.00	0.0%	\$0.00	0.0%	\$31.68	0.4%
Other Capital Outlay	\$0.00	0.0%	\$0.00	0.0%	\$0.01	0.0%
Dues and Fees	\$123.82	1.1%	\$113.70	1.1%	\$149.26	1.8%
Insurance	\$11.64	0.1%	\$12.38	0.1%	\$7.48	0.1%
Awards and Prizes	\$0.00	0.0%	\$0.00	0.0%	\$0.15	0.0%
Miscellaneous <sup>1</sup>	\$0.00	0.0%	\$0.00	0.0%	\$0.32	0.0%
<b>Discretionary Expenditures Total and % of Total Expenditures</b>	<b>\$1,159</b>	<b>10.5%</b>	<b>\$1,186</b>	<b>11.2%</b>	<b>\$924.29</b>	<b>11.4%</b>

**Source:** OCSD and Type 6 peers

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

<sup>1</sup> Miscellaneous expenditures are expenditures for any costs that are not defined in a category, such as student activity payments.

As shown in **Table 2-4**, OCSD's FY 2006-07 discretionary spending as a percentage of all General Fund expenses (10.5 percent) was below the peer average (11.4 percent) as a percent of total general fund expenditures. However, its expenditures per student are slightly higher than the peers. The District increased per pupil discretionary spending from FY 2006-07 to FY 2007-08 by 2.3 percent but its discretionary spending as a percent of total expenditures was still below the peers. Variances between these years were caused by account coding changes, contracts for



services paid in advance, increased special transportation needs, textbook purchases, and increased fuel costs.

Categories that were above the peer average cost per pupil include professional and technical services, mileage and meeting expenses, communications, general supplies, plant maintenance and repair, fleet maintenance and repair, and insurance. Professional and technical services were the largest discretionary expenditure, accounting for 4.1 percent of the District's total expenditures in FY 2007-08. The District spent 139 percent and 198 percent more per ADM than the peers on professional and technical services in FY 2006-07 and FY 2007-08, respectively. General supplies were also 76.5 percent higher than the peer average in FY 2007-08. These two categories (professional and technical services and general supplies) are the primary contributors to the overall higher discretionary spending in the District (**R2.5**).

### *Stakeholder Communication*

OCSD has a variety of information available on its web site highlighting various programs, events, and data for its stakeholders. This information includes Board minutes, FY 2008-09 spending reductions, and links to numerous documents, including its ODE Report Card. However, the financial information is dated (FY 2005-06). OCSD is in the process of updating its web site and the new site will include up-to-date financial information and additional data (including its forecast and Board policies). The District is also in the process of involving its stakeholders in more District decisions, through both greater access to information and participation in the District's strategic planning process.

## **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:

- What has been the District's financial history and does the District have policies and procedures to ensure effective and efficient financial management?
- Does the five-year forecast reasonably and logically project the future financial position of the District?
- Does the District have an effective system of communicating its financial data and does the District actively involve stakeholders in the decision making process?
- Has the District developed a strategic plan that links educational and operational plans and incorporates recommended practices?
- Is the District's budgetary process consistent with recommended budgetary practices, and how does the District's revenue and expenditure information compare with the peers?
- Does the District's purchasing practice follow recommended practices and do procedures ensure adequate control over purchases?
- Has the District developed effective internal controls over the payroll process?

Overall, the audit determined that OCSD's financial forecast reasonably projected its future financial position, that it had effective tools in place to communicate financial data, and that it had effective internal controls over the payroll process.

## Recommendations

### *Planning and Budgeting*

**R2.1 OCSD should develop a District-wide strategic plan which outlines the vision for all operational and educational programs. In preparing the plan, OCSD should include detailed goals, objectives, benchmarks, timeframes, performance measures, cost estimates, and funding sources. The District should focus on measurable objectives and regularly monitor progress toward their attainment. Furthermore, the strategic plan should be linked to the budget and the five-year financial forecast and reviewed on a regular basis to determine the District's success in achieving the stated goals and objectives.**

OCSD does not have a strategic plan that establishes the District's goals and objectives. However, the District has taken its first steps toward establishing a strategic plan by discussing and prioritizing its goals and objectives during a Board retreat in 2008. The District has many complex issues, such as the TPPT phase-out,<sup>3</sup> that would be better managed through the establishment of a strategic plan. A plan for this revenue loss and its impact on the budget would help prepare the District for difficult future financial decisions. In addition, OCSD offers comprehensive vocational education and adult continuing education programs which are costly to the District. Also, with declining enrollment, the District's school buildings are not used at optimal capacity (see **facilities**). The strategic planning process will press the District toward reviewing its goals and objectives in concert with its budget to make important decisions such as the continuance of operating costly programs (see **human resources** for additional assessments on the career-technical program).

*Recommended Budget Practice on the Establishment of Strategic Plans* (GFOA, 2005) advocates that all governments develop strategic plans in order to provide long-term perspectives for service delivery and budgeting, thus establishing logical links between authorized spending and broad organizational goals. The focus of a strategic plan should be on aligning organizational resources to bridge the gap between present conditions and the envisioned future. Accordingly, the District should take the following actions when developing its strategic plan:

- Initiate the strategic planning process;
- Prepare a mission statement;
- Assess environmental factors and critical issues;

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<sup>3</sup> TPPT represents about 23 percent of General Fund revenues, based on the October 2008 forecast.

- Agree on a small number of goals and develop strategies and action plans to achieve them;
- Develop measurable objectives and incorporate performance measures;
- Approve, implement, and monitor the plan; and
- Reassess the strategic plan annually.

Once developed, the strategic plan should be adopted as part of each school's improvement plan, which links State and District educational and operational goals, as well as the facility master plan (see **facilities**), to the strategic plan. The goals, objectives, and strategies of the strategic plan should be listed in their order of importance. By implementing a strategic plan, OCSD can gain a better perspective on its future financial position 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 to the District-wide strategic plan.

**R2.2 OCSD should develop a performance and results oriented annual budget in a manner targeted toward accomplishing the goals and objectives identified in the strategic plan (see R2.1). This approach would improve the District's ability to obtain the best outcomes with its limited revenues. The budget should include performance measures to enable the District to track progress towards meeting its goals.**

**Furthermore, OCSD should consider soliciting a greater level of input from stakeholders during the budgeting process. For example, OCSD could allow its administrators to develop and submit proposals on how to best meet the priorities of the District for their areas of responsibility. This process should assume no guarantee of funding at historical levels and should provide opportunities for departments to propose new and innovative practices.**

OCSD has Board policies governing preparation of the budget, including annual appropriations, budget adoption procedures, and budget transfer authority. These policies are designed to ensure the District maintains compliance with State requirements and meets timelines for preparation and submission of an annual tax budget and annual appropriations resolution.

The District does not obtain stakeholder input in the budgeting process. Instead, the Treasurer's Office develops the budget based on three years of historical information. The Treasurer also incorporates expected extraordinary expenditures for the year. According to the Treasurer, the budget for salaries and benefits also incorporates staffing recommendations from the Assistant Superintendent. The budget is reviewed by the Superintendent and then forwarded to the Board for approval. OCSD does not use

performance measures to evaluate and monitor progress toward achieving its academic and budgetary goals.

*Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting* (GFOA, 1998) recommends that governments develop budgets that are consistent with approaches to achieve goals, and that they include performance measures. Some of these performance measures should document progress toward achievement of previously developed goals and objectives as defined by the government-wide strategic plan. GFOA goes on to indicate that governments should provide opportunities in the budget process for obtaining stakeholder input.

According to *The Price of Government, Getting the Results We Need in an Age of Permanent Fiscal Crisis* (Osborne and Hutchinson, 2004), budgeting for outcomes focuses on buying results for citizens rather than cutting or adding to last year's spending programs. It shows how leaders can use consolidation, competition, choice, and a relentless focus on results to save money while improving services. The key steps are:

- Set the price: Establish up front how much citizens are willing to spend. Get agreement on a revenue forecast and any tax or fee changes.
- Set the priorities: Define the outcomes or results that matter most, along with indicators to measure progress.
- Set the price of each priority: Divide the price or revenue among the priority outcomes on the basis of their relative value to citizens.
- Develop a purchasing plan for each priority: Create "results teams" to act as purchasing agents for the citizens. Ask each team to decide which strategies have the most impact on their desired outcomes.
- Solicit offers to deliver the desired results: Invite departments to propose how they would deliver the results and at what price. Then choose proposals that will provide the best results for the money.
- Negotiate performance agreements: These should spell out the expected outputs and outcomes, how they will be measured, the consequences for non-performance, and the flexibilities granted to help the provider maximize performance.

*Budgeting Right When Revenue is Tight* (Governing, 2008) recommends ten budget coping strategies that include:

- Conduct a 30 day re-look process – breaking the annual budget into twelve 30-day budgets;
- Maintain structural balance;
- Preserve cash;
- Implement tough initiatives to save money;
- Address employee’s emotional fears and concerns;
- Ensure everyone contributes to savings;
- Gain broad-based support for being part of the solution;
- Use incentives, prizes, praise, rewards, and recognition for non-tax revenue increases or cost-cutting ideas;
- Distribute financial data widely for credibility; and
- Maintain long-term goals and financial planning processes.

Developing the budget based on goals and objectives outlined in the strategic plan will help OCSD monitor progress and focus the District’s limited resources toward efficient and effective uses. Furthermore, including key managers in the budgeting process would ensure that the budget incorporates each administrator’s knowledge of building and department needs, while featuring proposals to gain the best returns for the District’s resources.

### *Policies*

**R2.3 OCSD should develop a comprehensive purchasing manual to provide employees with direction in the procurement of goods and services in accordance with applicable guidelines. The manual should include competitive bidding requirements, the request for proposals process, and instructions for making purchases and documenting price comparisons from multiple sources. This manual should be updated annually and distributed to all administrative staff.**

OCSD does not have a comprehensive purchasing manual. Instead, the District has general policies that include the following:

- All contracts and purchase orders must have a Treasurer’s certification of funds prior to payment, with the exception of purchases less than \$100 or those covered by blanket purchase orders.
- Purchasing procedures will be designed to ensure the best possible price for the desired products and services.

- Procedures will be developed to require that all purchases are made on properly approved purchase orders and that for items not put up for bid, price quotations will be solicited.

The District maintains appropriately approved purchase orders and documentation. However, it has not fully developed and enforced purchasing procedures. For example, it is common practice for teachers to order supplies from mail order catalogs as opposed to pricing items from specified vendors such as the District's consortium, the Metropolitan Toledo Educational Purchasing Association (MTEPA). The practice of making purchases from unlimited vendors may lead to the District not receiving the best pricing or missing out on opportunities for volume discounts. In addition, in FY 2007-08, the District had more than 1,300 different active vendors, creating unnecessary administrative burdens such as additional paperwork and potential service-related issues.

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), 2009), procedure manuals are written in detail, intended not just to provide guidance but also to set out the forms, process requirements, and steps for each procurement action. A procedure manual is best 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. Procedure 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 evaluation 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. Procedure 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 procedure manuals to guide staff through the purchasing process and ensure regulations and district 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.

Also, the *Financial Accountability System Resource Guide* (Texas Education Agency, 2008) recommends a school district's purchasing manual address the following items:

- Purchasing goals and objectives;
- Statutes, regulations, and board policies applicable to purchasing;
- Purchasing authority;
- Requisition and purchase order processing;
- Competitive procurement requirements and procedures;
- Vendor selection and relations;
- Receiving and distribution; and
- Disposal of obsolete and surplus property.

Forms helpful to users of the manual may include:

- Bid or proposal form;
- Purchase order;
- Purchase requisition;
- Receiving report;
- Vendor performance evaluation form; and
- Request for payment voucher.

Establishing a comprehensive purchasing manual will ensure compliance with applicable regulations and strengthen the overall purchasing process.

**R2.4 OCSD should enhance its financial management policies to include elements of the practices recommended by GFOA. These policies should be tailored specifically to the District and its operations. While the District has a set of financial management policies, it lacks certain elements of recommended practices that would help it better**



**address its declining fiscal condition. The District should ensure that its financial and budgetary practices are consistent with updated policies.**

The District has established financial management policies within its Board Policy Manual with the assistance of the Ohio School Boards Association (OSBA). The policies do not include all of the elements of leading practices recommended by GFOA.

Financial management policies should be an integral part of the development of service, capital, and financial plans and the overall budgeting process. All other adopted budgetary practices should be consistent with these policies. To ensure that its financial management practices follow recommended guidelines, OCSD should consider enhancing its current policies to include elements of the following GFOA-recommended practices:<sup>4</sup>

- **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.
- **Fees and Charges** – A government should adopt policies that identify the manner in which fees and charges are set and the extent to which they cover the cost of the service provided.
- **Debt Issuance and Management** – A government should adopt policies to guide the issuance and management of 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.
- **Use of One-Time Revenue** – A government should adopt a policy limiting the use of one-time revenues for ongoing expenditures.
- **Use of Unpredictable Revenues** – A government should identify major revenue sources it considers unpredictable and define how these revenues may be used.
- **Revenue Diversification** – A government should adopt a policy that encourages diversity of revenue sources.

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<sup>4</sup> *Recommended Budget Practices* (GFOA) can be found online at:  
<http://www.gfoa.org/services/df/budget/RecommendedBudgetPractices.pdf>.

- **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.
- **Balancing the Operating Budget** – A government should develop a policy that defines a balanced operating budget, encourages commitment to a balanced budget under normal circumstances, and provides for disclosure when a deviation from a balanced operating budget is planned or when it occurs.

By enhancing its current fiscal management policies to include elements of GFOA-recommended practices, the District could better manage its limited resources through consistent financial practices that are guided by Board-approved policies. Such policies can be used as tools for financial decision making, and can 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.

**R2.5 The District should continue to closely monitor its discretionary spending patterns. It should evaluate potential cost reductions for those activities and functions that do not directly support the mission of educating students. Although the District may not be able to reduce its discretionary spending per student to the peer level without programmatic changes, any decrease in discretionary expenditures the District makes will have a positive impact on its overall financial condition.**

According to **Table 2-4**, OCSD is above the peer average in per-pupil discretionary spending, particularly in the categories of professional and technical services, mileage and meeting expenses, communications, general supplies, plant maintenance and repair, fleet maintenance and repair, and insurance. Even with fluctuations in discretionary spending between FY 2006-07 and 2007-08 and slightly lower discretionary spending as a percent of total expenditures, OCSD spent about 28 percent more per student on discretionary expenses compared with the peer average.

*Best Practices in Public Budgeting* (GFOA, 2000) recommends that entities evaluate their financial conditions to identify potential problems and any changes that may be needed to improve performance over both the short and long terms. The financial health of a government is critical to its ability to meet the needs of stakeholders. School districts may benefit from developing financial indicators and measures which can be used to monitor financial conditions and achievement of explicitly set financial goals.

Many factors can lead to an increase in the District's discretionary spending. However, the District should continue to monitor spending and try to decrease discretionary expenses within its control.

**R2.6 OCSD should implement the recommendations contained in the performance audit to help offset projected deficits and to assist the District with efforts to maintain a positive fund balance through FY 2012-13. In addition, OCSD should continue to update its five-year financial 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, OCSD should be able to maintain a positive fund balance through FY 2012-13. However, based on the District's projections, the District will have to make significant staffing reductions to achieve a positive fund balance in FY 2012-13. On average, AOS has identified approximately \$6 million in annual savings in this report. Should the District desire to continue operations with its present staffing levels, it would have to generate revenue to offset this amount.

The recommended staffing cuts contained in **human resources** (see **R3.4**) represent drastic cuts that could have a significant negative effect on the educational programs of OCSD. School districts in Ohio do not normally operate at levels recommended in **R3.4**. Whenever possible, OCSD should continually seek to identify savings in non-educational areas, prior to reducing staffing with a direct effect on education.

Regardless, the magnitude of the reductions will require careful deliberation and management so as to produce the least impact on District operations while gaining the maximum financial benefit. Sizable cost reductions are needed to offset the large operating deficit projected in each year of the forecast. Despite these reductions and the resulting large ending fund balances in FY 2010-11 and 2011-12, these savings are almost completely consumed by inflation in expenditures by FY 2012-13.

**Table 2-5** demonstrates the impact of the recommendations on the five-year forecast ending fund balances, assuming the recommendations are fully implemented.

