Auditor of State
Betty Montgomery

# MARION CITY SCHOOL DISTRICT PERFORMANCE AUDIT

MARCH 17, 2005

**Auditor of State**
**Betty Montgomery**

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

In March of 2004, the Superintendent of Public Instruction placed the Marion City School District (Marion CSD) in fiscal caution and in June of 2004, the Auditor of State (AOS) placed the District in fiscal watch. The District has implemented significant cost reductions during the past two years to lower costs and emphasize accountability within the community. AOS initiated a performance audit of Marion CSD in June of 2004.

Based on a review of Marion CSD information and discussions with the superintendent and treasurer, the performance audit focused on five functional areas: financial systems, human resources, facilities, food service, and transportation. These areas were selected because they are key components of District operations that support its mission of educating children, and because improvements in these areas can assist Marion CSD in improving its financial condition over the next five years.

The performance audit contains recommendations for enhancing District operations and generating cost savings. The performance audit also provides an independent assessment of Marion CSD's financial situation and a framework for a financial recovery plan to help the District reduce its projected deficits. While the recommendations contained within the performance audit are resources intended to assist in improving Marion CSD's financial condition, 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 district overview; the scope, objectives and methodology of the performance audit; and a summary of noteworthy accomplishments, recommendations, and financial implications. This report has been provided to Marion CSD 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 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 "On-Line Audit Search" option.

Sincerely,

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

March 17, 2005

88 E. Broad St. / P.O. Box 1140 / Columbus, OH 43216-1140
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

# Executive Summary

## Project History

Pursuant to Ohio Revised Code (ORC) §3316.031(A), the Ohio Superintendent of Public Instruction, in consultation with the Auditor of State (AOS), has developed guidelines for identifying fiscal practices and budgetary conditions that, if uncorrected, could result in a future declaration of a fiscal watch or fiscal emergency within a school district. ORC §3316.031(B)(1) further stipulates that the state superintendent may declare a school district in fiscal caution based upon a review of a school district's five-year forecast. According to ORC § 3316.042, AOS may conduct a performance audit of any school district in a state of fiscal caution, fiscal watch or fiscal emergency and review any programs or areas of operation in which it believes that greater operational efficiency, effectiveness and accountability of services can be achieved.

In accordance with ORC §3316.031(A), a district may be placed in fiscal caution by the Superintendent of Public Instruction when the district projects a current year ending fund balance less than or equal to 2 percent of the current year projected revenues. Effective March 26, 2004, Marion City School District (Marion CSD) was placed in fiscal caution by the Ohio Department of Education (ODE). Pursuant to ORC § 3316.031(C), Marion CSD failed to submit an acceptable fiscal caution proposal in order to address the projected deficits. Therefore, on June 17, 2004, the Auditor of State placed the District in fiscal watch. The fiscal watch declaration was based on the District's May 27, 2004 five-year forecast which anticipated deficits of $360,000 fiscal year (FY) 2003-04 and $2.6 million for FY2004-05.

Pursuant to ORC §3316.031 and ORC §3316.042, AOS initiated a performance audit of Marion CSD in June of 2004. Based on a review of Marion CSD information and discussions with the superintendent and the treasurer, the following five functional areas were included in the performance audit:

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

# District Overview

The boundaries of Marion CSD encompass 9.7 square miles within the City of Marion in Marion County. According to ODE, the District's average daily membership (ADM) was 5,422 students in FY 2003-04. Currently, the District operates seven elementary schools, one middle school and one high school. In FY 2004-05 it completed a $97 million construction and renovation project with the Ohio School Facilities Commission (OSFC), which reduced the number of school buildings from 15 to 9.

According to the 2000 Census, 32,363 persons lived within District boundaries, including 8,650 residents under 18 years of age (26.7 percent). Although Marion County is largely rural, District demographics reflect a highly urban makeup with only 0.1 percent of its area defined as agricultural property and a pupil density 14 times higher than the statewide average. Further, District residents face socioeconomic challenges more often identified with urban districts as median income ranks 14 percent below the statewide average and 49 percent of the student population qualifies for free/reduced meals based on family income.

At the start of FY 2004-05, the District employed approximately 590 full-time equivalent (FTE) employees, including approximately 357 certified teacher FTEs. Due to its declining financial condition, the District has reduced its staff by 67 FTE positions (10 percent) since FY 2002-03, including 23 teaching positions. This has increased the student to teacher ratio for regular instruction staff to 22.3 to 1.

According to ODE's FY 2003-04 Local Report Card, Marion CSD met 5 of 18 academic performance indicators, which results in an academic watch rating. The District has remained in academic watch since its FY 2001-02 report card, but the number of performance indicators met has fallen from nine to five.

The major revenue factors contributing to the District's bleak financial projections include the failure to renew a 3.9 mill levy and the fact that no levies have been passed for new operating money since 1995. Also, new development within District boundaries is very limited and property values have stagnated. The District has experienced significant reductions in state revenues, due both to a declining student population (600 students lost since 1998) and statewide reductions in the funding formula resulting from Ohio's economic crisis. Increased utility costs related to construction mandates in facilities, double-digit health care increases, and state spending requirements for textbook purchases contributed to the District's fiscal crisis.

Although the District has made many hard decisions about staffing and educational programs, additional cuts will likely be required to regain financial stability. However, further service level reductions probably will negatively affect the educational gains of Marion CSD students. Given its financial outlook, Marion CSD should consider implementing the recommendations in this performance audit to reduce projected deficits and avoid future financial difficulties. See **R2.15** and **Table 2-15** in the **financial systems** section of this report for the proposed financial recovery plan showing the impact of performance audit recommendations on the General Fund ending balances.

# Objectives, Scope, and Methodology

This performance audit was conducted in accordance with Generally Accepted Government Auditing Standards. Audit work was conducted between July 2004 and February 2005. The goal of the performance audit process was to assist Marion CSD management in identifying cost saving opportunities, with the primary objective of eliminating the conditions which brought about the declaration of fiscal caution. The ensuing recommendations comprise options that Marion CSD can consider in its continuing efforts to improve and stabilize its financial condition. This performance audit assessed the key operations of MCSD in the areas of financial systems, human resources, facilities, and transportation. Major assessments included the following:

- The District's May 2004 five-year financial forecast, including its underlying financial data and the accompanying notes and assumptions, was assessed for reasonableness.

- District-wide staffing levels, collective bargaining agreements and benefit costs were core areas assessed in the human resources section.

- Building capacity and utilization, and custodial and maintenance operations were examined in the facilities section.

- Meal-related revenues and expenditures, staffing, preparation/serving logistics, procurement and technology usage were assessed in the food services section.

To complete this report, auditors gathered and assessed data from various sources pertaining to the key operations, conducted interviews with Marion CSD personnel, and assessed requested information from the selected comparison (peer) districts. Throughout this report, comparisons are made to three similarly sized school districts. These districts include Findlay City School District (Findlay CSD) in Hancock County; Massillon City School District (Massillon CSD) in Stark County; and Newark City School District (Newark CSD) in Licking County. These districts were selected as peers based on their ranking as comparable districts by the Ohio Department of Education (ODE)[1-1], reviews of various demographic information, and input from

[1-1] Criteria considered in ODE's comparable district listings include geographic size, average daily membership (ADM), Ohio Proficiency Test ratings, per pupil expenditures, socioeconomic demographics, population density, and real property valuation

Marion CSD personnel. Best practice information was used from ODE, the State Employment Relations Board (SERB), American Schools and Universities (AS&U), and related service industries.

The performance audit process involved significant information sharing with the District about identified audit areas and proposed recommendations. Furthermore, periodic status meetings were held throughout the engagement to inform the District of key issues impacting selected areas, and share proposed recommendations to improve or enhance operational efficiency or effectiveness. Throughout the audit process, input from the District was solicited and considered when assessing the selected areas and framing recommendations. Finally, the District was given an opportunity to provide written comments in response to the various recommendations for inclusion in the final report.

The Auditor of State and staff express their appreciation to the Marion CSD and the peer school districts for their cooperation and assistance throughout this audit.

# Noteworthy Accomplishments

Marion CSD's attention and responsiveness to its financial situation has helped the District realize a reduction in the negative ending fund balance previously projected. Additional noteworthy accomplishments were identified during the course of the performance audit.

*Financial Systems*

- Marion CSD's percentage of total discretionary spending of 7.9 percent is below the peer average of 9.8 percent. Marion CSD has effectively controlled its discretionary spending by closely monitoring expenditures as a means to help resolve its financial condition. .

- Marion CSD has reportedly addressed prior year financial audit findings:

    - Finance has prepared complete monthly (all funds) reports for the Board.
    - The Marion Digital Academy audit findings have been corrected. Employee time is estimated every quarter and the Academy has a separate set of books.
    - All funds with a negative balance have been corrected. The exception is food service, for which AOS has a separate performance audit section.

*Human Resources*

- The District has reduced 67 positions, or 10 percent of its workforce since FY 2002-03 for $2.9 million in projected savings to the General Fund.

*Facilities*

- The District has effectively minimized facilities-related expenditures for purchased services, as well as supplies and materials. Excluding utilities, District expenditures for purchased services and supplies/materials are approximately 54 and 59 percent below the peer average, respectively.

- The District recently implemented a proactive energy management system, including a centralized HVAC computer system that enables it to more effectively monitor and adjust temperatures in all school buildings.

*Food Service*

- The District has been proactive in the identification of eligible students for free and reduced price lunches through the National School Lunch Program. This not only ensures nutritious meals for eligible students, but also helps fund food service operations through federal reimbursements.

- The District has significantly improved its food services information systems. It has developed an internal program to replace its vendor software, resulting in implementation ahead of schedule and below original cost estimates.