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

	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	\$15,981	\$16,161	\$16,637	\$18,522	\$20,084	\$20,092	\$20,205	\$20,630
Tangible Personal Property Tax	\$9,211	\$7,709	\$4,944	\$2,723	\$134	\$67	\$0	\$0
Unrestricted Grants-in-Aid	\$10,215	\$8,762	\$9,044	\$8,785	\$11,186	\$11,843	\$11,865	\$11,887
Restricted Grants-in-Aid	\$0	\$417	\$317	\$337	\$337	\$337	\$337	\$337
Property Tax Allocation	\$2,107	\$4,527	\$6,415	\$7,956	\$6,656	\$5,607	\$4,926	\$4,252
All Other Revenue	\$3,001	\$2,544	\$1,925	\$1,604	\$1,355	\$1,280	\$1,280	\$1,256
<b>Total Revenue</b>	<b>\$40,515</b>	<b>\$40,120</b>	<b>\$39,282</b>	<b>\$39,926</b>	<b>\$39,752</b>	<b>\$39,226</b>	<b>\$38,612</b>	<b>\$38,362</b>
Total Other Financing Sources	\$254	\$159	\$151	\$165	\$165	\$165	\$165	\$165
<b>Total Revenue and Other Financing Sources</b>	<b>\$40,770</b>	<b>\$40,278</b>	<b>\$39,433</b>	<b>\$40,091</b>	<b>\$39,917</b>	<b>\$39,391</b>	<b>\$38,777</b>	<b>\$38,527</b>
<b>Expenditures</b>								
Personnel Services	\$24,971	\$25,354	\$24,146	\$24,521	\$24,660	\$25,142	\$25,091	\$25,593
ERIB	\$8,602	\$9,282	\$8,975	\$9,774	\$10,448	\$11,439	\$12,566	\$13,848
Purchased Services	\$4,797	\$5,243	\$5,083	\$4,747	\$4,984	\$5,233	\$5,495	\$5,769
Supplies and Materials	\$1,458	\$1,413	\$1,494	\$1,560	\$1,580	\$1,580	\$1,580	\$1,580
Capital Outlay	\$276	\$154	\$123	\$253	\$150	\$150	\$150	\$150
Total Debt Service	\$127	\$462	\$466	\$335	\$335	\$335	\$335	\$335
Other Objects	\$473	\$538	\$495	\$540	\$540	\$540	\$540	\$540
<b>Total Expenditures</b>	<b>\$40,703</b>	<b>\$42,445</b>	<b>\$40,782</b>	<b>\$41,730</b>	<b>\$42,696</b>	<b>\$44,420</b>	<b>\$45,757</b>	<b>\$47,816</b>
Advances – Out	\$70	\$139	\$105	\$75	\$75	\$75	\$75	\$75
Total Other Financing Uses	\$74	\$139	\$107	\$75	\$75	\$75	\$75	\$75
<b>Total Expenditures and Other Financing Uses</b>	<b>\$40,777</b>	<b>\$42,584</b>	<b>\$40,889</b>	<b>\$41,805</b>	<b>\$42,771</b>	<b>\$44,495</b>	<b>\$45,832</b>	<b>\$47,891</b>
<b>Performance Audit Recommendations - Net Savings</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$5,938</b>	<b>\$6,211</b>	<b>\$6,330</b>	<b>\$6,452</b>
<b>Net Result of Operations</b>	<b>(\$7)</b>	<b>(\$2,305)</b>	<b>(\$1,456)</b>	<b>(\$1,713)</b>	<b>\$3,084</b>	<b>\$1,107</b>	<b>(\$725)</b>	<b>(\$2,912)</b>
Beginning Cash Balance	\$6,431	\$6,424	\$4,118	\$2,662	\$949	\$4,033	\$5,140	\$4,415
Ending Cash Balance	\$6,424	\$4,118	\$2,662	\$949	\$4,033	\$5,140	\$4,415	\$1,503
<i>Estimated Encumbrances</i> <sup>1</sup>	\$458	\$617	\$381	\$500	\$500	\$500	\$500	\$500
Unreserved Fund Balance for June 30 Certification	\$5,965	\$3,501	\$2,281	\$449	\$3,533	\$4,640	\$3,915	\$1,003

**Source:** AOS recommendations and Treasurer's forecast

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

<sup>1</sup> FY 2008-09 through FY 2012-13 include \$500,000 in encumbrances not previously reflected in the October 2008 forecast.

**Table 2-5** shows that when including the performance audit recommendations, the District is projected to experience a positive ending fund balance through the forecast period. The forecast projections in **Table 2-5** will depend, in part, on the District's ability to achieve the estimated cost savings. Therefore, monitoring the projections and updating the forecast as necessary will ensure the District bases future decisions on the most current information.

**Table 2-6** details those performance audit recommendations reflected in the forecast in **Table 2-5**. The recommendations are divided into two categories – those requiring negotiation with the District's bargaining units, and those not requiring negotiation.

**Table 2:6 Summary of Financial Implications**

<b>Recommendation</b>	<b>One-Time Revenue Enhancement</b>	<b>Estimated Annual Cost Savings</b>
<b>Recommendations Subject to Negotiations</b>		
<b>R3.5</b> Eliminate the retirement benefit (pick-up) for 17 administrators		\$99,400
<b>R3.6</b> Increase employee health care contributions for medical and start employee contributions for dental and vision to 15 percent		\$599,000
<b>Subtotal: Recommendations Subject to Negotiations</b>		<b>\$698,400</b>
<b>Recommendations NOT Subject to Negotiations</b>		
<b>R3.2</b> Eliminate 3 central administrator FTEs		\$224,000
<b>R3.3</b> Eliminate 50 regular education teacher FTEs		\$3,225,000
<b>R3.4</b> Eliminate 11ESP, 13 teaching aide, and 2 clerical FTEs		\$1,105,600
<b>R3.10</b> Eliminate 6 career-technical teacher FTEs		\$457,000
<b>R4.2</b> Close one elementary school		\$216,000
<b>R4.5</b> Reduce non-fee related overtime		\$19,000
<b>R4.6</b> Develop formal energy conservation policy		\$25,000
<b>R5.1</b> Eliminate seven active buses	\$25,600	\$115,400
<b>R5.3</b> Eliminate eight spare buses	\$29,300	\$5,800
<b>Subtotal: Recommendations NOT Subject to Negotiations</b>	<b>\$54,900</b>	<b>\$5,392,800</b>
<b>TOTAL RECOMMENDATIONS</b>	<b>\$54,900</b>	<b>\$6,091,200</b>

Source: AOS Performance Audit Recommendations



# Human Resources

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## Background

This section of the performance audit focuses on the Oregon City School District (OCSD or the District) human resource functions, including staffing levels, compensation, employee benefits, and negotiated agreements. Board governance was also reviewed. The purpose of this section is to analyze how well the District performs human resource activities in order to develop recommendations to improve efficiency and business practices. Recommendations also identify potential cost savings to assist the District in its efforts to address projected deficits. The District's human resource functions have been evaluated against leading practices, industry benchmarks, operational standards, the Ohio Administrative Code (OAC), the Ohio Revised Code (ORC), 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 Society for Human Resource Management (SHRM), the Ohio Education Association (OEA), the State Employment Relations Board (SERB), the Ohio School Boards Association (OSBA), and the Ohio Department of Administrative Services (DAS).

### *Organizational Structure and Function*

The Superintendent is the chief administrative officer of the District and primary professional advisor to the OCSD Board of Education (the Board). The Superintendent's Office is responsible for the development, supervision, and operation of school programs. The Superintendent conducts certificated employee recruitment and hiring, determines staffing levels, and leads the District's negotiating team during collective bargaining. OCSD does not have specific staff that is dedicated to performing human resource functions. Instead, human resource functions are performed by various individuals within the District. For instance, classified employees are hired and monitored by the Business Manager. Certificated employees are hired by the Assistant Superintendent. The Treasurer's Office assists in negotiating collective bargaining agreements, maintains files on salaries and benefits for each employee, and processes payroll. The Treasurer's Office is also responsible for payroll-specific Employee Management Information System (EMIS) information.

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<sup>1</sup> See the **executive summary** for a description of the 10 peer district average used as a benchmark throughout this performance audit.

### *Program Operation*

In addition to regular education services, the District has programs in place for special and career-technical education. OCSD's per student special education costs in FY 2006-07 and FY 2007-08 were 11 percent and 6 percent higher than the peers, respectively. In FY 2008-09 OCSD evaluated its special needs services, which had been provided by the Lucas County Educational Service Center (ESC), and determined that it could provide these services in-house at a cost savings of \$400,000 annually. The District also works with North Point ESC to provide special education instruction to its pre-school students, and has an agreement with Help Me Grow for special needs intervention services for children who are up to three years of age. Help Me Grow initiates special education programs with special needs children and then transitions them to North Point ESC. Moreover, the District is compliant with State and federal guidelines regarding the provision of special education services through the development of individualized education plans and the inclusion of parents/guardians in the process.

OCSD provides a comprehensive career-technical program,<sup>2</sup> which was developed solely for the benefit of the District's own student population. OCSD's program, like other district-based comprehensive career-technical programs, allows students from other districts to participate only through open enrollment. Many comprehensive career-technical programs, such as those found in urban school districts or in cooperative agreements between school districts but without the governance of a JVSD, serve larger student populations. OCSD offers 13 programs in 8 unique career fields in its career-technical program (see **R3.11**).

### *Staffing*

In an effort to reduce costs, the District reduced staffing levels by a total of 17.6 FTEs between FY 2007-08 and FY 2008-09. **Table 3-1** presents a comparison of OCSD's staffing levels per 1,000 students with the peer average.

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<sup>2</sup> There are of 92 career-technical districts in the State of Ohio, 49 of which are organized as joint vocational school districts (JVSDs). OCSD is one of only 22 school districts in the State that offer a comprehensive career-technical program.



**Table 3-1: Staffing Comparison (FTEs<sup>1</sup> per 1,000 Students)**

	OCSD <sup>2</sup>	Peer Average	Variance
<b>Students</b> <sup>3</sup>	<b>3,871.6</b>	<b>3,966.0</b>	<b>(95.0)</b>
<b>Administrators:</b>	<b>6.2</b>	<b>5.1</b>	<b>1.1</b>
• Site-Based Administrators	1.8	2.5	(0.7)
• Central Office Administrators	4.4 <sup>4</sup>	2.6	1.8
<b>Educational Staff:</b>	<b>67.4</b>	<b>64.7</b>	<b>2.7</b>
• Classroom Teachers	46.7	45.7	1.1
• Special Education Teachers	8.4	5.5	2.9
• Remedial Specialists/Tutors	1.9	2.8	(0.9)
• Other Educational Support	10.4	10.7	(0.3)
<b>Professional Staff:</b>	<b>1.9</b>	<b>1.9</b>	<b>0.0</b>
<b>Technical Staff:</b>	<b>0.8</b>	<b>3.0</b>	<b>(2.2)</b>
<b>Office/Clerical Staff:</b>	<b>13.6</b>	<b>12.3</b>	<b>1.3</b>
<b>Craft &amp; Trade Workers:</b>	<b>1.9</b>	<b>1.7</b>	<b>0.2</b>
<b>Custodians/Groundskeepers:</b>	<b>7.2</b>	<b>6.7</b>	<b>0.5</b>
<b>Bus Drivers:</b>	<b>5.2</b>	<b>8.7</b>	<b>(3.6)</b>
<b>Food Service Workers:</b>	<b>5.3</b>	<b>6.8</b>	<b>(1.5)</b>
<b>All Other Reported Personnel:</b>	<b>2.7</b>	<b>4.4</b>	<b>(1.7)</b>
<b>Total FTEs Reported</b>	<b>112.4</b>	<b>115.4</b>	<b>(3.0)</b>

**Source:** OCSD FY 2008-09 staffing data and FY 2007-08 ODE EMIS data

**Note:** EMIS staffing levels in some categories were adjusted based on discussions with OCSD administrators. Totals may vary due to rounding.

<sup>1</sup> According to ODE's 2008 EMIS instructions for reporting staff data, 1.0 FTE is equal to the number of hours in a regular working day for that position, as defined by the district.

<sup>2</sup> OCSD data is from FY 2008-09 EMIS due to numerous staff changes and reductions from the FY 2007-08 EMIS data.

<sup>3</sup> Reflects students receiving educational services from the District and exclude the percent of time students are receiving educational services outside of the District.

<sup>4</sup> AOS adjusted this classification to account for the Director of Technology who was reported as 0.25 FTE in EMIS but should be represented as 1.0 FTE according to the District.

**Table 3-1** shows the District has a total of 3.2 fewer employees per 1,000 students educated than the peer average. Most of this difference lies within the bus driver category, which is assessed in **transportation**. OCSD staffing was higher on a per 1,000 student basis in the following categories:

- **Administrators:** The District overall has approximately three more administrators when compared with the peers (see **R3.2** for further analysis).
- **Regular Education Teachers:** OCSD's regular education teacher FTEs per 1,000 students educated are only slightly higher than the peers. OAC § 3301-35-05 requires school districts to have at least 1 classroom teacher per 25 students and 1 educational service personnel (ESP) for every 200 students. Although the District is similar to the

peers in the number of classroom teachers, it is above State minimum standards by about 62 FTEs (see also **R3.3** and **R3.11**).

- **Special Education Teachers:** OCSD's special education teachers per 1,000 students are higher than the peers by 11 FTEs. However, the number of special education teachers is dictated by individual education programs (IEP) and the number and level of disability of special education students set forth in OAC § 3301-51-09. The District's ratio of students to teachers is in line with the requirements set forth in the OAC. However, a separate analysis of the cost of the special education program indicates that OCSD's special needs costs per student (\$979) are 21 percent higher than the peers (\$808). This higher cost can be attributed to the District's higher compensation (salary and benefits) compared to the peers and neighboring districts, as discussed in **R3.5**, **R3.6**, and **R3.7**.
- **Office/Clerical:** The District employed approximately 4.0 clerical FTEs per 1,000 students more than the peer average. However, clerical staff needs are also dictated by the number of buildings in a district. Based on additional analysis, it was determined that the District had almost 1.0 clerical FTE less per building, compared with the peer average. It was also determined that OCSD's clerical staff supported the same number of employees compared with the peer average. However, the District should still examine its clerical staffing numbers as a means for identifying additional cost savings (see **R3.4**).
- **Craft/Trade Workers and Custodians/Groundskeepers:** As shown in **Table 3-1**, the craft/trade and custodial/groundskeeping FTEs are slightly higher than the peers. See **facilities** for further analysis.

### *Compensation*

**Table 3-2** shows a comparison of OCSD's average salaries in comparison with Type 6 and the I-475 ring peer districts.<sup>3</sup> The I-475 ring districts are located near OCSD and are all second or third ring cities of Toledo. It should be noted that average salaries are impacted by years of service, negotiated wage increases, step increases, other personnel benefits, and in some cases, education level attained by the personnel within a category.

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<sup>3</sup> The I-475 ring districts include Anthony Wayne Local School District, Lake Local School District, Maumee City School District, Perrysburg Exempted Village School District, Sylvania City School District, Toledo City School District, and Washington Local School District

**Table 3-2: Average Salary Comparison FY 2007-08**

	<b>OCS D Average</b>	<b>Type 6 Peer Average</b>	<b>Percent Difference</b>	<b>I-475 Ring Peer Average</b>	<b>Percent Difference</b>
Administrative Staff	\$93,615	\$77,507	20.8%	\$79,429	17.9%
Educational Staff	\$58,745	\$53,276	10.3%	\$54,639	7.5%
Professional Staff	\$47,994	\$54,433	(11.8%)	\$50,230	(4.5%)
Technical Staff	\$24,963	\$22,323	11.8%	\$24,132	3.4%
Office/Clerical Staff	\$28,405	\$24,261	17.1%	\$27,790	2.2%
Craft & Trade Workers	\$42,816	\$41,642	2.8%	\$40,660	5.3%
Operative Staff	\$28,874	\$19,320	49.5%	\$19,833	45.6%
Service Workers	\$28,346	\$21,115	34.2%	\$22,830	24.2%
<b>Total Average Reported Salary</b>	<b>\$51,388</b>	<b>\$42,448</b>	<b>21.1%</b>	<b>\$44,601</b>	<b>15.2%</b>

**Source:** OCS D, Type 6 Peers, and I-475 Ring Peers

**Note:** The District miscoded a director position as 0.25 FTE instead of 1.0 FTE in its EMIS report to ODE. AOS adjusted the average director salaries, shown in **Table 3-9**, based on corrected information provided by the District. However, because ODE uses a complex formula to determine Total Average Reported Salary and Total Average Administrative Staff Salary, these averages were not adjusted. With the FTE adjustment, the Total Average Reported salary and the Average Administrative Staff salary would be slightly less than what is stated in **Table 3-2**. However, the adjusted amount is not significant as the adjustment for the director's average salary is only \$28,000 out of OCS D's total personal services expenditures of \$24.6 million (or 0.12 percent).

As illustrated in **Table 3-2**, OCS D's average salaries are higher for nearly every job category, with the exception of professional staff. The administrative staff salaries are higher than the Type 6 and I-475 ring peers by 21 and 18 percent, respectively. However, the administrative salaries include a 10 percent STRS retirement pick-up. A more in-depth analysis of compensation for certificated and classified staff is included in **R3.5, Tables 3-9 through 3-11, and Chart 3-1**. **Table 3-9** shows an adjustment to the administrative salaries, by classification, to exclude the 10 percent STRS pick-up.

### *Employee Benefits*

OCS D offers medical, prescription, dental, and vision coverage to its employees. Full-time eligible employees contribute 5 percent of premium costs, while the Board covers the remaining 95 percent. **Table 3-3** illustrates the District's insurance premiums.

**Table 3-3: OCSD FY 2008-09 Medical Insurance Premiums**

	Single	Single % Share	Family	Family % Share
<b>Medical and Prescription Drug</b>				
Employee Contribution	\$21.46	5%	\$57.41	5%
Board Contribution	\$407.86	95%	\$1,090.76	95%
Total Premium Cost	<b>\$429.32</b>		<b>\$1,148.17</b>	
<b>Vision Insurance</b>				
Employee Contribution	\$0	0%	\$0	0%
Board Contribution	11.68	100%	11.68	100%
Total Premium Cost	<b>\$11.68</b>		<b>\$11.68</b>	
<b>Dental Insurance</b>				
Employee Contribution	\$0	0%	\$0	0%
Board Contribution	\$97.55	100%	\$97.55	100%
Total Premium Cost	<b>\$97.55</b>		<b>\$97.55</b>	

**Source:** OCSD FY 2008-09 premiums

For classified employees covered under the bargaining unit agreement who work four hours or less daily and certificated employees who work less than 50 percent of full-time, the Board pays half of its 95 percent contribution. In **Table 3-4**, OCSD's total premiums are compared with benchmarks from the Kaiser Family Foundation (Kaiser), the Ohio Education Association (OEA), and the State Employee Relations Board (SERB). The premiums are also compared with the average of Districts in the same region and with similar enrollment.

**Table 3-4: Monthly Premium Comparisons (FY 2007-08)**

	Single	Family
<b>Medical</b>		
OCSD	\$429.32	\$1,148.17
Kaiser - HMO Average	\$396.00	\$1,093.00
OEA	\$408.03	\$1,049.51
SERB - HMO Average	\$399.48	\$1,016.00
SERB - School Districts 2,500-9,999 ADM Average	\$411.16	\$1,094.42
SERB - Toledo Region Average	\$437.89	\$1,165.56
<b>Dental</b>		
OCSD	\$97.55	\$97.55
SERB Average	\$56.54	\$83.71
<b>Vision</b>		
OCSD	\$11.68	\$11.68
SERB Average	\$11.12	\$18.87

**Source:** OCSD FY 2008-09 premiums and, Kaiser, OEA estimated average, SERB, and peer district average.

As shown in **Table 3-4** OCSD's single and family premium costs appear higher in most of the peer and benchmark comparisons, with the exception of vision family premium costs. See **R3.5** for further analysis.

*Negotiated Agreements*

OCSD's certificated and classified employees are covered under bargaining units, each with its own negotiated agreement. Certificated employees are covered under a contract (certificated agreement) between the Oregon City Federation of Teachers and the Board. OCSD classified employees are covered under a contract with two bargaining units: the Ohio Association of Public School Employees (OAPSE) and the American Federal State City Municipal Employees (AFSCME) Local 4. Both the certificated and classified agreements were effective 2004 through 2007. Both bargaining units and the Board agreed to extend the contracts through July 31, 2009. The District is still in negotiations with the certificated and classified bargaining units for the FY 2009 to 2012 contract period. As part of the performance audit, certain contractual issues were assessed and compared with the Ohio Revised Code (ORC), Ohio Administrative Code (OAC), recommended practices, and common provisions in Ohio school district bargaining agreements.

During the performance audit, certain contractual and employment issues such as leave provisions; Board pick-up of retirement contributions; and length of school year, work day, and teacher time were assessed and compared with provisions of the ORC and OAC, as well as standard practices. Within the areas examined, provisions related to sick leave accrual and severance pay were found to be in excess of State minimum requirements, as were leave incentives, paid holidays, and vacation leave at the District (see **R3.8**).

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

The following performance objectives were reviewed in this section:

- 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 use HRIS technology to manage its human resources?
- 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?
- Is the District providing workforce development programs or vocational-technical education effectively and efficiently?

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## Recommendations

### *Staffing*

- R3.1 OCSD should establish a formal staffing plan to address current and future personnel requirements. Specifically, the District should consider establishing staffing allocations for both certificated and classified personnel that reflect the impact of the projected decline in enrollment.**

The District does not have a formal, Board approved staffing plan, although staffing requirements for its teaching staff are included in the collective bargaining agreement. Enrollment is a factor in determining appropriate staffing levels, although the District does not assess long-term enrollment projections relative to its planned staffing levels. See **facilities** for a further assessment of enrollment projections as they relate to building capacity.

*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) notes that the most important question for any organization is what type of workforce it will need in order to successfully implement its strategic mission. Once this question is answered, the organization can focus on recruiting, developing, motivating, and retaining the number and mix of employees that will be required at each point in time.

Tulsa Public Schools (OK) has established an industry-recognized approach for developing a staffing plan. The Tulsa Public Schools staffing plan incorporates staff allocation factors such as state and federal regulations, workload measures, industry benchmarks, and staffing levels, as determined by its administration, for building configurations and enrollment. In this plan, Tulsa Public Schools benchmarks staffing based on general fund revenues to help maintain a focus on a balanced budget when considering school staffing levels. The plan is used as a guide to determine staffing levels on an annual basis, as well as mid-year, to determine if the staffing levels need to be modified based on actual enrollment.

Leading practice organizations that use strategic staffing plans include Lakota Local School District (Butler County) and Cincinnati City School District (Hamilton County). In general, these staffing plans incorporate State and federal regulations, workload measures, and industry benchmarks, as well as staffing levels determined by district administrators. The plans outline the allocation of regular and special education, administrative, other instructional, clerical, custodial, and food service staff, using

recommended practices and national workload measures. The plans use an assortment of variables and formulas to guide the individuals responsible for making staffing decisions.

In order to ensure it is prepared to address changes in its enrollment, programs or financial circumstances, OCSD should develop and maintain an up-to-date staffing plan. Modeling its plan after those used in the above-mentioned districts would provide OCSD the necessary elements to ensure its staffing plan is comprehensive and takes into account recommended elements.

**R3.2 OCSD should consider eliminating 3.0 FTE central administrative positions to achieve a level more comparable to the peers.<sup>4</sup> The District should review the funding sources for these positions to ensure their elimination would have a positive impact on the General Fund.**

**Table 3-5** illustrates the staffing of OCSD compared with the peer average in regard to administrative FTEs. Because the size and number of students affects the number of FTEs needed, this comparison is made on a per 1,000 student basis.

**Table 3-5: OCSD Administrative Staffing Comparison**

	OCSD	Peer Average	Variance
Number of Students <sup>1</sup>	3,872	3,966	(94)
Total Administrators <sup>2</sup>	24.00	19.69	4.31
<b>Total Administrators per 1,000 Students</b>	<b>6.20</b>	<b>5.07</b>	<b>1.13</b>
Site-Based Administrators per 1,000 Students	1.81	2.50	(0.69)
Site-Based Administrators per Building	1.00	1.56	(0.56)
Central Administrators per 1,000 Students	4.39	2.58	1.81
<b>Total Administrators Above Peer Average<sup>3</sup></b>			<b>4.37</b>

**Source:** OCSD FY 2008-09 staffing data and peer FY 2007-08 staffing data as reported to ODE. OCSD data was verified and adjusted to reflect the most up-to-date information available at the time of the audit.

<sup>1</sup> Represents students receiving educational services from the District and excludes the percent of time students are receiving educational services outside the District. This comprises all the students that the District administrators are responsible for overseeing.

<sup>2</sup> Includes the Director of Special Services, which is funded using Title VI-B special education funds. AOS also adjusted the Director of Technology to be counted as 1.0 FTE, as noted by the District, rather than 0.25 FTE, as reported in EMIS.

<sup>3</sup> Calculated by multiplying the difference per 1,000 students by the OCSD's number of students and then dividing by 1,000. 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 comparable districts.

As illustrated in **Table 3-5**, OCSD employs 4.37 more administrator FTEs than the peer average. The central administrators include the Superintendent, Assistant Superintendent, Treasurer, Business Manager, directors and supervisors. The District's site-based administrators consist of principals and one assistant principal. Further, as shown in

<sup>4</sup> This recommendation is in addition to reductions made during FY 2008-09.



**Table 3-5**, the District has seven school buildings, and at least one site-based administrator assigned to each building. OAC § 3301-35-05(A) (5) states that every school shall be provided the services of a principal, and every school with fifteen or more full-time equivalent classroom teachers shall be assigned the services of a full-time principal. No principal shall be assigned to more than two schools. Although site-based administrators per building and per 1,000 students are below the peers, its central administrative staffing is higher.

During FY 2008-09, the District eliminated one position by combining the adult education director and the career-tech supervisor functions. Furthermore, there is one central administrator (director) position at the Eagle Learning Center that is grant funded, and therefore does not impact the General Fund. After accounting for these two positions, the District is still 2.37 central administrative FTEs higher than the peers per 1,000 students.

*Financial Implication:* By reducing 3.0 FTE central administrative positions, the District could save \$224,000 in salary and benefits based on the administrative positions with the lowest salaries.

**R3.3 Based on its financial condition, OCSD should consider eliminating 50 regular education teacher positions. A reduction of 50 FTEs would bring the District within 20 percent of State minimum requirements. If OCSD is unable to make cost reductions in other areas to close its projected financial deficit gap, it may need to reduce educational staff to State minimums (up to 62 FTEs).<sup>5</sup>**

**However, the District should weigh decisions to reduce the regular teacher staffing level against the impact the reduction may have on educational outcomes. OCSD should consider its goals, enrollment, and financial condition, as well as its certificated collective bargaining agreement and State requirements for minimum class sizes, when identifying potential teacher reductions.**

**Table 3-6** shows a comparison of regular education students per regular teacher FTE, total ADM per regular teacher FTE, and report card results between OCSD and the peer average. OCSD's student to teacher ratio is 16, compared with the peer average of 19, or three fewer students per teacher.

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<sup>5</sup> Adopting State minimums would result in annual savings of about \$4.1 million.

**Table 3-6: OCSD Regular Education Staffing Comparison**

	<b>OCSD</b>	<b>Peer Average</b>	<b>Variance</b>
Regular Education Student Population	2,968	3,525	(557)
Regular Education Staff	181	180.7	0.3
Regular Student to Regular Teacher Ratio	16.4	19.5	(15.9%)
<b>Teachers Above Peer Average</b>			<b>28.8</b>
State Minimum Required Teachers			118.7
<b>Teachers Above State Minimum Requirement</b>			<b>62.3</b>
<b>2006-07 Performance Indicators Met (out of 30)</b>	<b>23.0</b>	<b>29.7</b>	<b>(22.6%)</b>
<b>2006-07 Performance Index (out of 120)</b>	<b>94.6</b>	<b>104.6</b>	<b>(9.6%)</b>

Source: Client FY 2008-09 EMIS data, Type 6 FY 2007-08 EMIS data

As illustrated in **Table 3-6**, OCSD assigns three fewer students per teacher compared with the peers. In addition, OCSD regular teaching levels are well above State minimum requirements, as outlined in OAC § 3301-35-05, which requires school districts to employ at least one classroom teacher for every 25 regular education students on a district-wide basis.

A reduction of 50 FTE teachers would bring the regular student to regular teacher ratio to 23:1 and help close the gap in a projected \$2.4 million deficit for FY 2009-10 (see **Table 2-1 in financial systems**). However, if conditions do not improve, the District could reduce its regular education teacher staffing levels by up to 62 regular education FTEs, and still comply with the minimum standard class size ratio outlined in OAC § 3301-35-05.

*Financial Implication:* By reducing the regular education staff by 50 FTEs, the District would realize a cost savings of \$3,225,000 in salary and benefits.<sup>6</sup>

**R3.4 In order to reduce its costs and avoid future deficits, OCSD should consider reducing staffing in other operational and academic areas. While its staffing in these areas was similar to the peer averages, opportunities exist for additional reductions. These areas include the following:**

- **Educational Service Personnel: OCSD could eliminate 11 FTE positions and remain 20 percent above State minimum standards.**
- **Teaching Aides: OCSD could eliminate 13 teaching aide positions paid through the General Fund and remain at about 75 percent of the peer average.**
- **Clerical: OCSD could eliminate at least 2 FTE positions in this area to achieve additional savings to its General Fund, although this would reduce staff in this classification to levels below the peer average.**

<sup>6</sup> These are conservative calculations, using the regular education staff with the least seniority. If the District would eliminate regular education positions through attrition, there would be a higher financial implication.

In its October 2008 financial forecast, OCSD projected a General Fund deficit of approximately \$1.9 million in FY 2009-10, growing to a deficit of over \$23 million in FY 2012-13. Prior to and during FY 2008-09, OCSD reduced expenditures in an attempt to eliminate the FY 2009-10 financial deficit. In order to eliminate the financial deficit in FY 2012-13, however, OCSD must make further significant staffing reductions. Despite comparable staffing levels in several areas, the District may need to reduce positions to levels approaching State minimum requirements. **Table 3-7** compares OCSD's ESP staff with the peers and State minimum standards.

**Table 3-7: Educational Service Personnel (ESP) Staffing Comparison**

	OCSD <sup>1</sup>	Peer Average	Difference
ESP Teachers <sup>2</sup>	16.0	15.7	0.3
Counselors	9.0	8.4	0.6
Librarian / Media Specialist	3.0	2.0	1.0
School Nurses	0.0	1.6	(1.6)
Social Workers	0.0	0.1	(0.1)
Visiting Teachers	0.0	0.0	-
<b>Total Educational Service Personnel (FTE)</b>	<b>28.0</b>	<b>27.8</b>	<b>0.2</b>
Regular Students	2,968	3,525	(557)
Total ESP per 1,000 Regular Students	9.4	<b>7.9</b>	1.5
<i>Total Students</i>	3,872	3,966	(94)
<i>Total ESP per 1,000 Students</i>	7.2	<b>7.1</b>	0.1
<b>ESP Above/(Below) Peer Districts</b>			<b>4.5</b>
<b>Comparison with State Minimum Requirements</b>		<b>FTEs</b>	
Total Education Service Personnel (ESP)			28.0
State Minimum Required ESP			14.8
<b>ESP Above State Minimum Requirement</b>			<b>13.2</b>

**Source:** OCSD and peer FY 2007-08 EMIS data as reported to ODE.

<sup>1</sup> OCSD data has been updated to reflect staffing changes that may have occurred in FY 2008-09.

<sup>2</sup> ESP teachers include K-8 art, music, and physical education teachers

As shown in **Table 3-7**, Educational Service Personnel (ESP) exceeded the peers by 4.5 FTEs and is 13.2 FTEs above the State minimums. OCSD could reduce 11 FTEs and remain 20 percent above State minimums while achieving a savings of \$711,000.

**Table 3-8** shows OCSD's clerical and teaching aide staffing compared with the peers.

**Table 3-8: Teaching Aide / Clerical Staffing Comparison**

	OCSD FTEs	OCSD FTE per 1,000 Students	Peer Average FTEs	Peer Average FTE per 1,000 Students
<b>Clerical</b>	21.8	5.6	22.3	5.6
<b>Other Office/Clerical</b>	4.0	1.0	5.5	1.4
<b>Teaching Aides</b>	26.9	6.9	21.0	5.3

Source: OCSD and peer EMIS reports

Although clerical employees and teaching aides are critical to the functioning of the District, the number of positions or ratio of students to position are not stipulated in Ohio law. OCSD employs 27 FTE teaching aides who are paid from the General Fund. Although its teaching aide numbers are approximately 1.6 FTEs higher than the peers on a per 1,000 student basis, OCSD may need to achieve additional cost savings to the General Fund through increased reductions in this area. A reduction of 13 FTEs would result in annual savings of \$321,000. Finally, although OCSD's clerical workers are in line or slightly below the peers, it could achieve additional reductions in this area. By reducing at least two clerical FTEs, OCSD could generate savings of \$73,600.

OCSD may be able to identify reductions in other areas which would reduce the need to eliminate personnel in these areas. Also, if reductions occur through attrition, OCSD may be able to reduce the number of reductions as greater savings would be generated through the elimination of positions at higher rates of pay.

*Financial Implication:* By making reductions in ESP staff, teaching aides and clerical employees, OCSD could generate annual cost savings of \$1,105,600.

### *Compensation*

**R3.5 OCSD should seek to address its high salary levels by limiting negotiated wage increases. Furthermore, OCSD should seek to negotiate changes to the step schedules within its certificated and classified bargaining unit agreements. This would reduce the future financial impact of wages on the District and provide salary levels that are more comparable to the peer districts. Based on its history of recent wage increases and its current financial condition, OCSD should consider attempting to negotiate zero percent increases in its next collective bargaining agreement.**

As shown in **Table 3-2**, OCSD's base salary levels are higher than the peers in nearly all EMIS categories. **Tables 3-9, 3-10, and 3-11** show more detailed comparisons of each classification to the Type 6 and I-475 ring peers.

**Table 3-9** shows an analysis of administrative staff, consisting of site-based and central administrators. During the course of the audit, OCSD's Treasurer noted a percentage calculation error in reporting the STRS pick-up for administrative salaries in EMIS, and as a result, this figure is inflated by 10 percent. This data is adjusted in **Table 3-9**.