*Transportation*

- Marion CSD operates its transportation system in an effective and efficient manner. The District is one of only a few districts in the State of Ohio that receives more from its ODE reimbursement than it spends to provide transportation services to its students. Key operational ratios are more favorable than the peers and peer average.

# Key Recommendations

The performance audit contains several recommendations pertaining to Marion CSD. The following are the key recommendations from the report:

*Financial Systems*

- **Marion CSD should generate detailed assumptions to support estimates within the five-year forecast for community school and open enrollment transfers in (revenues) and out (expenditures). Using detailed assumptions, AOS projects slightly higher revenues in these areas. According to ORC § 3313.98 and 3313.981 the revenue and expenses funds should reflect the student ADM, formula aid, and the cost of doing business factor for each student. In the case of a community school additional factors include DPIA funds and parity aid.**

- **The District should calculate the required textbook and instructional materials set-aside each year as required by ORC § 3315.17 and include the amount and a discussion in the five-year forecast. The District has not set aside sufficient funds for these purposes, in part because of the lack of resources. Potentially, these obligations will increase the negative ending fund balance of the District each year within the forecast.**

- **Marion CSD's five-year forecast and the accompanying assumptions or notes should be expanded to consistently present more detailed historic and projected information and explanatory comments. By providing more detail in the forecast and its supporting notes, the Board of Education (the Board) and the public will better understand the financial condition of the District. Further, the District should periodically monitor projections and expenditures to effectively control and limit spending, and ensure projections are accurate and reliable.**

- **Marion CSD should seek to control and limit salary increases in future collective bargaining contract negotiations, particularly since the potential cost savings resulting from performance audit recommendations may not fully offset future projected deficits. The District should limit cost of living adjustments (COLA) to no more than 1.0 percent and hold step increases flat in FYs 2005-06 through 2008-09.**

*Human Resources*

- **The District, with input from the community, should define its programmatic approach and the corresponding required level of staffing to achieve educational goals and maximize the funding available to the District. These decisions should be made based on community expectations and corresponding financial support. While the District is not overstaffed compared to peers, if the funding is not available to maintain current staffing levels, the District may have to move toward state minimum standards. The District may be able to continue to reduce regular education teaching staff by an additional 59 FTEs and up to 12 FTE ESP professionals. However, further reductions in teaching staff may affect the educational programs in the District. This recommendation could generate almost $2.6 million in savings annually.**

- **The District should seek to reduce the number of employees for whom it pays the employee's share of the STRS and SERS contribution. Although the peers provide this benefit to a wide range of employees, Marion should seek to restrict this benefit to only top administrators. This recommendation would create approximately $242,800 in annual savings.** [1-2]

- **Marion CSD should require all employees contribute at least 10 percent of costs for monthly health care premiums – the current level for all administrative and certified staff, and newer classified staff. It should negotiate for this higher contribution rate for classified employees hired prior to July 2002 in upcoming contract negotiations. This recommendation would result in an annual cost avoidance of $112,000 for the District.**

- **The District should negotiate to raise the required number of hours for part-time employees to become eligible for benefits. It should seek a 32.5-hour work week for full-time benefits and a 20-hour week for prorated benefits.**

*Facilities*

- **Assuming elementary student enrollment continues to decline at the current rate, the District should also consider closing two of its older buildings with the smallest capacities (Lincoln and either Harrison or Hayes) and reassigning those students to the remaining buildings. While this may require some redistricting, Marion CSD can realize significant savings through non-teaching personnel reductions and increased efficiency in maintenance and operations. The District could experience a reduction in administrative, clerical, food service and facilities staff through closing two elementary**

[1-2] The District administration and Board expressed concern about principal and teacher salary equity and the effect that elimination of SERS/STRS pick-up will have on salary equity within the District.

**schools. However, should the District decide to close buildings and redraw its boundaries, it should consider community feedback and ensure that all changes are made in accordance with the spirit of its master plan. Closing two schools would result in an annual cost savings of about $583,000 including personnel cost savings.**

*Food Services*

- **Marion CSD should develop an operations plan for elementary school kitchens which will ensure that they operate with similar degrees of efficiency. In addition, this plan should consider one of two options to reduce labor usage by a minimum of 35 hours per day. These options include**

    - **Reducing the hours of elementary school cooks working 6.5 hours per day at Garfield, McKinley, Taft, and Washington elementary schools (a savings of $84,000 annually.**

    - **Centralizing food preparation. This would entail reducing elementary school cooks from 6.5 hours per day to a maximum of 3.25 hours per day, but creating (or reassigning) two cook positions at the high school working a maximum of 2.0 hours per day. Also, the District should create two delivery positions at 4.0 hours per day and purchase a two vehicles adequately equipped for food delivery. (A savings of $75,700 annually starting in the second year.  The first year savings are offset by the purchase of the vehicles.).**

## Additional Recommendations

*Human Resources*

- Marion CSD should seek to reduce personal days for classified employees to 3 to be in line with peer districts and help meet current financial challenges in the District.

*Facilities*

- Upon completion of the building construction and renovation project, Marion CSD should develop an up-to-date facilities master plan. This plan should include a 10-year student enrollment history with a realistic 5 to 10 year forecast, as well as building capacity data and the methodology used for calculation. In addition, the District should include a list of the cost estimates for planned capital improvements and a description of how facility use is linked to the District's educational plan. Finally, the District should include information regarding potential sources of funding (e.g., levies) for future capital improvements.

- Marion CSD should develop and formally adopt a 5 to 10 year forecast methodology for realistically projecting student enrollment. Furthermore, the District should periodically review its projections for accuracy and compare the data with building capacities to determine the appropriate number of school buildings and classrooms required to house actual and projected student populations.

- The custodial/maintenance department should track work orders electronically. A computerized system would allow the District to track and monitor the status of individual work orders, the amount of supplies and materials used, as well as the productivity and performance of assigned personnel, including staffing levels and overtime usage.

*Food Services*

- Marion CSD should improve coordination between food service operations and general building operations. Building management should consult with the director of food service on operational issues such as building schedules. In addition, buildings should coordinate with one another to ensure that processes and practices which maximize efficiency and minimize costs are being uniformly applied throughout the District.

- The food service director should develop and utilize an expanded set of performance measurers. These performance measures should be used in conjunction with a set of established benchmarks and goals to better monitor the effectiveness of food service operations.

- Marion CSD should review the use of LaRue Food Bank for food storage and delivery. By improving the utilization of existing storage facilities and delivery capabilities, the District can minimize or discontinue services from LaRue Food Bank. Implementing this recommendation would result in a cost savings of $5,600 annually.

- Marion CSD should review its purchasing practice for food and food service supplies.. The District should seek to reduce the cost of food items by implementing best practices such as consortium purchasing, material requirement planning, and price negotiation.

# Issue for Further Study

**Property Valuation and "Win-Win" Agreements:** Marion CSD officials report one reason local property tax revenues have remained stagnant is due to new development taking place on land annexed by the city of Marion, but outside of Marion CSD's boundaries. According to the 2000 Census, the City of Marion's boundaries encompassed 17 percent more square miles than the school district.

The Columbus Public Schools, facing similar problems in the 1980s, struck an historic legal agreement with 13 county school districts to address the issue of school district territory transfers. Under the agreement, areas of Columbus that were in suburban school districts in 1986 could not be transferred to Columbus Public Schools. Newly annexed areas of the City of Columbus would join the City school district. Columbus Public Schools would receive a percentage of the commercial and industrial property taxes from land within the City of Columbus that is served by suburban school districts. All but one county district subsequently extended the joint agreement every six years. This agreement was later incorporated into state law. Proponents of the agreement cite:

- The Columbus Public Schools had access to future county development in terms of both revenue and students.
- The Columbus Public Schools would otherwise have had to seek land transfers through the State Board of Education.
- The suburban school districts retained their original boundaries.
- Suburban districts' annexed properties were protected.
- All students would benefit from shared educational programming.

Given this precedent, Marion CSD should discuss with its legal counsel the potential for creating a similar agreement with its neighboring districts to help minimize its revenue losses from new development taking place within the City of Marion.

# Summary of Financial Implications

The following tables summarize the performance audit recommendations which contain financial implications. These recommendations provide a series of ideas or suggestions which Marion CSD should consider. Some of the recommendations are dependent on labor negotiations or labor agreements. Detailed information concerning the financial implications, including assumptions, is contained within the individual sections of the performance audit.

**Table 1-1: Summary of Performance Audit Recommendations**

| Recommendation | Annual Cost Savings – General Fund | Annual Cost Savings – Fiduciary Funds |
|---|---|---|
| **R3.1** Reduce certificated staffing to minimum Staffing Standards | $2,610,400 | |
| **R3.2** Discontinue payment of employees' share of retirement contributions for administrators | $242,800 | |
| **R4.2** Close two elementary buildings by FY 2007-08. | $582,800 | |
| **R4.3** Reduce facilities-related overtime expenditures via a computerized work order tracking system. | $26,800 | |
| **R5.3** Reduce labor hours used (Option 1) | | $84,000 |
| **R5.4** Reduce staff in conjunction with building closure | | $64,300 |
| **R5.5** Eliminate use of LaRue Food Bank | | $5,600 |
| **Total Recommendations Not Subject to Negotiation** | **$3,462,800** | **$153,900** |
| **R2.13** Limit salary increases | $1,925,600 [1] | |
| **R3.3** Increase employee contributions for Health Insurance | $112,000 | |
| **Total Recommendations Subject to Negotiation** | **$2,037,600** | |
| **Total Recommendations Included in Forecast** | **$5,500,400** | **$153,900** |

**Source:** AOS Recommendations
[1] Average annual savings for FY 2005-06 through FY 2008-09

**This page intentionally left blank.**

# Financial Systems

## Background

This section focuses on the financial systems within the Marion City School District (Marion CSD). The objective is to analyze the current and future financial condition of Marion CSD and develop recommendations for improvements and efficiencies. Marion CSD's five-year forecast is analyzed to ensure projections accurately represent future operational and financial conditions. Comparisons are made throughout the report to the following peer school districts: Findlay City School District (Findlay CSD), Massillon City School District (Massillon CSD), and Newark City School District (Newark CSD).

The Auditor of State (AOS) recommended the establishment of fiscal oversight laws for school districts to create predetermined monitoring mechanisms and criteria for fiscal responsibility and to provide technical assistance to help school administrators restore fiscal stability. The Ohio Revised Code (ORC) § 3316.03, sets forth conditions and procedures for declaring fiscal watch and emergency for Ohio school districts. ORC §3316.03.01, addresses conditions and procedures for declaring fiscal caution. The difference between fiscal caution, fiscal watch and fiscal emergency is the severity of the school district's financial condition.

The Ohio Department of Education (ODE), in consultation with AOS, developed guidelines to identify fiscal practices and budgetary conditions that could lead to financial crisis if left uncorrected. Contingent upon meeting any one of these conditions, ODE consults with the local school board, and may decide to declare the district to be in fiscal caution. The school board is then required to provide a written proposal to ODE within 90 days to correct the fiscal deficiencies.

Marion CSD was placed in fiscal caution on March 26, 2004 because the District's December 2003 five-year forecast predicted an unreserved fund deficit of $360,000 by the end of FY 2003-04, and a $2,645,000 deficit by June 30, 2005. On June 17, 2004, The Auditor of State placed Marion CSD in a state of fiscal watch because the District had not submitted an acceptable written proposal to correct the pending budget deficits. Under fiscal watch, the District must develop and submit to ODE a financial recovery plan to eliminate the projected deficit. On August 25, 2004, ODE informed The Auditor of State, Marion CSD had failed to submit an acceptable fiscal watch recovery plan under ORC § 3316.04(A) and at current spending levels, the District will be insolvent prior to June 30, 2005.

In November 2004, Marion CSD submitted a new five-year forecast to ODE that showed the District had ended FY 2003-04 with a positive unreserved balance of $1,463,574 and a projected

FY 2004-05 positive unreserved fund balance of $620,824. During FY 2003-04, Marion CSD performed cost-cutting measures with an annual effect of $2,274,840. The November 2004, five-year forecast is used for comparisons and reference throughout this report. The updated forecast uses FY 2003-04 actual numbers. The cost savings implemented by Marion CSD is discussed in the assumption portion of this report.

## *Financial Operations*

**Table 2-1** presents the District's five-year forecast, which was developed by Marion CSD's Treasurer. AOS reviewed the assumptions developed by the Treasurer that have a significant impact on Marion CSD's forecast, such as tax revenue, unrestricted grants in aid, and salaries and benefits. Three years of comparative historical information, general assumptions and explanatory comments accompany the projections, which incorporate the General Fund and Disadvantaged Pupil Impact Aid (DPIA).

## Table 2-1: Marion City School District Forecast (000)s[1]

| | Actual 2001-02 | Actual 2002-03 | Actual 2003-04 | Forecast 2004-05 | Forecast 2005-06 | Forecast 2006-07 | Forecast 2007-08 | Forecast 2008-09 |
|---|---|---|---|---|---|---|---|---|
| General Real Estate Property Tax | $7,987 | $8,573 | $8,714 | $8,438 | $7,713 | $6,988 | $5,988 | $4,987 |
| Tangible Personal Property Tax | $2,119 | $2,040 | $1,802 | $1,740 | $1,750 | $1,725 | $1,700 | $1,675 |
| Local Tax | $137 | $291 | $195 | $175 | $170 | $170 | $170 | $170 |
| Unrestricted Grants-in-Aid | $22,129 | $22,176 | $24,896 | $24,925 | $25,000 | $25,000 | $25,000 | $25,000 |
| Restricted Grants-in-Aid | $2,626 | $2,755 | $1,543 | $1,285 | $1,290 | $1,290 | $1,290 | $1,290 |
| Property Tax Allocation | $1,088 | $1,170 | $1,167 | $1,150 | $1,000 | $900 | $800 | $800 |
| Other Operating Revenues | $877 | $780 | $1,882 | $2,654 | $2,500 | $2,500 | $2,500 | $2,500 |
| **Total Operating Revenues** | **$36,964** | **$37,785** | **$40,199** | **$40,367** | **$39,423** | **$38,573** | **$37,448** | **$36,422** |
| Salaries & Wages | $24,439 | $25,438 | $25,233 | $23,994 | $24,941 | $25,696 | $26,653 | $27,635 |
| Fringe Benefits | $7,227 | $7,884 | $8,693 | $8,002 | $8,804 | $9,629 | $10,290 | $10,730 |
| Purchased Services | $2,650 | $3,069 | $6,619 | $7,287 | $7,486 | $7,708 | $8,238 | $8,288 |
| Supplies, Materials & Textbooks | $1,236 | $690 | $661 | $540 | $637 | $717 | $727 | $737 |
| Capital Outlay | $339 | $472 | $235 | $5 | $160 | $260 | $285 | $285 |
| Debt Service: Principal | | $27 | $46 | $46 | $19 | | | |
| Other Expenditures | $505 | $531 | $539 | $552 | $555 | $585 | $585 | $585 |
| **Total Operating Expenditures** | **$36,396** | **$38,111** | **$42,027** | **$40,427** | **$42,602** | **$44,594** | **$46,778** | **$48,259** |
| Proceeds From TAN Notes | | $132 | | | | | | |
| Other Financing Sources/(Uses) | | $14 | $21 | $20 | | | | |
| Net Transfers/Advances In/(Outs) | ($445) | ($337) | $404 | ($803) | ($50) | ($50) | ($50) | ($50) |
| **Net Financing** | **($445)** | **($190)** | **$425** | **($783)** | **($50)** | **($50)** | **($50)** | **($50)** |
| **Result of Operations (Net)** | **$123** | **($516)** | **($1,402)** | **($843)** | **($3,228)** | **($6,071)** | **($9,380)** | **($11,887)** |
| Beginning Cash Balance | $3,258 | $3,382 | $2,866 | $1,464 | $621 | ($2,608) | ($8,679) | ($18,059) |
| **Ending Cash Balance** | **$3,382** | **$2,866** | **$1,464** | **$621** | **($2,608)** | **($8,679)** | **($18,059)** | **($29,946)** |
| Outstanding Encumbrances | $612 | $683 | $691 | $621 | $620 | $620 | $620 | $620 |
| Bus Purchase | | | | | | | | |
| Textbook / Instructional Set Aside | | | | $504 | $504 | $507 | $504 | $504 |
| Capital Reserve Set Aside | | | | | | | | |
| **Ending Fund Balance** | **$2,769** | **$2,183** | **$773** | **($503)** | **($3,731)** | **($9,805)** | **($19,182)** | **($31,070)** |
| Property Tax Renewal/Replacement | | | | | | | $1,001 | $1,001 |
| Cumulative Balance Renewal/Replacement | | | | | $0 | $0 | $1,001 | $2,001 |
| Fund Balance for Certification | $2,769 | $2,183 | $773 | ($503) | ($3,731) | ($9,805) | ($18,182) | ($29,069) |
| **Unreserved Fund Balance** | **$2,769** | **$2,183** | **$773** | **($503)** | **($3,731)** | **($9,805)** | **($18,182)** | **($29,069)** |

**Source:** Marion CSD's Treasurer as of November 6, 2004.
[1] Calculation differences are due to rounding.

The financial projection in **Table 2-1** presents the expected revenues, expenditures and fund balances of the General Fund for each of the fiscal years including June 30, 2005 through June 30, 2009, with historical information presented for the fiscal years ended June 30, 2002, 2003, and 2004. During FY 2003-04 the District was able to reduce staffing for annualized savings of $2,146,956 in salaries, $414,900 in benefits, and $869,100 in purchased services. In FY 2008-09, Marion CSD forecasts a negative fund balance of approximately $25.3 million. The forecast includes the future renewal of two levies and a proposed new property tax.

The assumptions are based on information obtained from Marion CSD through its forecast, as well as conversations with the treasurer. Assumptions are supplemented with explanatory comments shown in indented bullets. Often, differences between projected and actual results occur because circumstances and conditions assumed in projections do not occur as expected.

**Revenues**

- **Real Estate Property Tax** is based on historical increases and collection levels, which include the renewal of two levies (Table 2-1) shown after the ending fund balance. One levy expires on December 31, 2005 for $1,450,000 per year and another levy expires December 31, 2007 for $2,001,000 per year. Both renewal levies and a new tax are reflected in the forecast and are shown below the ending fund balance. All other real property revenue is based on historical trends. The declines from FY 2004-05 through FY 2008-09 reflect the removal of renewal levies from this line item as required by ODE. The renewal levies are shown below the Ending Fund Balance line in **Table 2-1.**

    - Real property in all counties is reappraised every six years by the county auditor's office, and property values are updated in the third year following each six-year reappraisal. Marion CSD had a revaluation in FY 2000-01 with collections starting in FY 2001-02, an update in FY 2003-04 with collections starting in FY 2004-05, and a revaluation is scheduled for FY 2006-07, with collections starting in FY 2007-08. The total tax rate includes all levies enacted by legislative authority or approved by the voters of the district. Real property tax rates vary with the taxing district.

      Marion CSD's voted millage is 55.48 mills, and the effective millage is 42.204 mills. The Ohio Department of Taxation publication *Real Property* states that for calendar year 2002 (latest available numbers), the state effective millage was 52.52 mills. The difference between the voted and effective rate is due to tax reduction factors which generally prevent inflationary increases in revenue when the valuation of existing real property is increased.