**Table 3-9 Administrative Staff Salary Comparison**

	OCSD <sup>1</sup>	Peer Average	Percent Difference	I-475 Ring Peer Average	Percent Difference
Asst. Deputy Superintendent	\$104,066	\$98,742	5.4%	\$109,536	(5.0%)
Assistant Principal	\$91,750	\$76,097	20.6%	\$74,096	23.8%
Principal	\$89,942	\$83,048	8.3%	\$84,130	6.9%
Superintendent	\$128,860	\$108,480	18.8%	\$122,572	5.1%
Treasurer	\$84,296	\$83,737	0.7%	\$99,606	(15.4%)
Coordinator	\$62,039	\$63,142	(1.7%)	\$69,465	(10.7%)
Director	\$84,253 <sup>2</sup>	\$90,538	(4.6)%	\$91,670	(5.8)%
<b>Adjusted Average Salaries</b>	<b>\$93,615<sup>3</sup></b>	<b>\$77,507</b>	<b>20.8%</b>	<b>\$79,429</b>	<b>17.9%</b>

**Source:** OCSD, Type 6 Peers, and I-475 Ring Peers data came from EMIS report via ODE

<sup>1</sup> Administrative salaries were adjusted 10 percent to reflect the STRS pick-up and therefore the data differs from that depicted in **Table 3-2**.

<sup>2</sup> Reflects the adjustment of a director position from 0.25 FTE, as reported in EMIS, to 1.0 FTE, as reported by the District.

<sup>3</sup> ODE uses a weighted formula to determine Total Average Administrative Staff Salary. Because of the minimal impact of the adjusted FTE, OCSD's average was not revised. However, the average director salary would be slightly lower than ODE calculated in EMIS.

As illustrated in **Table 3-9**, OCSD's administrative salaries are higher than the Type 6 peers and I-475 ring peers, with the exception of the Assistant Deputy Superintendent, Treasurer, and Coordinator salaries. **Table 3-10** shows a salary comparison of OCSD's education staff with the peers.

**Table 3-10: Educational Staff Salary Comparison**

	OCSD	Type 6 Peer Average	Percent Difference	I-475 Ring Peer Average	Percent Difference
Counseling	\$66,504	\$60,478	10.0%	\$64,710	2.8%
Librarian	\$74,347	\$59,735	24.5%	\$64,553	15.2%
Regular Teacher	\$59,053	\$53,406	10.6%	\$55,016	7.3%
Vocational Education Teaching	\$63,737	\$57,832	10.2%	\$59,106	7.8%
Tutor	\$41,240	\$39,705	3.9%	\$35,256	17.0%
Other Professional	\$57,580	\$54,781	5.1%	\$59,993	(4.0%)
<b>Educational Staff Average Salary</b>	<b>\$58,745</b>	<b>\$53,276</b>	<b>10.3%</b>	<b>\$54,639</b>	<b>7.5%</b>

**Source:** OCSD, Type 6 Peers, and I-475 Ring Peers data came from EMIS report via ODE

As shown in **Table 3-10**, educational staff salaries are higher than the peers, with the exception of the *other professional* category. The largest variance appears in the salaries

of librarians and regular teachers. For librarians, the variance is explained in part by the fact that the District's three librarians have each been with OCSD for over 31 years and have reached the maximum pay for the position.

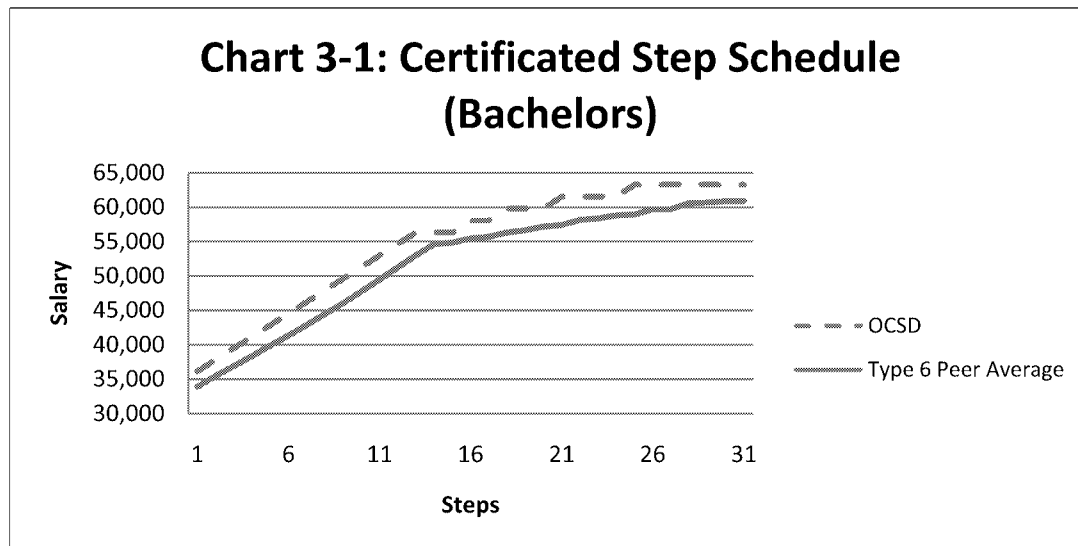
OCSD has few positions in the categories of *professional staff*, *technical staff*, *office/clerical staff*, *craft and trade workers*, *operative staff*, or *service workers*. Therefore, positions within these classifications were grouped for comparison purposes, as shown in **Table 3-11**.

**Table 3-11: All Other Staff Salary Comparison**

	OCSD	Type 6 Peer Average	Percent Difference	I-475 Ring Peer Average	Percent Difference
<b>Professional Staff</b>					
Psychologist	\$64,375	\$60,951	5.6%	\$56,840	13.3%
Speech and Language Therapist	\$58,908	\$55,501	6.1%	\$61,636	(4.4%)
<b>Technical Staff</b>					
Library Technician	\$24,963	\$21,347	16.9%	\$33,270	(25.0%)
<b>Office/Clerical Staff</b>					
Clerical	\$33,895	\$30,062	12.8%	\$30,447	11.3%
Teaching Aide	\$23,251	\$16,016	45.2%	\$18,057	28.8%
<b>Crafts &amp; Trades Workers</b>					
General Maintenance	\$42,823	\$37,619	13.8%	\$34,468	24.2%
<b>Operative Staff</b>					
Vehicle Operator (buses)	\$28,874	\$19,359	49.2%	\$19,331	49.4%
<b>Service Workers</b>					
Food Service	\$22,953	\$14,010	63.8%	\$14,268	60.9%

Source: OCSD, Type 6 Peers, and I-475 Ring Peers EMIS salary data

As illustrated in **Table 3-11**, teaching aides, general maintenance staff, bus drivers, and food service employees have significantly higher salaries than both the Type 6 and the I-475 ring peer average. **Chart 3-1** shows that OCSD's salary step schedule for certificated employees is also higher in comparison with the Type 6 peers.



**Source:** OCSD and Type 6 peers bargaining unit agreements

**Chart 3-1** shows that for employees with a bachelor's degree, OCSD's certificated salary schedule is higher than the Type 6 peer average at all steps. OCSD's certificated salary schedule at the master's degree level is also higher at all steps. More specifically, OCSD's pay for certificated staff is about \$2,000 higher than the Type 6 peer average at each level of the step schedule.

Under the previous certificated agreement (ending FY 2006-07), certificated staff received a 4.4 percent step increase at the first step, which diminished to 2.7 percent by the 24th step. In addition, the classified staff received a step increase of 3.0 percent at the first step. The largest average step increase for classified staff occurred at the fourth step (5.0 percent), although head cooks received an average step increase of 7.0 percent at the fourth step. The District has extended its negotiated agreements through FY 2008-09, but the Treasurer has projected only an average 2.0 percent increase to accommodate step increases for both bargaining units from FY 2008-09 throughout the end of the financial forecast period (FY 2012-13) due to the District's financial deficit.

Also, when comparing the classification salary schedules of the District and the Type 6 peers with similar job classifications, all but two classified positions (summer help and 4-7 hour custodial) have higher base rates than peers. Furthermore, the District's classified staff reach their maximum steps after five years, whereas Type 6 peers reach the maximum step in later years: Anthony Wayne (10 years); Green (26 years); Jackson (29 years); Lake (28 years); North Canton (25 years); Northmont (30 years); Poland (11 years), and Wadsworth (25 years).

Overall, OCSD compensates its staff at a higher rate in its step schedules (**Chart 3-1**), which is also reflected in its average salaries (**Tables 3-9, 3-10, and 3-11**). Furthermore, during its last round of collective bargaining, the District agreed to high annual negotiated wages increases of 3.5 percent per year for FY 2003-04 through FY 2006-07 considering its projected deficits during this time. OCSD extended the classified and certificated contracts to include a reduced negotiated wage increase of 1.5 percent for FY 2007-08 and FY 2008-09.

According to the National Association of State Budget Officers in the article *Budget Shortfalls: Strategies for Closing Spending and Revenue Gaps* (2002), one way to decrease the difference between revenues and expenditures is to freeze cost of living adjustments (COLAs) for employees. Decreasing this category of expenditure can create a more balanced budget.

By providing more generous salaries to its certificated and classified employees when compared to the peers, OCSD increases its current and long-term financial liability. For each 1 percent negotiated wage increase, OCSD spends an additional \$247,000 in salaries. Based on its current financial outlook, OCSD should seek to negotiate a zero percent wage increase in its next contract.

Historically, the District has averaged annual 3.5 percent negotiated wage increases in addition to contractually stipulated step increases. By negotiating a zero percent wage increase in its collective bargaining agreements, the District would save \$864,500 annually from FY 2009-10 to FY 2012-13 when compared with wages increasing at historical rates, even if it maintains step increases similar to those in the current negotiated agreements.

**R3.6 OCSD should consider eliminating the retirement pick-up benefit offered to its administrative staff. Providing the required employee retirement contribution for 17 administrators is costly to the District and is a form of compensation the Board is not required to provide. Eliminating this benefit will reduce expenditures and may help the District avoid a reduction in direct instruction personnel.**

While OCSD's classified and certificated employees make required employee retirement contributions through salary deduction to the State Teachers Retirement System (STRS) and School Employees Retirement System (SERS), 17 of the District's administrators receive a fringe benefit whereby the Board makes the employee contributions on their behalf. These administrators include the Superintendent, Assistant Superintendent of Curriculum and Instruction, Assistant Superintendent of Business Affairs and Operations, Special Services Director, Treasurer, Curriculum Director, Career and Technical Education Director, Career and Technical Education Supervisor, and Technology Director; in addition to seven principals and one assistant principal.



Ohio law requires employees to contribute 10 percent and employers to contribute 14 percent of employees' gross salaries to the State retirement systems. Usually, the employer deducts the employee's 10 percent contribution from the paycheck before taxes. This is referred to as the payroll reduction method. In some instances, employers may elect to pay the employee share on behalf of the employee as an additional benefit, often in lieu of a higher salary. Paying the employee share of retirement contributions allows some school districts to control administrative salary costs and attract administrative personnel by offering these fringe benefits. However, as illustrated in **Table 3-2** and **Tables 3-9** through **3-11**, OCSD's average salaries are above the Type 6 peers and surrounding district averages (see **R3.5**). Although surrounding districts also provide this benefit, this factor was considered in the analysis.

Offering the full pick-up to OCSD's administrators is costly to the District. Reducing this benefit will provide financial relief to the General Fund and help the District reduce its projected deficit.

*Financial Implication:* If OCSD eliminates the retirement benefit to its administrative staff, it would save approximately \$99,400 per year starting in FY 2009-10.

### *Cost of Benefits*

**R3.7 During future negotiations, OCSD should seek to require all bargaining and non-bargaining unit staff to contribute at least 15 percent of healthcare insurance premiums (including dental and vision), which would still be less than the Kaiser average and consistent with the State Employment Relations Board (SERB) reported contribution levels. If the District is unable to close the deficit projected in its General Fund for FY 2009-10, it could pursue a higher employee contribution and still be within Kaiser and SERB standards.**

**In addition, if OCSD is unable to negotiate employee health care premium contributions for all employees, it should then review the benefit plan (e.g., co-payments, employee deductibles, etc.) within and outside its network to ensure that the premium costs and benefit levels remain cost effective for the District.**

Although OCSD's health care premiums are in line with its peers, it pays 95 percent of the health insurance premiums for its employees, while the employee pays 5 percent. Also, the District pays a higher premium for its dental coverage compared with the SERB average (**Table 3-4**), and it does not require its employees to contribute to dental or vision premiums.

According to the Kaiser 2008 Survey, the average employee contributions for an HMO are 16 percent for single coverage and 26 percent for family coverage. The SERB FY

2007-08 report for school districts indicates an average employee contribution of 12.5 percent for single coverage and 14.2 percent for family coverage. The Toledo Region SERB average employee contributions are 13.1 percent for single coverage and 12.9 percent for family coverage. Furthermore, the SERB average employee contributions for dental premiums are 8.7 percent for single coverage and 20.3 percent for family coverage. Finally, the SERB average employee contributions for vision premiums are 15.7 percent for single coverage and 22.4 percent for family coverage.

Although OCSD has not negotiated typical employee cost sharing in prior rounds of collective bargaining, its financial condition requires consideration of a greater level of employee/employer cost sharing for health insurance and other benefits. Seeking a 15 percent employee contribution would bring OCSD in line with the SERB averages while remaining below the average contribution rates for private industry.

*Financial Implication:* By increasing the employee contribution to 15 percent, OCSD would save \$515,000 annually for medical and \$84,000 annually for dental and vision, for a total annual savings of \$599,000.

### *Negotiated Agreements*

**R3.8 OCSD should renegotiate conditions in its certificated and classified employee negotiated agreements that are significantly above industry standards and State minimum requirements. This renegotiation would allow the District to control costs and reduce its forecasted financial deficit. Additionally, the District should seek to renegotiate contract provisions that impair its right and responsibility to determine matters of inherent managerial policy.**

Certain provisions in the District's certificated and classified agreements, such as the number of school days, sick leave accrual amounts and severance payouts, classroom size, sick leave incentives, and number of holidays were compared with State minimum standards and leading practices. The following areas in OCSD's certificated and classified contracts exceeded benchmark provisions:

- **Sick Leave Accrual/Severance Payout:** According to the District's certificated and classified agreements, all full-time staff is allowed to accrue an unlimited amount of sick leave. Further, the certificated and classified agreements state that employees may receive severance pay of 50 percent of accrued leave not to exceed a maximum of 150 days of payout. This is well above the level stipulated in ORC § 124.39, which states if an individual retires from active service with ten or more years of service with the State, the employee is entitled to be paid in cash for one-fourth of the value of the accrued but unused sick leave credit of 120 days, which equals 30 days.

Also, OCSD's classified agreement states that employees who have less than ten days accumulated sick leave at the beginning of a school year are entitled to fifteen additional days of sick leave that are charged back against sick leave accrual. ORC § 3319.141 states that each person who is employed by any board of education in the State shall be entitled to fifteen days sick leave with pay, for each year under contract, which shall be credited at the rate of one and one-fourth days per month. This provision represents an additional financial liability for the District. Over the last four years, the District has paid an average annual severance payout of \$1 million.

- **Leave Incentives:** OCSD's certificated contract grants a stipend of \$75 to teachers who do not use any sick leave during the previous school year, payable in September. Teachers who use only one day of sick leave during the previous school year will be granted a stipend of \$50, payable in September. Any unused personal leave days which remain at the end of the school year may be added to a unit member's accumulated sick leave, effective on June 30 of each year. Alternatively, unused personal leave days may be compensated in half-day increments at the following rates:
  - 3 unused days = \$80.00 per day
  - 2-2.5 unused days = \$70.00 per day
  - 0.5-1.5 unused days = \$60.00 per day

The classified contract states that if an employee is not absent from work during the course of a contract year due to the taking of sick leave, personal leave, or leave without pay, the District will pay the following stipends annually based on the number of hours worked:

- One hour employee: \$50
- Two to three and a half hour employee: \$100
- Over three and a half to six hour employee: \$200
- Over six to eight hour employee: \$300

Employees who elect not to use personal days receive 100 percent cash reimbursement, or may roll over unused personal days into sick days at 100 percent for each day not used, as long as they have used no more than three days sick leave in the fiscal year and have not used any unpaid days. Although there is limited participation in this incentive, it represents a financial liability for the District. For instance, in FY 2007-08, the District paid \$6,850 in incentive bonuses.

*Sick Leave Abuse: A Chronic Workplace Ill*, (American Society for Public Administration, 2002) suggests that incentives try to bribe employees to act in certain ways, rather than make them want to exhibit the behaviors voluntarily. Another common objection is that such programs indirectly punish employees who have been out of work legitimately. By offering the leave incentive, the District is spending money to encourage employees to behave in ways that should already be common practice.

- **Paid Holidays:** The District's classified bargaining unit agreement has a provision that allows for 12 paid holidays. ORC § 3319.087 lists 7 holidays to which all regular non-teaching full-time employees are entitled.
- **Vacation Leave:** According to the District classified bargaining unit agreement, all full-time employees (11 and 12 months) are entitled to vacation according to the following schedule:
  - One year through five years: Ten days
  - Six years through nine years: Fourteen days
  - Ten years through fourteen years: Seventeen days
  - Fifteen years through nineteen years: Twenty-one days
  - Twenty years and more: Twenty-five days

ORC § 3319.084 states that non-teaching school employees, including full-time hourly-rate and per diem employees, are entitled to the following number of vacation days:

- One through nine years: Fourteen days
- Ten or more years: Fifteen days
- Twenty or more years: Twenty days

Both contracts have numerous provisions that exceed those stipulated in State law or are common in negotiated agreements. Several items could be included as Board policies. Renegotiating the provisions listed above can be difficult for the District since it will have to achieve agreement with its bargaining units and agree upon acceptable provisions. However, if the adjustments could be negotiated, the District would be able to see future savings that could reduce its deficit.