      State law grants tax relief in the form of a 10 percent rollback reduction in each taxpayer's real property bill. In addition, a 2.5 percent rollback of real property taxes is granted on owner occupied homesteads.

      The December 31, 2005 renewal levy of $1,450,000 and a new property tax of $2,288,977 were defeated in the November 2, 2004 election. Since May 3, 1994, the District has placed 11 issues on the ballot (nine emergency levies, one bond and one classroom facilities levy), five of which failed.

- **Tangible Personal Property Tax:** Tax revenue projections in this category are based on historical decreases and collection levels. The steady decrease can be attributed to the phase-out of a portion of this tax and other tax adjustments. The assumption seems reasonable, based on historical receipts and State tax changes. The legislature has reduced the tangible property taxes in three ways.

1. Elimination of inventory tax: ORC § 5711.22, adopted in 1999, reduced the assessed valuation of the inventory component of tangible personal property tax from 25.0 percent to 0 percent by 2031. The more recently passed ORC § 5711.22, adopted in 2003, accelerates the phase-out of this tax from 1 percent per year to 2 percent per year until the tax is completely eliminated. The loss of revenue in the forecast cannot be estimated with a high degree of accuracy as business tangible personal property tax returns are subject to annual changes in economic conditions.

2. Tax Value Loss: Effective January 1, 2001, ORC § 5727.84 through 5727.87 calls for significant reductions in the valuation of certain types of public utility property. All electric utilities, including rural co-ops, had their assessment rates reduced to 25 percent and all natural gas personal property rates decreases 25 percent from 88 percent. To replace this money, new state consumption taxes, a kilowatt-hour tax and thousand cubic foot tax were enacted. The taxes are earmarked for the School District Property Tax Replacement Fund and Local Government Property Tax Replacement Fund. Reimbursements for the difference of assessment rates and consumption taxes will be made until year 2016.

3. Elimination of replacement revenue: The first $10,000 of otherwise taxable value for each company is exempted. The revenue loss from this exemption was reimbursed from state revenues. Beginning in tax year 2004, reimbursement of the lost revenue will be lowered 10 percent each year until fiscal year 2012. Beginning in FY 2013, reimbursements will no longer be made.

- **Unrestricted Grants-in-Aid:** The District bases its assumption for the state foundation portion of the unrestricted grants-in-aid total for FY 2004-05 through FY 2008-09 on historical trends and projected enrollment. Initially, the trend indicates a small increase in Unrestricted Grants-in-Aid, even though the enrollment trends indicate a steady decrease in student population.

  - Unrestricted grants-in-aid are received through the state's Foundation Program and are not restricted to a particular use. The line item now includes the amounts previously reported as special education, vocational, pupil transportation, and DPIA. Other unrestricted revenue includes open enrollment amounts and adjustments for vocational and special education.

    A 23 mill charge-off is the amount the legislature has determined to be a district's fair share of the basic program cost of unrestricted grants-in-aid, and that fair share amount is subtracted from the Foundation Program amount to determine the state aid share of the formula. In general, reappraisals and updates increase the value of taxable real property, which increases the amount attributable to the local charge-off rate of 23 mills. The assessed value of real property in the state aid formula is adjusted for the effects of reappraisals and updates. However, the district does not receive the benefit of the increased appraisal because the total dollar amount remains the same to the district and the millage to the property owner is reduced to reflect the reappraisal

Federal unrestricted grants-in-aid received through the state as grants include revenue from the Medicaid Community Alternative Funding System (CAFS).

In the **facilities section** of this report, the AOS projects more than a 5 percent decrease in the number of students through the forecast period, which includes decreases due to open enrollment. While the calculation and accuracy of the assumption cannot be confirmed, the outcome of a flat revenue projection through the forecast period, given decreasing average daily membership (ADM), appears to be reasonable.

- **Restricted Grants-in-Aid:** Marion CSD had no assumptions listed for this area.

  - Restricted grants-in-aid are the restricted portion of Disadvantaged Pupil Impact Aid (DPIA) and bus purchase allowances. In previous years, parity aid was restricted, but it is being replaced by unrestricted gap aid.

    The District's forecast (**Table 2-1**) shows a significant decrease in this line item in FY 2003-04 and a corresponding increase in Unrestricted Grants-in-Aid due to a reclassification of restricted funds to unrestricted. While the Restricted Grants-in-Aid line item shows a flat projection for the forecast period without the support of a written assumption, decreasing enrollment due to a decreasing population and loss of students to open enrollment school districts make projections difficult. A flat projection for the forecast period appears reasonable. A recommendation for improving forecast assumptions is found in **R2.5**.

- **Property Tax Allocation:** The property tax allocation for FY 2004-05 is based on information received from the Marion County Auditor and Tax Commission at the annual county budget hearing in March of each year. Collections for FY 2004-05 through FY 2008-09 are expected to decline, based on the decrease in property appraisals and because a portion of the reduction reimbursement is being phased out. ODE has set aside a 5 percent increase for all schools for FY 2004-05, which will not offset the decline.

- Property tax allocation is revenue received as a result of the homestead exemption (2.5 percent), property tax rollback (10 percent), and the tangible personal property tax exemption (the first $10,000 of tangible property is exempt from taxation). In prior years, the State fully reimbursed the exemption. In FY 2002-03, the reimbursement (but not the exemption) was to be phased-out over a 10-year period. Consequently, the amount of reimbursement will decline over the next 10 years. Effective for tax years 2005 and 2006, the inventory assessment percentage will be reduced by 2 percent each year, if collections increase. In tax year 2007, the inventory assessment percentage will be reduced 2 percent, regardless of collections.

- Under Amended Substitute H.B. 95 (2003), the Ohio Department of Taxation deducts a fee from the monies reimbursed to a school district because of the 10 percent rollback. The first effect of this deduction appeared in January 2004.

- **Other Operating Revenues:** This line item accounts for the District's General Fund investment income; tuition receipts for out-of-district students; rental income; transportation for special education students; extra curricular activities; field trips; and Community Alternative System Funding (CAFS) Medicaid refund (about $207,000). In the period FY 2001-02 through FY 2003-04, there were declines due to a decrease in interest rates and a reduction in funds available for investment.

  - As a result of the new accounting requirement, the open enrollment gross amount is reflected as revenue. Previously, only the net amount (open enrollment in and open enrollment out) was recorded under purchased services.

- **Other Financing Sources:** The District did not list assumptions for this line item and there is no forecast for FY 2004-05 through FY 2008-09.

  - Although there is no assumption, the District should provide explanatory language to support the forecast. See **R2.5**.

**Expenditures**

- **Salaries and Wages:** For FY 2004-05, 3 percent step increases for certificated and classified staff, a 3 percent cost of living adjustment (COLA) for classified staff, and a 0 percent COLA for certificated personnel and administrators is included in the forecast. A 3 percent step and COLA for classified and certificated is included in FY 2005-06 projections. Reductions in the work force are reflected in FY 2004-05 through FY 2008-09. A 2.5 percent COLA and 3 percent step increase is projected for FY 2006-07 through FY 2008-09. A one-time retirement incentive was implemented in FY 2003-04 with a projected cost savings of $2,180,341. Severance and incentive payments are included at

$101,157 for FY 2003-04 and $340,009 for FY 2004-05. Severance and incentive payments of $549,000 were estimated for FY 05-06. FY 2004-05 is a negotiating year for classified staff. See **R2.13**.

- **Employees' Retirement and Insurance Benefits:** A decrease in health care benefit costs of 9.1 percent has been negotiated for FY 2004-05. Projected increases for future years are 17.5 percent in FY 2005-06, 15 percent in FY 2006-07, 10 percent in FY 2007-08, and 5 percent in FY 2008-09. Life insurance is projected to increase 1 percent each year; dental insurance is projected to increase 5 percent annually; and vision insurance is projected to increase by 2 percent annually.

- **Purchased Services:** The District calculated most components of purchased services based of the individual line items. Marion County MRDD student expenses are projected to increase between $70,000 and $90,000 per year. Utility increases are based on projections from the utility companies (see the **facilities section).**

    - Other purchased services include tuition, open enrollment, and community schools (See **R 2.2).**

- **Supplies and Materials:** The forecast for FY 2004-05 through FY 2008-09 does not include purchases for textbooks and instructional material or the set aside as required by ORC § 3315.17, 3315.17.1 (see **R2.3**).

- **Capital Outlay:** The District has not forecasted capital outlay expenditures or set aside amounts as required by ORC § 3315.18, 3315.18.1, and Ohio Administrative Code (OAC) § 3301-92-2 (see **R2.4**).

**Reduction of Expenses:** During FY 2003-04, the District began taking steps to reduce expenditures, resulting in the following annual savings:

- Reductions of 12 FTEs ($491,100);
- Pay freezes for administrative and certified staff ($72,300);

These reductions amounted to a total annual savings of $563,400.

The following additional expenditure reductions were implemented in FY 2004-05:

- Reduced copier lease purchase ($5,496);
- Reduced bus driver overtime 25 percent by reducing field trips ($10,600);
- Reduced custodial overtime and substitute usage by eliminating non-reoccurring events (moves to and from buildings) as the building program was completed and replacement of boiler heat that required round-the-clock monitoring; and a

change in substitute usage (not hiring a substitute for a custodian when the employee is only off for one day) ($88,637);
- Reduced 55 FTEs ($2,894,099);
- Reduced 31 supplemental contracts ($55,584); and
- Continued pay freezes for administrative and certified staff ($72,300).

These reductions resulted in estimated total annual savings of $3,054,389.

## *Assessments not Yielding Recommendations*

In addition to the analyses presented in this report, AOS staff conducted assessments on several areas within the financial systems section, which did not warrant changes or yield recommendations. These areas include the following:

- **Discretionary Expenditures:** Assumptions for discretionary expenditures were reviewed and compared to the peers. Discretionary expenditures at Marion CSD represent 7.9 percent of total General Fund expenditures. Comparable expenditures for the peers range from 8.3 percent to 10.9 percent, for an average of 9.8 percent. No adjustments or recommendations were made.

- **Salaries, Wages, and Fringe Benefits:** These forecast areas yielded no adjustments as presented in the five-year forecast; however, there is a recommendation to decrease the cost-of-living increases and step increases during the forecast period. (See **R2.13**)

- **Prior Year Audit Noncompliance Citations:**

  - ***Financial reporting:*** The treasurer provides the board with monthly financial reports detailing budget to actual revenue and expenditures for all funds by line item (including ending fund balance), fiscal year comparisons and reports on the District's investments.

  - ***Elimination of negative fund balances*****:** With the exception of Food Service and Federal funds, which have negative fund balances, The District eliminated this practice. The treasurer allowed the Food Service fund to remain in a deficit to draw attention it and encourage the Board to analyze the food service function.. In FY 2004-05, the treasurer transferred monies from the General Fund to the Food Service Fund to cover the deficit. (See **food service** section.) Federal funds may have negative balances due to a cash flow timing difference. The District is required to expend monies before it requests reimbursement from the Federal Government. Therefore, a negative balance between the time of purchase and time of reimbursement may occur.

- ***Expenditures exceed appropriations*:** For FY 2004-05, the Federal funds are the only funds showing a negative balance. In the past, the treasurer allowed the District to spend over the appropriation. This is due to the policy of requesting reimbursement from the government after the purchases have been completed and not monitoring the spending limit. In order to avoid a compliance citation in this area, the treasurer submitted appropriations equal to expected revenues and included this in his forecast for FY 2004-05. The treasurer stated he will not allow expenditures to exceed appropriations for the current and future fiscal years. If the Federal funds have an ending FY 2004-05 negative balance, the treasurer will transfer monies from the General Fund to cover the deficits.

- ***Certification of expenditures***: At the beginning of the year, the treasurer sent a letter to all staff explaining that purchase orders must be prepared and approved prior to the purchase of goods and services. If goods and services are purchased prior to purchase order approval, the individual employee will be liable for the expense.

- ***Marion City Schools Digital Academy*:** During FY 2002-03, the Academy paid the District for start-up costs. The Board has retroactively approved the payments to the District for costs and services. The Academy now has a separate accounting system.

# Recommendations

## *Financial Forecast & Planning*

**R2.1 Marion CSD should revise the historical portion of the debt service section within the five-year forecast to better disclose the amount and types of debt outstanding. In addition, the forecast should show the amount of principal and interest payments for each type of debt in each fiscal year. Furthermore, the notes of the financial forecast should include a more detailed explanation of why and when the District issues debt and which fund or funds it will use to repay the debt.**

Based on the assumptions and notes to the forecast, Marion CSD currently has one tax anticipation note and a lease purchase agreement as outstanding debt. However, **Table 2-1** does not disclose the issue date and amount for each type of debt. Therefore, Marion CSD should consider revising the other financing sources section of the forecast by separating into its own line item the proceeds received from each type of debt (see **Table 2-2**). In addition, Marion CSD's forecast should also separate the amount paid for principal and interest on each type of debt paid from the General Fund, as shown in **Table 2-2**. The table shows the annual debt service requirement for each issue for the forecasted period. The forecast assumes Marion CSD will pay debt obligations as they come due. Outstanding debt balances are as of June 30, 2004.

**Table 2-2: Debt Service – General Fund**

| | **FY 2002-03** | **FY 2003-04** | **FY 2004-05** | **FY 2005-06** | **FY 2006-07** | **FY 2007-08** | **FY 2008-09** |
|---|---|---|---|---|---|---|---|
| **Principal** | | | | | | | |
| Capitalized Leases | $9,683 | $9,683 | | | | | |
| Tax Anticipation Note Bus Purchase | $24,900 | $43,624 | $44,839 | $19,050 | | | |
| National School Fitness Foundation | $54,000 | $54,000 | $36,000 | | | | |
| **Total Principal** | **$88,583** | **$107,307** | **$80,839** | **$19,050** | **$0** | **$0** | **$0** |
| **Interest** | | | | | | | |
| Capitalized Leases | $2,,164 | $2,,164 | | | | | |
| Tax Anticipation Note- Bus Purchase | $1,953 | $2,409 | $1,195 | $131 | | | |
| **Total Interest** | **$4,117** | **$4,573** | **$1,195** | **$131** | $0 | $0 | $0 |
| **Total Debt Service** | **$90,536** | **$109,717** | **$82,034** | **$19,181** | **$0** | **$0** | **$0** |

**Source:** Audited Financial Statements and Marion CSD 4502's

**Table 2-3** shows Marion CSD's total debt service obligations from its General Fund and Permanent Improvement Fund.

**Table 2-3: Total Debt Service**

| | FY 2002-03 | FY 2003-04 | FY 2004-05 | FY 2005-06 | FY 2006-07 | FY 2007-08 | FY 2008-09 |
|---|---|---|---|---|---|---|---|
| **Principal** | | | | | | | |
| Capitalized Leases | $9,683 | $9,683 | | | | | |
| Tax Anticipation Note-Bus Purchases | $24,900 | $43,624 | $44,839 | $19,050 | | | |
| National School Fitness Foundation | $54,000 | $54,000 | $36,000 | | | | |
| School Facilities Construction & Improvement Bonds:4.4% to 5.36% School Improvement 12/01/22 | $330,000 | $355,000 | $380,000 | $470,000 | $505,000 | $540,000 | $565,000 |
| **Total Principal** | **$418,583** | **$462,307** | **$460,839** | **$489,050** | **$505,000** | **$540,000** | **$565,000** |
| **Interest** | | | | | | | |
| Capitalized Leases | $2,,164 | $2,,164 | | | | | |
| Tax Anticipation Note-Bus Purchases | $1,953 | $2,409 | $1,195 | $131 | | | |
| School Facilities Construction & Improvement Bonds:4.4% to 5.36% School Improvement 12/01/22 | $830,384 | $814,711 | $797,711 | $777,831 | $754,793 | $729,839 | $703,178 |
| **Total Interest** | **$832,337** | **$817,120** | **$798,906** | **$777,962** | **$754,793** | **$729,839** | **$703,178** |
| **Total Debt Service** | **$1,250,920** | **$1,279,428** | **$1,259,745** | **$1,267,012** | **$1,259,793** | **$1,269,839** | **$1,268,178** |

**Source:** Audited Financial Statements and Marion CSD 4502's

Payments of School Facilities Construction and Improvement Bond principal and interest are recorded in the District's Debt Service Fund. The source of payment is from a current 3.69 mill bonded debt levy. In FY 2001-02, the District passed a .5 mill levy to fund the maintenance costs for the new facilities. Tax revenue from this levy has been reported in the Classroom Facilities Maintenance Fund. According to ORC § 3315.18, ORC § 3315.181, and OAC § 3301-92-02, the monies from this levy may be used for the required capital set aside.

As shown in **Table 2-3**, Marion CSD's total debt service obligations for the General Fund and the Permanent Improvement Fund vary from year to year, with future years' debt service obligations increasing in FY 2004-05 and decreasing for the remainder of the forecast period. However, since Marion CSD has various types of debt outstanding, the Treasurer should consider preparing a supporting debt service table as shown in **Table 2-2** and **Table 2-3** to better inform users of the financial forecast of the District's debt service requirements. These tables should accompany the five-year forecast to provide management with sound and detailed information on which to base their decisions about the District's current outstanding debt. Furthermore, the notes of the financial forecast should include a more detailed explanation concerning why and when the District issues debt and which fund or funds it will use to repay the debt.

**R2.2 Marion CSD should recalculate the five-year forecast for community school and open enrollment transfers in (revenues) and out (expenditures). According to OAC**

**§ 3313.98 and 3313.981, the revenue and expense funds should reflect the student ADM, formula aid, and cost of doing business factor for each student.**

**Table 2-4** shows community school transfers-out and open enrollment transfers in and out:

**Table 2-4: Open Enrollment Analysis**

| | FY 2002-03 | FY 2003-04 | FY 2004-05 | FY 2005-06 | FY 2006-07 | FY 2007-08 | FY 2008-09 |
|---|---|---|---|---|---|---|---|
| **Community School Transfer** | | | | | | | |
| Students | N/A | (63) | (91) | (120) | (150) | (180) | (210) |
| **Expenses** | **($383,292)** | **($492,081)** | **($575,118)** | **($775,082)** | **($990,167)** | **($1,214,341)** | **($1,447,900)** |
| **Open Enrollment** | | | | | | | |
| Students In | 281 | 310 | 310 | 310 | 310 | 310 | 310 |
| Students Out | (527) | (621) | (621) | (621) | (621) | (621) | (621) |
| Total Student Net | (246) | (311) | (311) | (311) | (311) | (311) | (311) |
| **Revenue** | **$1,426,977** | **$1,615,832** | **$1,651,292** | **$1,687,620** | **$1,724,748** | **$1,762,693** | **$1,801,472** |
| **Expenses** | **($2,677,796)** | **($3,236,812)** | **($3,307,844)** | **($3,380,617)** | **($3,454,990)** | **($3,531,000)** | **($3,608,682)** |
| **Net Total** | **($1,250,819)** | **($1,620,980)** | **($1,656,552)** | **($1,692,996)** | **($1,730,242)** | **($1,768,307)** | **($1,807,210)** |

**Source:** Marion CSD FY 2002-03 through FY 2004-05 ODE SF-3 Report. Marion CSD FY 2004-05 by AOS calculations.

In developing the forecast for community school transfers-out and open enrollment transfers in and out, Marion CSD should use the trend of students leaving the District. The District should also update the revenues and costs associated with open enrollment to reflect likely foundation increases (2.2 percent annually) and the District's cost-of-doing-business factor (1.0306 percent). These adjustments result in a weighted cost of $5,327 per student. **Table 2-5** shows the difference between the Marion CSD and AOS forecasts using these adjusted (weighted) student amounts.