*Human Resource Information Management*

**R3.9 OCSD should develop written payroll policies and guidelines, including reconciliation of payroll with employee management information system (EMIS) data. Documented procedures would help to ensure EMIS reporting accuracy while improving internal controls. Furthermore, OCSD should require individuals who are responsible for recording or entering EMIS data to attend training to ensure its accuracy. These individuals should review the EMIS manual to ensure reporting is done in accordance with the ORC § 3301.0714.**

OCSD uses State software to manage its human resource functions. It also has an organized payroll process with effective internal controls. However, EMIS information is not cross-referenced with payroll information. As a result, the EMIS data for personnel contained errors. While some general payroll guidelines are included in the negotiated agreements, the District does not have Board approved policies or documented procedures that govern its payroll processes. In addition, there is no policy or procedure that requires the reconciliation of payroll to EMIS personnel information.

The 118th Ohio General Assembly created ORC § 3301.0714, which required the State Board of Education to “adopt rules for a statewide Education Management Information System.” These rules required the creation of a manual to accompany the system to provide a uniform and consistent source of reporting instructions on the subject of EMIS data.

The Ohio Association of EMIS Professionals and the Ohio Education Data System Association offer numerous programs to train, update, and support EMIS coordinators and others involved in the EMIS process. Furthermore, the North West Ohio Computer Association (NWOCA) hosts an EMIS coordinators’ meeting every spring and fall to discuss general information, updates, and changes. NWOCA also posts all the presentations and materials on its website so they are accessible to EMIS coordinators.

It is important for the District to report accurate EMIS data, as it is the source for ODE’s accountability and funding systems. Furthermore, it is the data collection mechanism for State and federal reporting. Lastly, EMIS data accuracy is important as it is analyzed and reported to a variety of audiences, such as policymakers, educators, administrators, and the general public who need data to gauge the performance of their students. Requiring its EMIS coordinator to attend training and developing a procedure for the entry and validation of EMIS payroll data could be accomplished at little additional expense to the District.

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*Board Governance*

**R3.10 The Board of Education should strive to perform its duties in a manner consistent with the Board Policy Manual, specifically in the area of its advisory role. By limiting Board involvement in the District’s daily operations, school administrators will be able to implement the visions and policies of the Board more efficiently.**

The OCSB Board has developed policies that establish responsibilities for the Board of Education. These policies outline the advisory role of the Board and its governing and legislative responsibilities. Recently, the Board has taken a more active role in the day-to-day operations of the District. While this may appear prudent in light of the District’s financial condition, it diminishes the oversight role of the Board.

According to the Board Policy Manual, the primary responsibility of the OCSB’s Board of Education is to establish purposes, programs, and procedures that will best produce the educational achievement needed by District students. Its manual states, *“The Board must accomplish this while also being responsible for wise management of resources available to the District. The Board must fulfill these responsibilities by functioning primarily as a legislative body to formulate and adopt policy, by selecting an executive officer to implement policy, and by evaluating the results.”*

*Becoming a Better Board Member* (National School Boards Association, 2006) also discusses the roles and responsibilities of a board member. These include:

- Developing and adopting policies that spell out how the school district will operate.
- Recruiting, hiring, and evaluating the performance of the superintendent, who will see that its policies are carried out.
- Establishing a shared community vision for its district, translating that vision into short and long range goals, and then setting up the structure to accomplish that vision.
- Approving and adopting an annual budget that will provide the financial basis for the buildings, furnishing, staff, materials, and equipment needed to carry out educational programs.
- Working closely with the school administration to set clear expectations or standards, approve ways to determine how students are doing in meeting those standards, and adopt policies on which instructional programs will be based.

Also addressed are the difference between setting policy (the board’s job) and administering the schools (the superintendent’s job), as well as ensuring that separate spheres of responsibility are maintained.

According to *Do You Want to Serve Your Community and its Children?* (OSBA, 2007), the role and function of board members are often misinterpreted by the public, and in some cases, by board members themselves. The board is a policy-making body and members are the chief advisors to the superintendent on community attitudes. Board members do not manage the day-to-day operations of a school district; they see to it that the system is managed well by professionals.

By maintaining its role as a policy-setting and oversight body, the Board ensures it has an appropriate perspective on District operations and the distance from day-to-day issues to provide guidance and support without the entanglements of being involved in direct District management. This perspective will aid Board members in making difficult decisions to address OCSD's deficit.

### *Career-Technical Education Program*

**R3.11 OCSD should take the necessary steps to ensure a more cost effective career-technical education program. At a minimum, the District should consider eliminating or combining classes with low enrollment. The District should also eliminate the use of different teachers for level I and level II classes within the same program (e.g., Machine Trades I & II, Cosmetology I & II, and Auto Technologies I & II). By doing so, the District could eliminate six career-technical education teachers and substantially improve the efficiency of the program.**

**In the long-term, the District should consider options that would lead to greater cost effectiveness. Options include allowing open enrollment from other school districts for the career-technical program, closing the career-technical education program and having its students begin attending a joint vocational school district, or pursuing a compact arrangement with neighboring districts.**

Though the District receives State funding for each student in its career-technical program, the cost to run the program exceeds revenues. Therefore, the District's General Fund supports the cost of the career-technical program. **Table 3-12** breaks out the governmental expenditures per student in the career-technical program, and the revenues and expenses for FY 2008-09.

**Table 3-12: OCSD Career-Technical Revenue and Expenditures Analysis  
(FY 2008-09)**

	OCSD	Type 6 Peer Average	Type 6 Peer Difference	Comprehensive Career-Technical Peers <sup>7</sup>	Comprehensive Career-Technical Peer Difference
Revenue per Student	\$437.73	\$135.54	\$302.19	\$368.67	\$69.06
Expenditures per Student	\$904.11	\$229.21	\$674.90	\$281.75	\$622.36
<b>Total Career-Tech Revenue</b>	\$1,689,215 <sup>1</sup>	\$466,597	\$1,203,070	\$3,505,065	(\$1,815,850)
<b>Total Career-Tech Expenses</b>	\$3,488,967	\$633,739	\$2,855,229	\$4,050,165	(\$561,198)
<b>% of Expenditures Exceeding Revenue</b>	<b>51.6%</b>	<b>14.1%</b>	<b>37.5%</b>	<b>13.5%</b>	<b>38.1%</b>

Source: OCSD and Type 6 peers

<sup>1</sup> This amount includes government revenues and student fees

As illustrated in **Table 3-12**, OCSD spends 34 percent and 221 percent more per student than the Type 6 peers and peer districts that also operate comprehensive career-technical programs, respectively. When comparing OCSD's cost per student with the averages of the closest districts that operate comprehensive career-technical programs (Dayton CSD, Lorain CSD, and Toledo CSD), OCSD's expenditures are still higher than these peers by \$690 per student. Economies of scale play an important role in the higher cost per student in OCSD, as in urban or larger districts, the larger numbers of students taking advantage of the career-technical programs equate to lower costs per student.<sup>8</sup>

The District spends 51.6 percent more than it receives in revenue, which requires the General Fund to heavily subsidize program operations. In FY 2008-09, the District collected a total of \$19,000 in user fees from students enrolled in the program—mainly for supplies or lab costs. However, these fees are not meant to subsidize all program costs.

According to OAC § 3301-61-03 (B), technical and academic course offerings must represent 12 programs in at least 8 of the OAC-stated career fields. OCSD offers 13 programs.<sup>9</sup> However, within these programs, several courses have low enrollment, which

<sup>7</sup> Includes Akron CSD, Canton CSD, Cincinnati CSD, Cleveland Municipal SD, Dayton CSD, East Cleveland CSD, East Liverpool CSD, Greenville CSD, Hamilton CSD, Lancaster CSD, Lorain CSD, Mad River LSD, Madison LSD, Mansfield CSD, Massillon CSD, Parma CSD, South-Western CSD, Switzerland of Ohio LSD, Toledo CSD, and Youngstown CSD (excludes College Corner Local VEPPD).

<sup>8</sup> OCSD's enrollment is 3,859, whereas the average enrollment of the comprehensive career-technical peers is 14,480.

<sup>9</sup> This excludes the hospitality program for special needs students.



contributes to the inefficiency of the program. **Table 3-13** shows the enrollment in each of the career-technical programs.

**Table 3-13: OCSD Career-Technical Programs and Enrollment (FY 2008-09)**

Program	1 <sup>st</sup> Class	% of Total Capacity <sup>1</sup>	2 <sup>nd</sup> Class	% of Total Capacity <sup>1</sup>	Percentage Total Enrollment
Agricultural Technologies	27	108%	N/A	N/A	8.4%
Auto Technologies I & II	20	80%	10	40%	9.3%
Computer Technology	20	80%	N/A	N/A	6.2%
Computer Aided Drafting I & II	10	40%	13	52%	7.2%
Cosmetology I & II	14	56%	9	36%	7.2%
Culinary Arts I & II	12	48%	3	12%	4.7%
Dental Technologies I & II	12	48%	11	44%	7.2%
Electronics I & II	20	80%	14	56%	10.6%
Machine Trades I & II	14	56%	6	24%	6.2%
Marketing	18	72%	N/A	N/A	5.6%
Medical Technologies I & II	18	72%	13	52%	9.7%
Program/Computer Simulations I & II	13	52%	12	48%	7.8%
Visual Communications I & II	14	56%	18	72%	10.0%
<b>Total Enrollment</b>	<b>176</b>	<b>54%</b>	<b>145</b>	<b>58%</b>	<b>100.0%</b>

Source: OCSD

<sup>1</sup> Based on State minimums of one teacher per 25 students outlined in OAC § 3301-35-05

As shown in **Table 3-13**, OCSD is operating most of its career-technical classes well below capacity (assuming capacity of 25 students per class). Also, several of the courses offer more than one class—ten programs offer two classes while three programs offer only one class. Considering that several of the programs with two classes operate at about half capacity, a reduction in the number of classes offered would improve program efficiency.

Because OCSD has low enrollment in its own career-technical programs, it has the option to provide open enrollment to other area districts. It could generate an additional \$340,000 annually in State funding by achieving full enrollment (assuming 25 students per class) in each level of a program through open enrollment. However, this would not be sufficient to sustain the career-technical education program without additional General Fund support. Furthermore, additional costs to the District for open enrollment are unknown.

To improve efficiency, OCSD should also examine how its classes are staffed. Most of OCSD's programs include level I and II classes. Six of these programs have different teaching staff for each level of the same program. As the class size is already small, it would be more efficient if OCSD used one teacher for both level I and level II classes within the same program.

The Type 6 peer districts either participate in compacts/contracts with nearby districts or use joint vocation school districts (JVSD). Several of the I-475 ring peers use Penta Career Center in Perrysburg, Ohio. One such district, Anthony Wayne Local School District (Lucas County) spends about \$24 per student on vocational education. However, Anthony Wayne Local School District taxpayers contribute a small amount of millage-generated revenue to the operations of Penta Career Center.

In compact/contract districts, a number of school districts enter into contracts to provide career-technical education. Each school might provide a specialty, or a neighboring district might contract to use another district's program. A JVSD serves two or more adjacent school districts and is governed by a joint vocational school board consisting of representatives from the participating districts. As shown in **Table 3-10**, the Type 6 peers are spending almost 75 percent less per student than OCSD for career-technical programs.

Because the cost of the career-technical program contributes to OCSD's projected deficit, changes in the program are essential in order for the District to achieve long-term financial stability. In addition to the options presented in this recommendation, OCSD should explore other means of achieving cost savings within the program.

*Financial Implication:* By reducing its vocational education staff to one teacher for each program, the District could eliminate 6.0 FTEs and save at least \$457,000 in salaries and benefits annually.<sup>10</sup>

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<sup>10</sup> The cost savings are based on the lowest seniority teachers. If reductions occurred through attrition, the cost savings might be higher.

## Financial Implications Summary

The following table represents a summary of estimated annual cost savings identified in this section of the report.

### Summary of Financial Implications for Human Resources

Recommendations	Annual Cost Savings
<b>Recommendations Subject to Negotiations</b>	
<b>R3.6</b> Eliminate the retirement benefit (pick-up) for 17 administrators	\$99,400
<b>R3.7</b> Increase employee health care contributions for medical insurance to 15 percent and negotiate employee contributions for dental and vision of 15 percent	\$599,000
<b><i>Subtotal Recommendations Subject To Negotiation</i></b>	<b><i>\$698,400</i></b>
<b>Recommendations Not Subject to Negotiations</b>	
<b>R3.2</b> Eliminate 3.0 central administrator FTEs	\$224,000
<b>R3.3</b> Eliminate 50 regular needs teacher FTEs	\$3,225,000
<b>R3.4</b> Eliminate 11 ESP, 13 teaching aide, and 2 clerical FTEs	\$1,105,600
<b>R3.11</b> Eliminate 6 career-technical teacher FTEs	\$457,000
<b><i>Subtotal Recommendations Not Subject To Negotiation</i></b>	<b><i>\$5,011,600</i></b>
<b>Total Financial Implication</b>	<b>\$5,710,000</b>

Source: AOS financial implications from recommendations

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# Facilities

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## Background

This section of the performance audit assesses custodial and maintenance staffing, operations, expenditures, and building utilization in the Oregon City School District (OCSD or the District). OCSD's operations are evaluated against leading practices and operational standards identified by the American School and University Magazine (AS&U), the Association of Physical Plant Administrators (APPA), and the National Center for Education Statistics (NCES). Comparisons were made for the purpose of developing recommendations to improve operational efficiency and business practices.

### *Summary of Operations*

In FY 2007-08, OCSD operated four elementary schools (grades kindergarten through 5), two middle schools (grades 6 through 8), and a high school (grades 9 through 12). The District also operated an administrative office building, transportation facility, and a warehouse. OCSD has one vacant elementary school that it is in the process of selling.

The District has equitably distributed maintenance and custodial staffing across District buildings. The District employs a Maintenance Supervisor, who manages maintenance and custodial staff, and procures supplies and materials. The Maintenance Supervisor reports to the Director of Business Affairs. In FY 2008-09, the District employed 21.5 full time equivalent (FTE) custodial staff who were responsible for the day-to-day cleaning of the buildings. The custodial staff report to the Maintenance Supervisor and to the assigned building principals. OCSD employs 7.0 FTE maintenance staff who report to the Maintenance Supervisor and are responsible for completing work orders and maintaining the facilities, boiler operations, and groundskeeping. Historically, the District has hired summer help to assist with cleaning, groundskeeping, and light maintenance.<sup>1</sup>

In February 2007, the District hired a consultant to evaluate custodial and maintenance staffing levels and performance levels as a result of its financial difficulties. In restructuring staffing levels, the District implemented cleaning standards using leading practices set forth by the Association of Physical Plant Administrators (APPA). The consultant implemented the APPA standard of casual inattention (level three) throughout the District buildings.<sup>2</sup> Furthermore,

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<sup>1</sup> In FY 2007-08, the District hired 0.6 FTEs as summer help. The temporary summer help was not included in the calculation of the District's custodial, maintenance, and groundskeeping staffing levels.

<sup>2</sup> According to APPA, at the third level of cleaning, floors are swept clean, but upon close observation dust, dirt, and stains, as well as a buildup of dirt, dust, and/or floor finish in corners and along walls, can be seen. There are dull

during this self-assessment process, the District established cleaning schedules that include specific tasks be completed on a daily, weekly, or monthly basis.

### *Key Statistics*

Key statistics related to OCSD's maintenance and operations (M&O) are presented in **Table 4-1**. Since OCSD does not maintain square footage data for its buildings (see **R4.1**), this data was retrieved from the Lucas County Auditor's Office and compared for accuracy against data from ODE. It was determined that the Lucas County Auditor's square footage data (849,136) included more up-to-date information based on improvements made to existing schools and the building of a new elementary school. However, the County Auditor's square footage information does not include the administration building. Although the square footage of the administration building (5,800) is not included in the total square footage represented in **Table 4-1**, this omission has a negligible impact on this analysis. Also included in the table, and throughout the report, are the results of the *Maintenance and Operations Cost Study* (AS&U)<sup>3</sup> and benchmarks established by the APPA.

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spots and/or matted carpet in walking lanes, and streaks and splashes on base molding. All vertical and horizontal surfaces have obvious dust, dirt, marks, smudges, and fingerprints. Lamps all work and all fixtures are clean. Trash containers and pencil sharpeners are empty, clean, and odor free.

<sup>3</sup> The *Maintenance and Operations Cost Study* is an annual publication. This report draws on AS&U publications from the last five years. Cost data was obtained from OCSD for FY 2007-08. Thus, this data is compared with the 37<sup>th</sup> *Maintenance and Operations Cost Study* (AS&U, 2008).