**Table 2-5: District Five-Year Forecast to AOS Forecast Comparison**

| | FY 2004-05 | FY 2005-06 | FY 2006-07 | FY 2007-08 | FY 2008-09 |
|---|---|---|---|---|---|
| **Community Schools** | | | | | |
| **Five-Year Forecast** | $315,000 | $315,000 | $315,000 | $315,000 | $315,000 |
| **AOS Projection** | $575,118 | $775,082 | $990,167 | $1,214,341 | $1,447,900 |
| **Additional Expenses** | **$260,118** | **$460,082** | **$675,167** | **$899,341** | **$1,132,900** |
| **Open Enrollment** | | | | | |
| **Five-Year Forecast-Expense** | $3,958,409 | $4,085,000 | $4,185,000 | $4,435,000 | $4,435,000 |
| **AOS-Projected Expense** | $3,307,844 | $3,380,617 | $3,454,990 | $3,531,000 | $3,608,682 |
| **Reduced Expenses** | **($650,565)** | **($704,383)** | **($730,010)** | **($904,000)** | **($826,318)** |

**Source:** Marion CSD FY 2000-01 through FY 2004-05 ODE SF-3 Report. Marion CSD FY 2003-04 Five-Year Forecast.

**Table 2-5** shows the calculated difference based on more specific assumptions and recent historical trends in District enrollment. Marion CSD should adjust its forecast to more specifically reflect enrollment trends, particularly in critical expense areas. These adjustments are shown in the financial recovery plan in **Table 2-15.**

***Financial Implication:*** Marion CSD should add a total of $3,427,608 to the expenses of community school transfers and reduce open enrollment expenses by $3,815,276 over the five-year forecast period. The full effects of these adjustments are reflected in **Table 2-15**.

**R2.3 Marion CSD should calculate the required textbook and instructional materials set-aside each year as required by ORC § 3315.17 and ORC § 3315.17.1 and include the amount and a discussion in its five-year forecast. The District should ensure that the required spending amounts are reflected either in projected expenditures or in a set-aside line item.**

Under ORC § 3315.17, the District is annually required to set aside, in the General Fund, an amount based on a statutory formula for the purchase of textbooks and other instructional materials. The annual set-aside is based on 3 percent of the per-pupil funding formula amount from the preceding fiscal year multiplied by the district's student population for the current year. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward and used for the same purposes in future years, and added to the current-year's set-aside obligation.

**Table 2-6** shows a calculation of the estimated set aside amount for each forecasted year.

## Table 2-6: Textbook Set Aside Analysis

| | FY 2002-03 | FY 2003-04 | FY 2004-05 | FY 2005-06 | FY 2006-07 | FY 2007-08 | FY 2008-09 |
|---|---|---|---|---|---|---|---|
| **Student Population (Formula ADM)** | 5,506 | 5,437 | 5,301 | 5,226 | 5,133 | 5,040 | 4,9477 |
| **Formula Amount** | $4,814 | $4,949 | $5,058 | $5,169 | $5,283 | $5,399 | $5,518 |
| **Foundation** | $24,057,876 | $25,230,470 | $25,635,970 | $26,143,789 | $26,666,664 | $27,199,998 | $27,743,998 |
| **Balance Forward** | $0 | $429,485 | $470,236 | $470,236 | $455,236 | $440,236 | $425,236 |
| **Required Set Aside 3%** | $764,250 | $721,736 | $756,914 | $769,079 | $784,314 | $800,000 | $816,000 |
| **Qualifying Expenditures Forecast by District** | ($334,765) | ($680,985) | ($357,000) | ($422,000) | ($427,000) | ($427,000) | ($432,000) |
| **Additional Textbook Expenditures Required** | | | ($302,810) | ($247,844) | ($255,895) | ($269,350) | ($278,070) |
| **Elimination of FY 2003-04 set-aside** | | | | ($15,000) | ($15,000) | ($15,000) | ($15,000) |
| **Textbook Set Aside for Open Enrollment** | | $0 | ($97,104) | ($99,235) | ($101,419) | ($103,650) | ($105,930) |
| **Total Carry-forward** | **$429,485** | **$470,236** | **$470,236** | **$455,236** | **$440,236** | **$425,236** | **$410,236** |

**Source:** FY 2002-03 data is from AOS Financial Audit. FY 2002-03 through FY 2004-05 for student population, foundation base, and foundation amount is from ODE SF-3.
**Note**: FY 2004-05 – FY 2008-09 qualifying expenditures are from Marion CSD five-year forecast work papers. ADM, formula amount, foundation for FY 2005-06 through FY 2008-09 were forecasted by AOS based on trend analysis.
Reduction for open enrollment textbook set-aside is 3 percent of formula amount time ADM. Open enrollment textbook set-aside amount is reflected in the open enrollment analysis/purchased service.

**Table 2-6** shows that the District had $1,151,211 in prior and current year set-aside obligations in FY 2003-04, yet made only $680,985 in qualifying expenditures. The balance of those unspent funds have been carried forward into FY 2004-05 and added to the forecast set-aside requirement for that year. An examination of the District's forecast through FY 2008-09 reveals that the District has understated the amount of qualifying expenditures needed to satisfy the set-aside requirement by a cumulative amount of $1,408,727 from FY 2004-05 through FY 2008-09. This does not include eliminating the outstanding carry-forward amount of $470,236 in projected additional expenditures. The District responded that it lacks the current financial resources to fully comply with these obligations.

**Table 2-15D** adjusts the forecast to show the additional amount the District must spend annually to meet qualifying expenditure requirements. It also projects a plan to eliminate the original carry-forward balance over an 8-year period. While these adjustments would allow the District to comply with Ohio law, they will also substantially increase the District's projected deficit. Further, since average daily membership (ADM) determines the annual set-aside requirements, the District should continually monitor how enrollment trends (**Table 2-6**) may alter future set-aside amounts and update the financial forecast accordingly.

*Financial Implication*: Adjustments of the District's financial forecast to reflect compliance with ORC § 3315.17 and some elimination of outstanding carry-forward balances will add $1,413,969 to the District's project deficit fund balance through FY 2008-09. The full effect of these adjustments are reflected in **Table 2-15**.

**R2.4 Marion CSD should calculate the required capital set-aside each year as required by ORC § 3315.18, ORC § 3315.18.1, and OAC § 3301-92-2, and include the amount and a discussion in the five-year forecast.**

Under ORC § 3315.18, the District is annually required to set aside in the General Fund, an amount based on a statutory formula for the acquisition and construction of capital improvements. The annual set-aside is based on 3 percent of the per-student funding formula amount from the preceding fiscal year multiplied by the district's student population for the current year. Amounts not spent by the end of the fiscal year or offset by the expenditure of similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward and used for the same purposes in future years, and added to the current year's set-aside obligation. Likewise, in certain circumstances, if a District spends more than the required amount in any year, the surplus spending can be carried forward to the next year and applied to that obligation.

**Table 2-7** shows a calculation of the estimated set aside amounts for each forecasted year.

## Table 2-7: Capital Set Aside Analysis

| | FY 2002-03 | FY 2003-04 | FY 2004-05 | FY 2005-06 | FY 2006-07 | FY 2007-08 | FY 2008-09 |
|---|---|---|---|---|---|---|---|
| **Student Population (Formula ADM)** | 5,506 | 5,437 | 5,301 | 5,226 | 5,133 | 5,040 | 4,947 |
| **Formula Amount** | $4,814 | $4,949 | $5,058 | $5,169 | $5,283 | $5,399 | $5,518 |
| **Foundation** | $24,057,876 | $25,230,470 | $25,635,970 | $26,143,789 | $26,666,664 | $27,199,998 | $27,743,998 |
| **Balance Forward** | | ($315,994) | ($714,817) | ($117,903) | ($8,824) | $15,490 | $55,490 |
| **Required Set Aside 3%** | **$764,250** | **$721,736** | **$756,914** | **$769,079** | **$784,314** | **$800,000** | **$816,000** |
| **Current Year Offset** | ($1,080,244) | | ($160,000) | ($160,000) | ($160,000) | ($160,000) | ($160,000) |
| **Qualifying Expenditures** | | ($1,120,559) | | | ($100,000) | ($100,000) | ($100,000) |
| **Additional Capital Expenditures Required** | | | | ($500,000) | ($500,000 | ($500,000 | ($500,000 |
| **Total Carry-forward** | **($315,994)** | **($714,817)** | **($117,903)** | **($8,824)** | **$15,490** | **$55,490** | **$111,490** |

**Source:** FY 2002-03 data is from AOS Financial Audit. FY 2002-03 through FY 2004-05 for student population, foundation base, and foundation amount is from ODE SF-3.
**Note**: FY 2004-05 – FY 2008-09 qualifying expenditures are from Marion CSD five-year forecast work papers. ADM, formula amount, foundation for FY 2005-06 through FY 2008-09 were forecasted by AOS based on trend analysis.

**Table 2-7** shows the District has complied with the set-aside requirement through FY 2004-05 through significant qualifying expenditures and offsets. However, the District forecasts setting aside only $160,000 to $285,000 annually in future years, although the required annual set-aside ranges from $784,314 to $832,320. The District responded that it lacks the financial resources to comply with the set-aside requirements for these years.