**Table 4-1: Key Statistics and Indicators**

<b>Number of School Buildings</b>	7
Elementary Schools	4
Middle Schools	2
High School	1
<b>Total Square Feet Maintained</b>	<b>849,136</b>
Elementary School	269,362
Middle School	256,057
High School <sup>1</sup>	323,717
<b>Square Feet Per FTE Custodial Staff Member (21.5 FTEs)</b>	<b>39,495</b>
APPA Level 3 workload requirements	32,000
<b>Square Feet Per FTE Maintenance Staff Member (6.6 FTEs)</b>	<b>128,657</b>
Five Year Average AS&U Annual Cost Survey National Median for Maintenance	95,000
Total Acres Maintained <sup>2</sup>	112
<b>Acres Per FTE Grounds Staff Member (1.4 FTE)</b>	<b>83</b>
Five Year Average AS&U Annual Cost Survey National Median for Groundskeeping	43

**Source:** Lucas County Auditor, APPA, AS&U, and OCSD

**Note:** Does not include administration building or old Coy elementary school, which is vacant.

<sup>1</sup> The high school square footage includes the transportation garage and the soccer facility.

<sup>2</sup> The District owns over 236 acres, a portion of which (115 acres) it rents to a local farmer. Acreage not directly maintained by the District was not included in this calculation.

As shown in **Table 4-1**, OCSD custodial, maintenance, and groundskeeping staff maintain higher square footage and acreage than the industry standards. This indicates that the District is highly efficient in cleaning and maintaining its buildings and grounds. Physical inspection of the District's buildings indicated that they were clean and well maintained (see **R4.5**).

### *Financial Data*

**Table 4-2** presents a three-year history of M&O General Fund expenditures.



**Table 4-2: OCSD Three Year M&O Expenditure History**

Cost Area	FY 2005-06	FY 2006-07	Percentage Change	FY 2007-08	Percentage Change
Salaries/Benefits	\$2,283,162	\$2,329,619	2%	\$2,228,371	(2%)
Purchased Services (excl. utilities)	\$793,663	\$789,404	(1%)	\$573,656	(28%)
Utilities <sup>1</sup>	\$1,154,096	\$1,347,253	17%	\$1,349,818	17%
Supplies/Materials	\$314,256	\$273,614	(100%)	\$313,294	0%
Other <sup>2</sup>	\$72,135	\$44,128	(39%)	\$26,098	(64%)
<b>Total General Fund Expenditures</b>	<b>\$4,608,705</b>	<b>\$4,764,028</b>	<b>3%</b>	<b>\$4,481,494</b>	<b>(3%)</b>

Source: OCSD

Note: Totals will not sum as utility expenditures are taken from all funds.

<sup>1</sup> Utilities includes electricity, water and sewer, gas, and oil from all funds.

<sup>2</sup> Other includes capital outlay expenditures and miscellaneous expenditures.

**Table 4-2** shows that OCSD has slowed the rate of M&O related expenditure growth in a number of areas. However, the District continues to see significant increases in utility expenditures (see **R4.6**).

AS&U has established benchmarks for key expenditure categories. **Table 4-3** shows a comparison of OCSD's M&O General Fund expenditures per square foot with the AS&U national median. The District's cost ratios are based on 896,283 square feet, which includes the old Coy elementary school (vacant) and the administration building. However, it does not include the warehouse because information about the area maintained in the warehouse was unavailable.

**Table 4-3: M&O Expenditures per Square Foot Comparison (FY 2007-08)**

Cost Area	OCSD Cost Per Square Foot	AS&U National Median	Percent Difference <sup>1</sup>
Salaries/Benefits	\$2.49	\$2.05	21%
Purchased Services and Other <sup>2</sup> (excl. utilities)	\$0.67	\$0.61	10%
Utilities <sup>3</sup>	\$1.51	\$1.52	(1%)
Supplies/Materials	\$0.35	\$0.38	(8%)
<b>Total Expenditures</b>	<b>\$5.00</b>	<b>\$4.56</b>	<b>10%</b>

Source: OCSD and AS&U 37th Annual Cost Study

Note: Totals may not sum due to rounding.

<sup>1</sup> Represents the difference between OCSD and the AS&U National Median FY 2007-08.

<sup>2</sup> Other includes capital outlay expenditures.

<sup>3</sup> Utilities includes electricity, water and sewer, gas, and oil.

As shown in **Table 4-3**, total General Fund expenditures per square foot were higher than the AS&U benchmarks in the areas of salaries and benefits and purchased services and other. Costs associated with salaries and benefits are driven by the District's negotiated agreement (see **human resources** section) and purchased service costs are driven by the District's building

renovations. Furthermore, because of the District's building renovations and construction, "purchased services" and "other" are combined to assess total capital outlay costs.

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

The following performance audit objectives were reviewed in this section:

- Does the facility maintenance operation use appropriate performance and cost-efficiency measures and interpretive benchmarks to evaluate each function and does it use these in management decision making?
- Has the District established procedures and staff performance standards to ensure efficient operations?
- Are the District's custodial and maintenance staffing comparable to leading practices?
- Does the District provide a staff development program that includes appropriate training for maintenance and operations staff to enhance worker job satisfaction, efficiency, and safety?
- Are District energy management practices comparable to leading practices?
- Are the District's facility management and planning practices comparable to leading practices?
- Does the M&O Department have a system for prioritizing maintenance needs uniformly throughout the District?

## Recommendations

**R4.1** OCSD should develop a facilities master plan that contains elements of leading practices, including a five-year capital improvement plan, current enrollment projections, and an updated capacity analysis. The facilities master plan should be used as a road map for addressing future facility needs and planned educational programs, and be linked to the District's overall strategic plan. The master plan should be developed by a committee whose membership comprises a cross-section of school personnel, parents, students, and community members.

To help implement its facilities master plan, the District should also develop a formal five-year capital improvement plan (CIP), which is updated on an annual basis to ensure that critical repairs or equipment replacements are completed. The CIP should include a project categorization and prioritization system that provides management with cost estimates, project timelines, and breakdowns between maintenance tasks and capital projects. Doing so would help ensure timely completion of work and minimization of safety hazards and building deterioration. The committee should present the OCSD Board of Education (the Board) with an overall plan which includes staff responsibilities, action steps, timelines, and resources necessary to achieve its goals.

OCSD does not have a comprehensive facilities master plan or a CIP. Moreover, the District does not formally evaluate the conditions of its buildings or conduct routine preventive maintenance. Because it does not have a facilities master plan or updated enrollment projections and utilization rates, OCSD has made major capital improvements that include adding square footage to school buildings that have low utilization rates (see **R4.2**).

*Creating a Successful Facility Master Plan* (DeJong, 2001) states that districts should develop long-term facilities master plans that contain information on capital improvements and financing, preventive maintenance and work orders, overall safety and condition of buildings, enrollment projections, and capacity analyses. The plans should be developed on foundations of sound data and community input. A facilities master plan, if developed appropriately, has the potential to significantly impact the quality of education in a school district. As a road map, the facilities master plan should specify the projects that have been identified, the timing and sequence of the projects, and their estimated costs. A district-wide facilities master plan is typically a ten-year plan that should be updated periodically to incorporate improvements that have been made, changes in demographics, or other educational directions.

Formally assessing District buildings is a necessary component in developing and updating a facilities master plan and a CIP. The *Planning Guide for Maintaining School*

*Facilities* (NCES, 2003) explains that a facility audit is a comprehensive review of a facility's assets. A facility audit is a standard method for establishing baseline information about the components, policies, and procedures of a new or existing facility. An audit is a way of determining the status of the facility at a given time; that is, it provides a snapshot of how the various systems and components are operating. A primary objective of a facility audit is to measure the value of an aging asset relative to the cost of replacing the asset. Thus, a facility audit is a tool for projecting future maintenance costs.

Likewise, a preventive maintenance program helps the District plan for forthcoming and routine expenses associated with maintaining equipment and systems. According to the *Maintenance Plan for School Buildings* (Idaho Department of Education, September 2006), to get optimum benefit from preventive maintenance, school districts need to plan for it. In the absence of planning, maintenance tends to occur when the need for repair arises; typically a more costly arrangement leading to premature equipment failure. Hence, districts should include preventive maintenance along with other maintenance projects in long- and short-term maintenance plans that are tied to capital improvement programs. The goals of preventive maintenance include:

- Preserve taxpayers' investments in public buildings by extending the life of building components;
- Help buildings function as they were intended and operate at peak efficiency, including minimizing energy consumption;
- Prevent failures of building systems that would interrupt occupants' activities and the delivery of public services; and
- Sustain a safe and healthy environment by keeping buildings and their components in good repair and structurally sound.<sup>4</sup>

By developing and using a comprehensive facilities master plan, OCSD would be able to more accurately plan for long-term trends in District enrollment and balance this with its future financial condition. Including a five-year capital improvement plan will help the District ensure that facility needs are assessed on a regular basis and that it funds projects essential to protecting the condition and quality of its facilities.

**R4.2 OCSD should consider closing at least one elementary school in order to reduce the District's excess building capacity and its operating costs. When deciding which elementary building to close, the District should take into account projected enrollment, building capacity, building utilization, and building condition (see R4.1). Closing at least one facility would bring the District's building utilization**

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<sup>4</sup> OCSD must also consider expenses associated with addressing ORC § 3701.931 (Jarod's Law) compliance violations, including repairing inoperable drinking fountains, replacing missing light covers, repairing a leaky roof, and attaching securing straps to televisions on audio/visual carts.

rates more in line with industry standards and would eliminate the expenditures associated with the day-to-day operations of a building.

According to the Assistant Superintendent, the District does not conduct enrollment projections or capacity analysis because the number of students enrolled in the District is fairly constant. Furthermore, he indicated that the District has additional capacity in its elementary schools.<sup>5</sup> **Table 4-4** shows the District's projected enrollment based on a modified cohort survival methodology.

**Table 4-4: OCSD Historical and Projected Enrollment**

Historical Enrollment					
	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
<b>Historical Enrollment</b>	3,839	3,816	3,906	3,896	3,871
Projected Enrollment					
	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
<b>Projected Enrollment</b>	3,891	3,902	3,910	3,919	3,935
<b>Total Capacity</b>	<b>5,052</b>	<b>5,052</b>	<b>5,052</b>	<b>5,052</b>	<b>5,052</b>
<b>Optimal Capacity</b>	4,294	4,294	4,294	4,294	4,294
<b>Less than Optimal Capacity</b>	(403)	(392)	(384)	(375)	(359)

Source: OCSD and AOS

**Table 4-4** illustrates that the projected enrollment of students attending OCSD will increase slightly from 3,871 students in FY 2007-08 to 3,935 students in FY 2012-13. The enrollment projection suggests a net increase of 64 students over the five year projection period.

*Defining Capacity* (DeJong and Associates, 1999) recommends that school capacity be determined using 25 students per classroom for all grades and eliminating special use rooms, such as art and music, in the calculation of capacity for elementary schools. In addition, DeJong suggests setting classroom use at 85 percent for junior high and high schools because of bell scheduling, teacher prep work spaces, and other factors that limit the use of every space 100 percent of the time. **Table 4-5** shows OCSD building utilization rates based on the DeJong capacity analysis methodology.

<sup>5</sup> The Assistant Superintendent calculated this figure based on the number of students permitted in each classroom by the collective bargaining agreement.

**Table 4-5: OCSD Building Utilization Rates**

Building	Capacity	FY 2007-08 Head Count	Over/(Under) Capacity	Utilization Rate
Coy Elementary	584	466	(118)	80%
Jerusalem Elementary	650	340	(310)	52%
Starr Elementary	759	627	(132)	83%
Wynn Elementary	409	322	(87)	79%
<b>Elementary Total</b>	<b>2,402</b>	<b>1755</b>	<b>(647)</b>	<b>73%</b>
Eisenhower Middle School	689	414	(275)	60%
Fassett Middle School	753	484	(269)	64%
<b>Middle School Total</b>	<b>1,442</b>	<b>898</b>	<b>(544)</b>	<b>62%</b>
<b>Clay High School</b>	<b>1,208</b>	<b>1,244</b>	<b>36</b>	<b>103%</b>

Source: OCSD

As shown in **Table 4-5**, OCSD's building utilization is less than 100 percent of capacity at all buildings and levels, except the District's high school building. Both elementary and middle school utilization falls below the 85 percent utilization rate recommended by DeJong. However, given the District's current grade configuration, it is not possible for OCSD to close a middle school. Furthermore, **Table 4-5** shows that OCSD will still have some excess capacity throughout the District even after it closes an elementary school.

Closing one elementary school building would allow the District to redistribute custodial and maintenance staff, who are already maintaining a higher workload than industry standards dictate (see **Table 4-1**). For instance, closing the smallest elementary school would reduce the number of square feet each employee is responsible for maintaining and bring the District more in line with industry standards.<sup>6</sup> Closing a building should not result in additional transportation costs associated with creating new routes. Rather, the Transportation Supervisor and District administrators should work together to reconfigure existing routes and if necessary, alter bell schedules to ensure efficiency (see **transportation**).

*Financial Implication:* If OCSD closes an elementary school building, the total savings related to this recommendation, including utilities and administrative and support salaries, would amount to approximately \$216,000 annually. OCSD's cost savings could be greater than projected, depending on the building it chooses to close and its subsequent staffing decisions.

**R4.3 OCSD should establish formal procedures for its maintenance operations. This would help the staff better maintain functional, safe, and clean facilities and to perform at recommended workload levels. Work processes, physical asset management, and resource management are the primary topics that should be covered in a procedures manual. The manual should include specific instructions on the performance of**

<sup>6</sup> If the District closed the smallest building, custodial and maintenance employees would be responsible for 37,022 and 120,603 square feet, respectively.

**routine and non-routine tasks and directions for operating any equipment to be used in completing the tasks. This manual should address topics such as the mission statement, personnel policies, purchasing regulations, accountability measures, safety procedures, repair standards, vehicle use guidelines, security standards, and work order procedures.**

**The District should review the manual annually and update it as necessary. In order to evaluate operating efficiency, it is important that the manual contains performance measures that outline time and quality expectations. Performance evaluations, based on standards outlined in the manual, should then be conducted annually to provide personnel with feedback on their performance. The manual should also reference the preventive maintenance plan and describe how these tasks should be incorporated into the work schedule.**

OCSO does not have a formal policies and procedures manual for maintenance staff that communicates workload expectations. The District has written operational procedures for custodial employees that outline the APPA levels of cleaning, instructions for cleaning various surfaces and areas, and cleaning schedules that outline daily, weekly, monthly, and special cleaning projects. Additionally, the District maintains color-coded floor plans of its buildings that outline which area each custodian is responsible for cleaning.

According to *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 and written at a level consistent with the reading ability of department members. A maintenance manual should include items like repair standards, vehicle use guidelines, work order procedures, and security and safety procedures. Moreover, 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).

Without a formal handbook that includes performance standards for the Maintenance Department, OCSO cannot effectively communicate management expectations as to the quality of work and performance, nor can it ensure optimal efficiency (see **R4.4**). The development of a maintenance procedures manual could be implemented at minimal cost to the District.

**R4.4 OCSD should develop and implement formal performance standards and measures to consistently evaluate the efficiency and effectiveness of maintenance and operations personnel. The District should seek to maximize productivity through the development and implementation of specific performance measures including the number of square feet cleaned per hour or per shift, and cost per square foot. Stakeholder ratings regarding quality of service should be used in conjunction with national benchmarks to assist in establishing appropriate productivity measures. Increased efforts to measure and track performance can improve decision making and resource allocation, and may help reduce operating expenditures. Additionally, the District should evaluate the performance of all maintenance and operations staff periodically in accordance with the Board policy. Performance measures should be incorporated into the policies and procedures manual to ensure that all staff are properly informed of time and job duty expectations related to their positions (R4.3).**

The District does not have regular performance measures, nor does it evaluate its employees consistently. OCSD uses a generic evaluation tool that does not capture duties or performance standards specific to maintenance and custodial operations and does not have any measureable benchmarks or standards.<sup>7</sup> Furthermore, as previously mentioned in the background section of this report, the District does not keep track of key data, such as current square footage, that can be used in assessing performance measures. According to the Board policy, classified employees should be evaluated at the end of their first year of service or the end of the probationary period. The Board policy also states that the services of continuing employees will be formally evaluated periodically.

*Best Practices in Public Budgeting* (Government Finance Officers Association, 2000) recommends that organizations develop and utilize 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.

Specifically for maintenance and operations management, *A Game Plan for Productivity: Tactics for Holding Down Labor Costs and Helping the Bottom Line* (FacilitiesNet, 1999), suggests that managers who measure the productivity of custodial employees can increase the productivity of their custodial operations by 10 to 25 percent and decrease the overall labor budget. Productivity measures should include the following elements:

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<sup>7</sup> The performance factors included on the OCSD Classified Employee Performance Evaluation include the quality and quantity of work, knowledge, learning ability, work habits, relationships with people, dependability, attendance, attitude, personal fitness, judgments, and overall rating.



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

Without written performance standards, the District lacks comprehensive and objective guidelines to evaluate custodial and maintenance operations. Developing performance standards would allow OCSD to better assess the efficiency and effectiveness of staff, using consistent measures. Providing formal, regular feedback to its employees based on objective standards would also encourage employees' work efforts and productivity.

**R4.5 During future negotiations, OCSD should attempt to eliminate or reduce the number of overtime hours granted for inspecting buildings on weekend and holiday building inspections, responding to emergency call outs, and performing duties related to after school activities. In addition, OCSD should review its computerized boiler monitoring system to ensure it can minimize the need for frequent building checks. When regular building checks are required, the District should stagger staff schedules to avoid overtime. This approach would also help minimize overtime for after school events. Moreover, OCSD should ensure that it has adequate custodial and maintenance staff to maintain its facilities. Finally, to help offset General Fund expenditures, the District should ensure that it is recouping its overtime costs for custodial services for events involving other school districts and community organizations, to help offset General Fund expenditures.**

Table 4-4 presents OCSD's overtime usage in FY 2005-06 through FY 2007-08:

**Table 4-4: OCSD Overtime as a Percent of Regular Salaries**

	FY 2005-06	FY 2006-07	FY 2007-08
Salaries	\$1,285,289	\$1,374,056	\$1,226,491
Overtime	\$135,796	\$151,698	\$159,829
Overtime as a Percent of Regular Salaries	11%	11%	13%

Source: OCSD

As shown in **Table 4-4**, overtime usage comprised 11 to 13 percent of total salaries in FY 2005-06 through FY 2007-08, respectively. As shown in **Table 4-1**, OCSD is understaffed compared with industry standards. For instance, from FY 2006-07 to FY 2007-08, the District reduced custodial and maintenance salaries of nearly \$145,600 through attrition. However, during the same period there was an increase in the use of overtime of approximately \$8,000. This indicates that the overtime may be a result of the District's custodial and maintenance staffing levels.

According to the Maintenance Supervisor, the District has tried to reduce the use of overtime by revising the custodial schedule at the high school in FY 2007-08 to include a third shift for after school and weekend activities. However, during the same year, the District still spent over \$74,000 on overtime expenses at Clay High School. The Maintenance Supervisor manages the use of overtime and determines which employees respond to maintenance emergencies or maintain facilities during and after school-sponsored events. Custodians are awarded overtime based on seniority and the maintenance staff assigned to a building has the first opportunity to respond to an alarm in that facility.

Furthermore, there are provisions in the classified bargaining agreement that may increase the cost of overtime.<sup>8</sup> For instance, the bargaining agreement states that maintenance staff responding to emergency calls are paid for a minimum of three hours at time and a half. Similarly, custodians who conduct building checks on Saturdays, Sundays, or holidays are paid for a minimum of two hours at time and a half. The building checks were established to ensure the building system (boilers) was functioning normally and to make sure the facility was secure. While in the buildings performing checks, custodial workers may clean floors, blow down boilers, or perform other tasks. There is some overtime that occurs in the winter months specifically for the removal of snow from parking lots and sidewalks.<sup>9</sup>

Furthermore, OCSB Board policy permits the use of District facilities for auxiliary, educational, cultural, civic, social, religious, or other Board approved uses and permits the District to levy a rental fee based on the actual cost of operating the facility. However, community groups and other organizations are rarely charged for using OCSB buildings. The District's practice is that groups are not charged for using facilities when a custodian is scheduled to work, but a usage fee may be levied if buildings are used at other times.

*Best Practices: Maximizing Maintenance* (FacilitiesNet, 2003) suggests a threshold for overtime costs of no more than 2 percent of total maintenance hours. To reduce overtime to be in line with industry standards, the District would need to change its current practices, including relying on its existing energy management technology and limiting building checks to winter months only. Also, the District could charge outside organizations using OCSB facilities outside of normally scheduled hours to reduce the impact of building operations for these functions, including custodial wages and utilities.

Although the District has made recent reductions in custodial staff, the high percentage of overtime costs merits additional consideration. If OCSB limited the use of overtime to 2

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<sup>8</sup> According to the Treasurer, even though the negotiated agreements are silent on the calculation of overtime, the District pays time and one-half if an individual works more than 40 hours per week but it counts vacation and sick leave toward overtime.

<sup>9</sup> District custodians are responsible for shoveling snow at entrance ways.

percent of total maintenance hours in FY 2007-08 (*Best Practices: Maximizing Maintenance* suggested threshold), the District would have spent roughly \$24,000 on overtime costs, thereby reducing overtime expenditures by approximately \$136,000. Limiting the use of overtime by custodial and maintenance personnel would reduce operating costs in non-instructional areas, allowing these funds to be redirected into the classroom.

*Financial implication:* If OCSD eliminated building checks during the non-winter months and did not make any further changes, at a minimum the District would eliminate approximately 670 hours of overtime. This would result in a savings of approximately \$19,000 per year.

**R4.6 OCSD should establish formal policies and procedures outlining energy efficient practices that District staff should follow to help further reduce energy costs. Subsequently, the District should train staff and students on the policies and procedures. Finally, the District should ensure its rental fees recoup the utility costs associated with building usage by community organizations.**

Although OCSD's utility costs per square foot are lower than industry standards (**Table 4-3**), it does not have a District-wide energy conservation policy or a comprehensive energy conservation education program. The District has made several capital improvements to increase energy efficiency. For instance, it has replaced windows, purchased high-efficiency boilers, and installed a remote energy management system. However, OCSD does not track energy consumption. Furthermore, the building usage fee charged to outside organizations does not allow the District to recoup utility costs.

A biology teacher at Clay High School believes the District could conduct an energy audit in-house. The audit would draw upon the resources of the science department and the vocational program, and students would be responsible for generating the data and conducting the audit as part of their coursework.

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

- Establish an energy policy with specific goals and objectives;
- Assign someone to be responsible for the District's energy management program, and give this energy manager access to top-level administrators;
- Monitor each building's energy use;
- Conduct energy audits in all buildings to identify energy-inefficient units;

- Institute performance contracting when replacing older, energy-inefficient equipment; and
- Reward schools that decrease their energy use.

The U.S. Department of Energy's Energy Smart Schools website (<http://www.energysmartschools.gov>) offers many publications on energy conservation practices, including *School Operations and Maintenance: Best Practices for Controlling Energy Costs- A Guidebook for K-12 School System Business Officers and Facilities Managers* (U.S. Department of Energy, 2004). This publication indicates that there are different types of energy conservation programs. Energy tracking and accounting programs are comprehensive and require the collection, recording, and tracking of monthly energy costs in all school district facilities. The data allows staff to compare energy performance in all buildings and identify problems at individual facilities. On the other hand, voluntary energy awareness programs operate on the premise that increasing the general energy awareness of faculty, staff, and students will result in voluntary changes in behavior and reductions in energy consumption. An example of this approach is affixing "Turn the Lights Off" stickers to lighting switch plates. Finally, quick fix and low cost programs rely on the identification and repair of simple building problems that are moderate in cost and likely have a short energy savings payback. Such programs may include replacing weather-stripping on doors and windows, instituting night and weekend temperatures setbacks, and establishing district-wide shut down procedures.

The U.S. Department of Energy's Rebuild America Program selected the Ohio Energy Project (OEP), a nonprofit organization, to develop Ohio's EnergySmart Schools Program (OESSP). OESSP provides many materials and programs for teachers and students to improve the learning environment in schools while saving energy and money, utilizing the school building as a learning laboratory. OESSP helps reduce school energy consumption and costs by empowering teachers and students to make sustainable energy choices and affecting the attitudes and behaviors of teachers, students, and staff about energy conservation. OEP will work with teachers and administrators to design a program tailored to a district's curricular needs and efficiency improvement plans.

Using the abovementioned programs, OCSD could reduce its energy consumption and realize a cost savings in its utility expenditures. Several of these practices could be implemented at little or no cost to the District.

*School Operations and Maintenance: Best Practices for Controlling Energy Costs* (U.S. Department of Energy, 2004) suggests that energy savings of up to 15 percent are achievable but will not be realized until the new energy efficient operations and maintenance (O&M) program has been implemented. However, some degree of energy awareness typically generates an immediate 1 to 3 percent operational savings.

*Financial Implication:* Because the District does not have an energy conservation program, by taking any steps toward energy awareness, OCSD could expect an immediate savings in its utility costs of 3 percent or approximately \$25,000 in FY 2009-10. But OCSD could see a 12 percent annual savings (\$101,896) in utility costs upon completion of its energy conservation program.

**R4.7 OCSD should create a formal training program that outlines training for new employees. Furthermore, the District should provide routine training when cleaning or maintenance standards are changed due to the introduction of new equipment, technology, or procedures. The development of a training program will help ensure the overall effectiveness and efficiency of custodial and maintenance operations and reinforce efficient procedures. To reduce training costs, the District should, whenever possible, use manufacturer-sponsored training programs to acquaint employees with new processes and equipment. Formally documenting the completion of training programs will provide evidence that all employees have received training.**

OCSD does not have a formal training program for custodial and maintenance staff. On the job training prevents the District from ensuring employees are aware of their responsibilities and understand how to perform their assigned tasks. Typically, new employees shadow a trained custodian and are given some time to learn the building and the expectations of the building principal. Before hiring maintenance workers, the District gives interested applicants a test to determine if they have the necessary skills to complete maintenance tasks like repairing a lawn mower or winterizing equipment.

As part of renovations to the District's facilities, the Maintenance Supervisor attended a number of training classes and is primarily responsible for new systems at renovated schools. For instance, the Maintenance Supervisor, not the boiler operators,<sup>10</sup> attended HVAC training classes. Similarly, the Maintenance Supervisor and some maintenance employees attended vendor training on the automated lighting system.

The *Planning Guide for Maintaining School Facilities* (National Center for Educational Statistics, 2003) suggests that staff training can help ensure the safety of staff, teach staff how to deal with changing needs, improve morale and retention rates, and prepare staff for future promotions. Furthermore, NCES recommends new employees receive training as soon as possible after hiring. This training should include a tour of the facilities and of the person's work area, instructions on how to use equipment, task-oriented lessons on how to best perform the assigned work, expectations of what must be done to meet the

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<sup>10</sup> Since the District installed more energy efficient boilers, the two maintenance workers who function as boiler operators are responsible for the remote management of building systems, changing filters, and other maintenance tasks.

requirements of the job, and an explanation of all criteria on which tasks will be evaluated.

In addition, NCES notes that just because a person has been taught how to perform a specialized task does not mean that he or she will be able to perform the task in the future, especially if the task is not a regular part of his or her routine. While there is a trade-off between the benefits of staff training and the cost of lost work time during training, preparing staff to perform their work properly, efficiently, and safely is generally cost-effective. Documentation of ongoing training programs would allow the District to report any training events that were conducted and who completed the events. This would serve as a monitoring system to ensure that all custodial and maintenance staff completes the required training.

OCSD could ensure that all staff members have basic knowledge of the latest equipment and procedures by formally implementing and documenting a comprehensive training program that includes new employee training as well as routine training. This will allow the District to ensure that employees understand how to efficiently and effectively complete their work. Employees who are properly trained should be able to meet performance standards that result in clean, well-maintained facilities at a reasonable cost.

## Financial Implications Summary

The following table represents a summary of estimated annual cost savings identified in this section of the report.

**Table 4-5: Summary of Financial Implications for the Facilities Section**

<b>Recommendation</b>	<b>Estimated Cost Savings</b>
<b>R4.2</b> Close one elementary school	\$216,000
<b>R4.5</b> Reduce non-fee related overtime	\$19,000
<b>R4.6</b> Develop formal energy conservation policy	\$25,000
<b>Total</b>	<b>\$260,000</b>

Source: AOS Recommendations





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# Transportation

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## Background

This section of the performance audit assesses the Oregon City School District's (OCSD or the District) transportation operations. The overall purpose is to analyze and compare key operational areas and, where applicable, develop recommendations for improvements in operations and reductions in expenditures. OCSD's transportation operations were evaluated against leading practices and operational standards from the Legislative Office of Education Oversight (LOEO), the Ohio Department of Education (ODE), the Ohio Administrative Code (OAC) and Ohio Revised Code (ORC), the National Association of State Directors of Pupil Transportation Services (NASDPTS), and peer districts.<sup>1</sup>

ORC § 3327.01 requires that, at a minimum, school districts provide transportation to and from school to all students in grades kindergarten through eight 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 public school students. In addition, school districts must provide transportation to disabled students who are unable to walk to school, regardless of the distance. According to OAC § 3301-51-10, when required by an individualized education program (IEP), school districts must provide specialized door-to-door transportation to special needs students based on the unique needs of each child. The District's practice is to provide transportation to all students in grades kindergarten through 12 due to the rural nature of the District, with the exception of those students who live within designated walking zones (Starr Elementary and Fassett Middle School) (see also **R5.1**).

### *Operating Environment*

The Transportation Supervisor manages the District's Transportation Department (the Department) and has supervisory responsibilities for the Department's Secretary, mechanics, bus drivers, aides, and substitute drivers. The Department's Secretary provides administrative support for day-to-day operations and assists in routing buses. The Transportation Supervisor reports to the Business Manager. OCSD employs multi-tier routing and cluster stops to improve the efficiency of its routes. Bus routing is configured using Edulog routing software. In addition, the Transportation Supervisor and Secretary review the routes generated by the software to ensure the computer generated routes are the most efficient based on factors unique to the District. The Transportation Supervisor has worked in the Department for more than 14 years.

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<sup>1</sup> See the **executive summary** for a description of the ten peer district average used as a benchmark throughout the report.

Transportation reports (T-reports) are used to convey ridership (T-1) and cost (T-2) information to the Ohio Department of Education (ODE) and other stakeholders. OCSD overstated its transportation costs on its FY 2007-08 T-2 report by including fuel usage and insurance costs for all vehicles instead of only buses. Due to the inaccuracy of this transportation data, it was indeterminate how OCSD's transportation expenditures compared with the peers. However, further analysis was conducted to assess the level of cost efficiency in the areas that were misreported (fuel and insurance).<sup>2</sup>As a result, it was determined that most transportation-related supplies and materials are purchased from local vendors but, in key areas, OCSD has been able to obtain prices comparable to those available through consortia. For example, the price per gallon of fuel paid by OCSD is comparable to the average price per gallon available through the Ohio Department of Administrative Services (DAS). Furthermore, OCSD is part of an insurance consortium and its costs are based on the aggregate number of vehicles insured by the consortium (**R5.3**).

The District's transportation reporting errors were determined to be due to a lack of internal controls and standard operating procedures (see **R5.4**). In contrast, OCSD has sufficient physical controls in place to secure fuel, buses, and transportation supplies. The bus garage, fuel tank, and buses are enclosed in a fenced-in area and monitored by security cameras. The fuel source is turned off at the breaker switch nightly to prevent theft.

### *Operational Statistics*

OCSD operated with 38 active buses and 15 spare buses in FY 2007-08, transporting 3,076 daily riders to seven public schools and four parochial schools. **Table 5-1** presents a comparison of OCSD's key transportation statistics with the peer average for FY 2007-08.

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<sup>2</sup> OCSD purchased 5,000 gallons of diesel fuel on October 15, 2008 and paid \$2.93 per gallon. In comparison, the Department of Administrative Services (DAS) reported the average price per gallon of fuel for the week of October 13, 2008 at \$2.99 per gallon.

**Table 5-1: Key Transportation Statistics**

Key Statistics	OCSD FY 2006-07	OCSD FY 2007-08	Peer Average FY 2007-08	Difference vs. Peers	Percent Difference vs. Peers
<b>District Data</b>					
Square Miles	61	61	34	27	79.4%
Enrollment	3,917	3,895	4,213	(318)	(7.6%)
Total Students Transported (All Types) <sup>1</sup>	3,216	3,080	2,669	411	15.4%
<b>Yellow Bus Riders (Type I)</b>					
Public	2,937	2,846	2,430	416	17.1%
Non-Public	170	103	157	(54)	(34.4%)
Community School	0	0	0.9	(0.9)	(100.0%)
Special Needs	107	127	30	97	323.3%
Total Yellow Bus Riders <sup>2</sup>	3,214	3,076	2,617	459	17.5%
<b>Buses (Type I)</b>					
Active Buses	40	38	39	(1)	(2.6%)
Spare Buses	15	15	7.1	7.9	111.3%
Riders per Active Bus	80.4	80.9	69.5	11.5	16.5%
<b>Miles (Type I)</b>					
Annual Routine Miles	573,480	499,140	402,498	96,642	24.0%
Annual Non-routine Miles	72,789	59,289	36,792	22,497	61.1%
Total Miles	646,269	558,429	439,290	119,139	27.1%

**Source:** ODE transportation reports

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

<sup>1</sup> Includes payment-in-lieu of transportation

<sup>2</sup> Does not include payment-in-lieu, which is Type IV transportation

As shown in **Table 5-1**, OCSD covers nearly twice the square miles and transports a higher percentage of its enrollment than the peers. In FY 2007-08, the District transported three times more riders with special needs than the peer district average; however, most of its special needs students were transported on regular yellow buses. Furthermore, **Table 5-1** shows that OCSD maintains more spare buses and travels more non-routine miles than the peers.