Although all the District's buildings are either new or newly renovated, it risks having these structures fall into disrepair if adequate funds are not set aside for maintenance. Even if the District currently does not need to spend to the annual set-aside threshold due to the newness of the buildings, the law requires that school districts reserve unspent amounts annually and build up a fund balance to address future maintenance needs. This is especially important since the District does not have a permanent improvement levy. Consequently, the forecast has been adjusted to add $500,000 in additional capital expenditures each year from FY 2005-06 to FY 2008-09.

*Financial Implication*: Adjustment of the District's financial forecast to reflect compliance with ORC § 3315.18 will add $2 million ($500,000 annually) to the District's projected deficit from FY 2005-06 through FY 2008-09. The full effect of these adjustments are reflected in **Table 2-15**.

**R2.5 Marion CSD's five-year forecast and the accompanying assumptions or notes should be expanded to consistently present more detailed historic and projected information and explanatory comments. By providing more detail in the forecast and its supporting notes, the Board of Education (the Board) and the public will have the information needed to better understand the financial condition of the District. Marion CSD should consider posting the forecast and financial statement on its web site to allow the public easy access. Furthermore, the District should periodically monitor projections and expenditures to effectively control and limit spending, and ensure projections are accurate and reliable.**

A forecast is a management tool developed by the treasurer with the assistance of other management personnel. Assumptions are informed methodologies, developed by district management to explain forecasted amounts. Since outcomes may change based upon economic conditions, the forecast should be considered a working document that can be altered as the assumptions and conditions change. Although Marion CSD includes some assumptions and notes with its five-year financial forecast, it does not provide adequate disclosure to allow a reader to understand what is included in the numbers and the reason for various fluctuations. The following factors that have an impact on the forecast should be included:

- Inflation rates - historic and projected;
- Internal financial objectives and comparable external averages;
- Enrollment and Average Daily Membership (ADM) - historic and projected, including open enrollment in and out of the District;
- Information regarding facility utilization;
- Staffing by position - historic and projected;
- Expenditures for main components of purchased services, materials, supplies and textbooks, other expenditures, and specific amounts necessary to fulfill minimum state requirements;
- Projected capital outlay expenditures with details identifying amounts related to routine maintenance, specific projects, and fulfillment of minimum state requirements;
- Debt service obligations with detailed descriptions; and
- Outstanding encumbrances at year-end and a discussion of their impact.

By periodically monitoring projections and expenditures, the District would be better able to ensure that spending is limited and controlled, and projections are accurate and reliable.

**R2.6 Marion CSD should invest in forecasting software to allow periodic updates of the five-year forecast as assumptions are changed and new information is received. The forecast should reflect any cost savings strategies implemented by the District so**

**that District personnel are aware of the effect of expenditure reductions. Although interim forecast updates do not need to be officially approved by the Board, as is the case with the October and May forecasts, regular updates are essential to monitoring the on-going financial status of the District. Additionally, forecasting software would allow a greater range of administrative personnel with a direct role in District financial management to participate in the forecasting process.**

While the District implemented a number of strategies prior to the performance audit to reduce expenditures, these savings were not incorporated into its projections until the October 2004 forecast. An updated forecast provides ODE, the Board, and citizens with valuable information about the financial position of the District. ODE recommends that a district update its five-year forecast if there are any significant changes to financial circumstances or forecast revenue and expenditure assumptions.

An established software package allows for more detailed analysis and efficiency because historical information can be stored and does not have to be re-entered for updates. In addition, and especially important in tight financial times, a packaged software program would enhance the District's ability to analyze information and prepare "what if" scenarios in a timely and efficient manner.

The District should continue to monitor economic information, revenue and expenditure changes, and other factors that may cause forecasting assumptions to change. In addition, having several appropriate personnel (e.g. those who play an integral part in the budgeting process) using the forecasting software would allow the District to decentralize and establish back ups for the forecasting process. Up-to-date forecasts and the inclusion of a greater range of personnel in the forecasting process will help Marion CSD make informed decisions related to its financial condition and plan for future expenditures.

*Financial Implication:* Forecasting software commonly used by many Ohio school districts (School Business Solutions) is available at no cost through an Internet site. However, the vendor recommends that treasurers attend annual update training at an estimated cost of $500.

**R2.7 The Board, in conjunction with its finance committee, should create specific policies and procedures to ensure reliability and consistency in the development and review of the five-year forecast. These policies and procedures should address key forecast factors, including parties responsible for information, periods covered, the development process, assumption development and evaluation, support for assumptions, presentation, and outside consultation. Forecasts should be reviewed for errors and omissions by a source independent of the treasurer's office but knowledgeable in the areas of financial forecasting and school finance.**

The District does not have formal policies or procedures pertaining to the development and review of the five-year forecast. The treasurer is responsible for preparing the five-year forecast and submitting it to ODE. Recently, the treasurer developed and submitted a forecast that showed a positive ending fund balance for FY 2004-05 based on an appropriations measure that may be overly optimistic. The appropriations measure and associated forecast was tailored to show a positive ending fund balance to meet Ohio law. However, the submission of the forecast with a positive ending fund balance negated the District's ability to seek solvency assistance in FY 2004-05.

The American Institute of Certified Public Accountants (AICPA) *Guide for Prospective Financial Information* identifies the following best practices for reviewing financial forecast information.

- ***Responsible party's experience:*** An analysis of prior forecasts developed by the preparer compared to actual results may indicate the effectiveness of the process used by the preparer. The responsible party's experience is not necessarily indicative of the reliability of the forecast, but it may help to identify areas where the preparer can improve. Gaining an understanding of significant variances will help in the development of future forecasts.

- ***Prospective period covered:*** The extent to which historical results are used to develop the forecast should be considered in relation to the length of the forecast period. When historical trends are used to forecast line items, it must be determined if an adequate amount of historical data was used.

- ***Development process:*** Inquiry; observation; review of manuals, memoranda and instructions; examination of analysis models or statistical techniques; and review of documentation should occur to obtain a complete and comprehensive understanding of how the forecast was developed.

- ***Procedures to evaluate assumptions:*** Those procedures deemed necessary to determine whether the assumptions provide a reasonable basis for the forecast should be performed. These procedures can be as simple or complex as deemed necessary.

- ***Development of Assumptions:*** Using knowledge of operations and the economic environment, it should be determined whether assumptions have been developed for all key factors on which the District's financial results appear to depend.

- ***Support for Assumptions:*** Once all key factors have been identified and assumptions have been developed for each key factor, support for the assumptions should be formally documented. Documentation should be submitted to reviewers with the forecast so both can be properly evaluated.

- ***Presentation:*** In evaluating preparation and presentation of the financial forecast, procedures should be performed which will provide reasonable assurance that the presentation reflects the identified assumptions, computations are mathematically accurate, assumptions are internally consistent, and accounting principles are consistent with those used for historical data.

- ***Using the work of a specialist/consultant:*** Areas in which the forecast may be enhanced by input from outside sources should be identified and consultants or specialists used when necessary.

Although the Board may not be sufficiently versed in the forecasting process to have an immediate effect on the process, it should develop policies to ensure the accuracy of the forecast through the oversight of its finance committee or engage a specialist when necessary. Likewise, the treasurer should use the forecasting process and associated discussions as a means to educate the Board on District financial matters.

**R2.8 Marion CSD does not currently have an updated long-range strategic plan. While the District has a continuous improvement plan (CIP) to address academic goals, it does not have a centralized plan which links academic goals to its financial condition and other external events that may affect those goals. The District should develop a comprehensive strategic plan using an established framework, such as the United States Department of Commerce Baldrige National Quality Program. The strategic plan should consider the District's current financial issues in the context of its operational goals.**

The CIP is an indicator of the District's commitment to improving the quality of the education it provides; however, the plan is limited to educational objectives. The plan does not specify a timeline for reaching each objective or the source of funding needed to meet these goals. Furthermore, the CIP fails to identify the action steps needed to improve the District's current financial standing, or provide an overview of community events and actions that may affect the District in the future.

The United States Department of Commerce established the Baldrige National Quality Program to provide a framework for educational institutions to assess performance on a wide range of key indicators. While many of the goals outlined in the Baldrige program may be too ambitious considering the District's limited financial resources, the criteria for strategic planning identified by the Baldrige program can provide a framework for the

District to begin to develop a comprehensive strategic plan. The Baldrige program identifies the following key factors on which a strategic plan should collect and identify relevant data and information:

- Student, stakeholder, and market needs, expectations, and opportunities, including student achievement;
- Competitive environment and capabilities relative to competitors and comparable organizations;
- Educational reform, technological innovations, or other key changes that might affect programs, offerings, services, and operations;
- Strengths and weaknesses, including faculty, staff and other resources;
- Opportunities to redirect resources to higher priority programs, offerings, services, or areas;
- Capability to assess student learning and development;
- Budgetary, societal, ethical, regulatory, and other potential risks;
- Changes in the local, regional, or national economic environment; and
- Factors unique to the organization, including partners' and suppliers' needs, strengths, and weakness.

By developing a strategic plan consistent with the framework established by the Baldrige program, the District can formalize its approach to preparing for the future on both a programmatic and financial basis. The current academic and financial position of the District requires that resources be used as efficiently and effectively as possible. A strategic plan will help ensure that the District's priorities and goals are examined in relationship to its finances and that the appropriate cost trade-offs are considered. The strategic plan will also serve to ensure that the school board, superintendent, and residents have a uniform understanding of the District's priorities and goals, as well as the resources needed and currently available to meet these goals.

## *Internal Controls*

**R2.9 Marion CSD should prepare a policy and procedures manual for the finance department[2-1], as well as establish a process for regularly reviewing and updating the manual. The policy and procedures manual should document all policies, procedures and processes within the department, by function, so that it can be used by all finance employees. A policy and procedures manual will enable employees unfamiliar with all the department's activities to understand the steps required to complete job functions when other employees are on vacation or leave.**

[2-1] Marion CSD uses the term finance office for its treasurer's office.