**Table 5-2** shows OCSD's FY 2007-08 total transportation costs by type, per rider, per bus, and per routine mile in comparison with the peer averages.

**Table 5-2: Transportation Expenditure Comparison (FY 2007-08)**

	OCSD	Peer Average	Percent Difference
<b>Total Transportation Expenditures</b>	<b>\$2,060,847</b>	<b>\$1,698,092</b>	<b>21.4%</b>
Per Bus Rider	\$669.98	\$637.75	5.1%
Per Active Bus	\$54,232.82	\$44,230.84	22.6%
Per Routine Mile	\$4.13	\$4.23	-2.4%

**Source:** District and peer T-1 and T-2 reports

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

As **Table 5-2** shows, the District's expenditures per rider and per active bus appear higher than the peer average. Since OCSD included expenditures not related to routine transportation on its T-2 forms, it is not possible to determine if the District's costs per rider and per active bus are actually higher than the peers or if this variance is the result of the misreported financial information. The expenditures per routine mile reported on the T-2 forms were less than the peer average; however, in FY 2007-08, OCSD reported nearly 97,000 more routine miles than the peer average.

The *37th Maintenance and Operations Cost Study* (American School & University Magazine, 2008) identified the national median cost of transportation at \$437 per student or 4.88 percent of District expenditures. Both OCSD and the peers are above this national benchmark, as they spend approximately 5.4 percent and 5.7 percent, respectively of total governmental fund expenditures on transportation functions.

## Audit Objectives for the Transportation Section

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

- How do the District's transportation policies and procedures compare with leading 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" (Type I & II) 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 resources management?
- Does the District have sufficient controls in place to ensure the security of 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 services in an effective and efficient manner?

## Recommendations

- R5.1 OCSD should review its bus ridership levels and alter routes in a manner that coincides with changes in ridership. The District should increase the number of riders per bus by revising bell schedules to allow for more time between runs. Furthermore, the District should consider increasing the number of buses that it operates on a three-tiered system.**

**Taken collectively, the above strategies should enable the District to eliminate seven active buses. OCSD can then use its Edulog system to reroute and attain a higher riders-per-bus utilization rate. When determining which buses to physically eliminate from its fleet, the District should analyze the maintenance costs of each bus and eliminate those with the highest costs.**

OCSD has experienced declining enrollment and has not made sufficient adjustments to its active fleet to maintain efficient capacity. As a result, bus capacity is low. While the District reduced the number of active buses from 38 in FY 2007-08 to 35 in FY 2008-09, the total number of riders transported by the District decreased from 3,076 to 2,506 during the same time.<sup>3</sup> Despite reducing three active buses in FY 2008-09, its per bus ridership still declined 11.5 percent from 80.9 riders per bus (40 per bus per tier) in FY 2007-08 to 71.6 riders per bus (36 per bus per tier) in FY 2008-09. Enrollment at the District declined 5 percent from FY 2007-08 to FY 2008-09. Despite recent reductions in active buses, the District has not reduced its active bus fleet to a level sufficient to maintain efficient bus capacity relative to its declining enrollment or ridership levels.

OCSD primarily uses a two-tier route schedule, with the high school and middle school routes in the first tier and the elementary school routes in the second tier. The geographic size of the District and the use of a two-tier system impact the efficiency levels that can be achieved. Additionally, the District's low population density causes it to take longer to transport riders from their designated stops to the school. As a result, the bell schedule<sup>4</sup> constrains the Transportation Department from picking up additional students on routes.

However, two elementary schools, Starr and Wynn, are located within more densely-populated neighborhoods. This allows the District to operate a three-tiered routing schedule in some areas. For example, in densely-populated areas, a driver can transport

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<sup>3</sup> The FY 2007-08 ridership count included whichever route (morning or afternoon) had more students. The Transportation Supervisor discovered from ODE that she could only count the morning routes and did so for the FY 2008-09 ridership counts.

<sup>4</sup> Clay High and Eisenhower and Fassett Middle schools are on a bell schedule that runs from 7:55 a.m. to 2:25 p.m., while the elementary schools are from 9:00 a.m. to 3:15 p.m.

one group of students at a large cluster stop to the school and then return to transport a second group of students.<sup>5</sup>

The Transportation Supervisor indicated there are additional opportunities for the District to reduce two routes, based on the current bell schedule and ridership. Due to safety issues experienced during FY 2008-09, the Administration decided to forgo until FY 2009-10 route changes that would combine smaller routes, thereby increasing bus capacity. Moreover, the Transportation Supervisor indicated it would be possible to add a third tier to some existing routes and increase the number of students on buses that serve students outside densely populated areas, if the time between bell schedules was increased by fifteen minutes.

*Routing and Efficiency* (Texas School Performance Review) found the coordination of bell times to allow for multiple trips greatly improves the productivity of each bus route, lowering the cost of service. Coordinated bell times allow buses to serve one school and have time to return to another school. Similarly, the *Brownsville Independent School District Management and Performance Review* (Texas Comptroller of Public Accounts, February 2003) suggested that the use of staggered bell times at each school level allows buses to operate on a three tier-system. Staggered bell times reduce vehicle and driver requirements and maximize resources, often reducing the time students spend on a bus ride and preventing mixing students of different ages. Also, according to the Associate Director of Transportation for ODE, in most cases it is necessary to change bell schedules so that multi-tiered routes can be used. If a change to multi-tiered routing allows for a reduction of buses in the fleet, then a substantial cost savings will result.

According to *Hidden Savings in Your Bus Budget* (American Association of School Administrators, September 2006), actual capacity use must be measured with 80 percent of rated capacity as a goal. *School Bus Seat Capacity* (NASDPTS, October 1999) recognizes that school buses transport students of all sizes and calculates capacity based on three elementary students per seat and two middle or high school students per seat.

If the District increased its utilization to 80 percent under the current two-tiered system, it could reduce at least seven buses. This does not include buses where more than 50 percent of riders are special needs or non-public students. Increasing utilization requires putting more riders on each bus, which can be accomplished by reducing routes, increasing tiers, or altering bell schedules. The District's lower population density may present challenges in reducing routes without altering the bell schedule, as increasing ridership per bus may result in longer ride times for students. However, given that the District's enrollment is projected to continue to decline, as shown in **Table 4-4** of the facilities section, OCSD's utilization is likely to decrease without further adjustments to

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<sup>5</sup> In FY 2008-09, four of the District's 35 buses operate three tiers.

its fleet size. This places emphasis on appropriately maintaining enrollment projections, as recommended in **R4.2**.

*Financial Implication:* Based on the compensation OCSD received for buses replaced in FY 2006-07 and 2007-08, the District could receive \$25,600 in revenue by selling seven buses. Reducing its fleet by seven buses would allow OCSD to save approximately \$115,400 in salary,<sup>6</sup> benefit, and vehicle insurance costs annually.

**R5.2 OCSD should develop formal policies consistent with OAC § 3301-83-16 and ensure that all non-routine billable trips (including athletics and extracurricular activities) are fully reimbursed through user charges based on the District's current cost of providing the services (e.g., salaries and benefits, maintenance and repairs, fuel, and insurance costs). Doing so would help ensure OCSD is recovering the full cost of providing non-routine transportation services.**

OCSD does not charge departments or schools for the non-routine use of buses. Rather, transportation costs for athletic events and field trips are paid by the Board out of the General Fund. The Treasurer cited insufficient resources in the Athletic Fund as the reason for the General Fund supporting the cost of transportation for extracurricular events.

As shown in **Table 5-1**, the District reports 61 percent more non-routine miles than the peer average. From July 1, 2008 to December 11, 2008, the District traveled more than 24,200 non-routine miles and paid drivers for nearly 1,700 hours of non-routine transportation for OCSD athletic, field trip, and extracurricular activities. The Transportation Department did not recoup any of the costs of this non-routine transportation.

The only time the Department recovers the cost of non-routine transportation is when non-public schools, such as Cardinal High School, contract with OCSD to use the District's vehicles. When this occurs, the Department charges the non-public entity based on the cost per mile as reported on the T-2 reports, which includes driver's salary and benefits.

The OCSD Board policy defines the "non-routine use of school buses" as transportation of passengers for purposes other than regularly scheduled routes to and from school, and establishes that school buses may be used for non-routine trips only when such trips will not interfere with routine transportation services. The Board policy regarding the special use of buses establishes that OCSD buses may be leased to non-public schools for use in school-related activities. The cost of the lease is the per mile cost of operating the

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<sup>6</sup> Increasing bus capacity may result in longer routes, and additional compensation for bus drivers. As a result, cost savings that are attributed to salaries may be lower.



District's bus fleet as determined by annual reports to the Ohio Department of Education and any associated personnel costs.

OAC § 3301-83-16 requires that the Board of Education recover an amount not to exceed the actual operational costs associated with non-routine use of school buses, with the exception of field trips that are extensions of the instructional program. These costs include driver salary and benefits, fuel, maintenance, service, supervision, and insurance, as reported on the district's T-2 reports.

Although the Transportation Department contracts with and charges non-public schools for the use of buses, the District does not charge school-sponsored groups. Not charging for the non-routine use of buses places a financial burden on the General Fund. In FY 2007-08, OCSD logged approximately 36,300 non-routine miles and paid drivers for 2,600 hours of labor for athletic, extracurricular, and field trips. Based on the lowest hourly salary for drivers and the charge per mile levied on non-public users, the Transportation Department could have charged at least \$94,500 to various funds and departments for the non-routine use of its fleet. Charging departments for the transportation of students would allow the District to capture the true cost of operating its programs and may make the users more aware of their usage and the cost associated with non-routine transportation. OCSD may not be able to collect the full cost of non-routine transportation from its various District users, though, because of funding constraints.

**R5.3 OCSD should reduce its spare fleet by eight buses. This would result in a spare bus allocation more consistent with ODE's guidelines and the peer average. The District should ensure changes in the number of spare buses corresponds to changes in its active fleet.**

Table 5-3 compares OCSD's spare bus fleet with the peers.

**Table 5-3: Spare Bus Ratio Comparison**

	OCSD FY 2006-07	OCSD FY 2007-08	OCSD FY 2008-09	Peer Average FY 2007-08	% Difference vs. Peers FY 2007-08
Active Buses	40	38	35	38.7	(1.8%)
Spare Buses	15	15	17	7.1	110.9%
Spare Buses as a Percent of Active Buses	37.5%	39.5%	48.6%	18.3%	N/A

Source: ODE T-reports for OCSD and peers.

As shown in **Table 5-3**, OCSD has more than twice as many spare buses as the peer average. The large number of spare buses is the result several factors. While OCSD has reduced the number of active buses by combining routes, it has not reduced the number of spare buses in its fleet. Also, according to the Transportation Supervisor, non-routine

trips often conflict with the routine transportation of students. As a result, it is difficult to have active buses available for non-routine events, resulting in the high number of spare buses maintained.

According to the ODE Pupil Transportation Office, spare buses should comprise about 20 percent of a district's fleet. OCSD maintains a large fleet of spare buses to ensure non-routine transportation needs are met; however, charging organizations for non-routine transportation may reduce the demand for spare buses (see **R5.2**). Reducing the size of the District's fleet would reduce the costs associated with vehicle insurance and routine maintenance on spare vehicles.

*Financial Implication:* Based on the compensation OCSD received for buses replaced in FY 2006-07 and 2007-08, the District could realize \$29,300 in one-time revenue by selling eight spare buses. Additionally, the District would save approximately \$5,800 annually in insurance costs (\$726 per bus), based on the average insurance cost per vehicle in FY 2007-08.

**R5.4 OCSD should develop and implement a system of written procedures to ensure transportation data is accurately collected, reviewed, and reported to ODE on its T-forms. The Transportation Supervisor and the Treasurer should verify that all expenditures reported in the T-2 report are consistent with ODE instructions and represent expenditures for the routine use of school buses.**

The District does not have written procedures that outline steps on how to compile the T-reporting information based on ODE's requirements and did not accurately report transportation data to ODE in FY 2007-08. To obtain transportation ridership data, the Transportation Supervisor uses October ridership count information collected by bus drivers and enters it into the T-1 form. Financial data required on the T-2 form is developed by the Treasurer and the form is completed by Transportation Supervisor.

According to the Transportation Supervisor, ridership data reported on the FY 2007-08 T-forms included the ridership count for whichever route (morning or afternoon) had more students. However, the Transportation Supervisor later learned from ODE that only the morning routes could be counted. The correct method was followed for the FY 2008-09 ridership counts. Similarly, the District included all preschool students receiving transportation on the FY 2007-08 T-forms. The District's FY 2008-09 T-forms were corrected to only include preschool students with special needs, as required by ODE.

The District also incorrectly reported insurance costs by including the cost for all insured vehicles, rather than the buses in the District's transportation fleet. Furthermore, the Transportation Supervisor does not separately account for fuel used for routine and non-routine purposes, as required by ODE.

According to *Student Transportation in Ohio* (LOEO, 2003), accuracy problems for transportation related data exist in a number of school districts, especially in terms of the number of students transported, daily bus miles traveled per student, and district transportation costs. The first step in ensuring accurate data is for a district to create and adhere to formal policies and procedures that govern the submission of district T-forms.

Furthermore, *Best Practices* (Ohio Office of Auditor of State, 2006), suggests that a well-designed internal control structure, framed through clear policies and procedures, helps to reduce improper activities and errors. Designing and implementing internal controls is a continuous process which requires risk evaluation; design, testing, and revision of procedures; and formal monitoring. Carefully designed internal controls can also help management provide a reasonable level of assurance that proper reporting is occurring.

Well-documented procedures enhance the accountability and consistency among staff and management. Without written policies and procedures that identify the process and methodology for completing the T-forms and reviewing the forms for their accuracy and completeness, OCSD risks submitting erroneous or improperly derived information to ODE. Establishing a formal procedure that explains the methodology used to prepare T-reports will help ensure that the District is reporting accurate information. While the quality of information does not impact District transportation-related reimbursements from the State in this budget cycle, future reimbursements may be based on District data and erroneous information could impact the revenue OCSD receives.

## Financial Implications Summary

The following table represents a summary of estimated revenue enhancements and annual cost savings identified in this section of the report.

**Table 5-4: Summary of Financial Implications for Transportation**

<b>Recommendation</b>	<b>One-Time Revenue Enhancements</b>	<b>Annual Cost Savings</b>
<b>R5.1</b> Eliminate seven active buses	\$25,600	\$115,400
<b>R5.3</b> Eliminate eight spare buses	\$29,300	\$5,800
<b>Total</b>	<b>\$54,900</b>	<b>\$121,200</b>

Source: AOS Recommendations



## **District Response**

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The letter that follows is the Oregon City School District's (OCSD) 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.

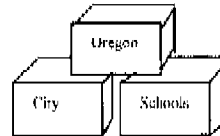
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# Oregon City Schools

**JANE M. FRUTH, C.P.A.**, Treasurer[www.oregoncityschools.org](http://www.oregoncityschools.org)*"Building the future block by block"*

April 16, 2009

James W. Penning, Chief Auditor  
Performance Audit Section  
Lausche Building, 12<sup>th</sup> Floor  
615 West Superior Avenue, NW, 12 Floor  
Cleveland, Ohio 44113-1801

Dear Mr. Penning:

The Board of Education of the Oregon City School District, Central Office Administrators, Union Officials and a representative from the Ohio Department of Education attended the Post Audit Conference on April 13, 2009, reviewing in detail the Performance Audit Report prepared by the Auditor of State's Office. This Performance Audit was prepared at the request of the Ohio Department of Education due to our deteriorating financial condition as reflected in the District Five Year Forecast.

We are in the unfortunate position of making extensive staffing reductions for the upcoming FY0910 School Year and have used the comparatives provided throughout this Independent Staffing Analysis to review these difficult decisions. Our management team has chosen initially not to cut staffing quite as deeply as recommended within this Performance Audit Report in the hopes of generating additional local revenues or at least providing the Oregon School Community with an opportunity to vote prior to cutting additional program choices for our students.

We are taking to heart the recommendations for improved planning through an upcoming Strategic Planning Process which will also allow for more stakeholder input. Many of the recommendations will need to be considered over time as they require discussions with bargaining units and cannot be implemented unilaterally. While the circumstances surrounding this audit are challenging it can be said that this third party review of our operations and procedures has been beneficial for the Oregon City Schools. Our District has been hit hard by the passage of House Bill 66 which eliminated tangible personal property taxes, 23% of our revenue stream. This is the largest shift in taxpayer burden in recent memory and it will take a concerted effort on the part of District Leadership, Staff and ultimately our Community to adjust to our new reality and determine exactly what Oregon City Schools will look like in years to come.

We appreciate the professionalism of the State Auditors Staff assigned to our review and will consider implementation of recommendations throughout our future planning processes.

Sincerely,

A handwritten signature in black ink, appearing to read 'Michael Zalar'.

Dr. Michael Zalar  
Superintendent of Schools

**BOARD MEMBERS:** Jeffrey Ziviski, President; Diane Karoly, Vice President; Betty Custensen, Richard Gabel, Eric Heintschel

The Oregon City School District adheres to Title VI, Title IX, ADA, and Section 504; thus, does not discriminate in educational programs and employment practices on the basis of race, color, national origin, age, sex or handicap.