**In addition, the Finance Office should ensure policy and procedures are prepared for inclusion the District's manual, which is distributed to all employees. These policies and procedures should be limited to items pertinent to all staff, such as purchasing policies. Employees should acknowledge receipt and understanding of the manual through a signed statement that should be maintained in the employee's personnel file. The manual should be reviewed on an annual basis to determine if changes, deletions or additions are needed.**

Marion CSD does not have an updated or completed departmental policy and procedures manual for the Finance Office. The absence of an updated policy manual for the Office has led to inconsistent management financial reporting, negative fund balances, expenditures exceeding appropriations, and lack of certification of expenditures. Areas often included in policies and procedures for treasurers' offices include the following:

- Fiscal management goals;
- Federal funds management and reporting;
- Annual tax budget and appropriations measure preparation, including the tax budget hearing, review and adoption processes;
- Annual operating budget planning, deadlines, and schedules;
- Investments;
- Taxing and borrowing authority/limitations, including the use of tax advances;
- Funding proposals and applications, as well as appropriations modification authority;
- Revenue from tax sources including local revenues;
- Depository of funds and insufficient funds procedures;
- Cash handling in school buildings;
- School property disposal;
- Bonded employees and officers;
- Fiscal accounting and reporting, as well as audit procedures and inventory management;
- Purchasing procedures, including bidding requirements, vendor relations, sales calls and demonstrations, and payment procedures; and
- Payroll procedures, including payroll schedules and expense reimbursement.

According to the Government Finance Officers Association (GFOA) *Best Practices in Public Budgeting*, fiscal policies, plans, programs, and strategies should be adjusted as needed. Changing conditions, or programs and services that are not producing the desired results or efficiently using resources may require adjustment in order to meet the needs of stakeholders and achieve the District's goals.

The purpose of the manual is to establish a uniform decision making process and routinize daily operations. In addition, access to a policy and procedure manual is important to ensure continuity and consistent application of District and departmental regulations. Clarity in departmental policies reduces the chance of misunderstandings and helps to preserve institutional memory when turnover occurs. In addition, documented and enforced policies and procedures increase the level of accountability throughout the organization and reduce inefficiencies. The District could develop fiscal management policies and procedures using existing resources.

**R2.10 The District should increase the lag time between the payroll end date and the actual pay date to allow adequate time to ensure the accuracy of the payroll. The District should increase the lag time to two weeks. Modifying the payroll lag time may be dependent upon union contracts and labor negotiations.**

Marion CSD's prepares payroll checks and direct deposits midweek before the payroll Friday and before contract employees have submitted data covering that pay period. Contract employees are paid on the same day they submit their payroll data, resulting in the payroll office having to adjust for errors and omissions in the succeeding payroll. Hourly and classified staff are particularly susceptible to errors in the payroll, causing corrections in the next pay period. In addition, leave balances are not current and may cause negative leave balances to occur.

According to *Effective Internal Accounting Control for Nonprofit Organizations: A Guide for Directors and Management* (PricewaterhouseCoopers), the objective of internal controls for payroll is to ensure that payroll disbursements are made only on proper authorization to bona fide employees, that payroll disbursements are properly recorded, and that legal requirements are complied with. Preparation of payroll checks and direct deposits should reflect procedures for all other cash disbursements. Payroll personnel should not write or distribute checks without appropriate supporting documentation including approved time sheets and absences.

Errors cost the District valuable employee time to resolve over and under payment. Some errors may go undetected because of the short time frame for resolution. Undetected errors result in a direct cost to the district for incorrect payroll charges. In addition, preparing payroll checks before receiving payroll data, and allocating no time for reconciliation, does not allow the District to accommodate unforeseen events such as illness of the payroll administrator, emergences, computer problems, etc.

The District could phase-in a two-week lag time by increasing turnaround one day each pay period, until the full two weeks have been added. A phased implementation will minimize any effects that increasing the lag time could have on employees.

*Revenue and Expenditure Analysis*

**R2.11 Marion CSD should closely examine the spending patterns indicated in Table 2-9 and Table 2-10, and the cost reductions recommended in the financial systems, human resource, facilities, and food service sections of this report. The District should consider reallocating the monies it is currently receiving toward those programs and priorities that have the greatest impact on improving the students' educational outcomes and proficiency test results. Furthermore, the District should analyze the spending patterns and recommendations to aid in efforts to regain financial stability.**

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, the District must evaluate and prioritize functions. Analyzing the spending patterns between the various functions should indicate where the school board and management place their priorities. In addition, analyzing the number of ODE's 18 performance standards a school district meets should also correlate with its spending patterns. Ohio law calls for each school district to receive a performance accountability rating based on 18 performance standards. These standards are minimum performance goals for public education in Ohio. **Table 2-8** presents the number of performance standards Marion CSD and the peers met in FY 1999-00, FY 2000-01, FY 2001-02, FY 2002-03, and FY 2003-04.

**Table 2-8 Comparison of ODE Performance Standards Met**

| FY Year | Totals Standards | Marion CSD | Findlay CSD | Massillon CSD | Newark CSD | Peer Average |
|---|---|---|---|---|---|---|
| 2003-04 | 18 | 5 | 11 | 8 | 8 | 9 |
| -2002-03 | 22 | 8 | 15 | 9 | 9 | 11 |
| 2001-02 | 22 | 9 | 17 | 11 | 11 | 13 |
| 2000-01 | 27 | 14 | 18 | 11 | 13 | 14 |
| 1999-00 | 27 | 8 | 18 | 10 | 12 | 13 |

**Source:** ODE Report Cards

As shown in **Table 2-8**, Marion CSD met fewer standards in four of the five years than the peer average. Additionally, Marion CSD standards have declined in the past three years, meeting only eight of twenty-two standards in FY 2002-03 and five of eighteen standards in FY 2003-04, which subsequently resulted in an academic watch classification.

**Table 2-9** and **Table 2-10** show the amount and percent of expenditures posted to the various Uniform School Accounting System (USAS) function codes for Marion CSD and the peer districts. Function codes report expenditures by their nature or purpose. **Table 2-10** shows operational expenditures per pupil and percentage of operational expenditures by function for all funds that are classified as governmental fund types. Governmental funds are used to account for the district's governmental-type activities.

### Table 2-9: All Governmental Funds Operational Expenditures by Function [1]

| | Marion CSD | | Findlay CSD | | Massillon CSD | | Newark CSD | | Peer Average | |
|---|---|---|---|---|---|---|---|---|---|---|
| | ADM 5301 | | ADM 5807 | | ADM 4292 | | ADM 6498 | | ADM 5532 | |
| | $ per Pupil | % of Total | $ per Pupil | % of Total | $ per Pupil | % of Total | $ per Pupil | % of Total | $ per Pupil | % of Total |
| Regular Instruction | $4,555.61 | 53.0% | $3,880.31 | 41.9% | $3,432.05 | 36.5% | $3,975.26 | 47.5% | $3,801.57 | 42.5% |
| Special Instruction | $1,064.81 | 12.4% | $1,132.49 | 12.2% | $1,047.62 | 11.1% | $966.98 | 11.5% | $1,045.74 | 11.7% |
| Vocational Education | $97.46 | 1.1% | $462.17 | 5.0% | $503.59 | 5.4% | $163.23 | 1.9% | $355.84 | 4.0% |
| Adult/Continuing Education | $17.45 | 0.2% | $2.41 | 0.0% | $8.09 | 0.1% | $0.00 | 0.0% | $2.93 | 0.0% |
| Extracurricular Activities | $0.00 | 0.0% | $0.00 | 0.0% | $0.00 | 0.0% | $0.00 | 0.0% | $0.00 | 0.0% |
| Classroom Materials and Fees | $0.00 | 0.0% | $0.00 | 0.0% | $0.00 | 0.0% | $0.00 | 0.0% | $0.00 | 0.0% |
| Miscellaneous | $0.00 | 0.0% | $0.00 | 0.0% | $0.00 | 0.0% | $0.00 | 0.0% | $0.00 | 0.0% |
| Other Instruction | $33.78 | 0.4% | $145.73 | 1.6% | $116.69 | 1.2% | $1.62 | 0.0% | $81.80 | 0.9% |
| **Instruction Expenditures** | **$5,769.12** | **67.1%** | **$5,623.11** | **60.7%** | **$5,108.03** | **54.3%** | **$5,107.09** | **61.0%** | **$5,287.88** | **59.1%** |
| Pupil Support Services | $374.68 | 4.4% | $435.52 | 4.7% | $548.26 | 5.8% | $442.26 | 5.3% | $467.31 | 5.2% |
| Instructional Support Services | $391.36 | 4.5% | $637.50 | 6.9% | $474.35 | 5.0% | $546.99 | 6.5% | $559.87 | 6.3% |
| Board of Education | $24.66 | 0.3% | $22.72 | 0.2% | $50.16 | 0.5% | $35.75 | 0.4% | $34.92 | 0.4% |
| Administration | $717.31 | 8.3% | $608.43 | 6.6% | $821.89 | 8.7% | $627.15 | 7.5% | $670.96 | 7.5% |
| Fiscal Services | $115.45 | 1.3% | $232.40 | 2.5% | $262.79 | 2.8% | $157.07 | 1.9% | $210.77 | 2.4% |
| Business Services | $71.35 | 0.8% | $0.00 | 0.0% | $90.78 | 1.0% | $79.97 | 1.0% | $54.78 | 0.6% |
| Plant Operation & Maintenance | $767.66 | 8.9% | $1,020.97 | 11.0% | $1,094.82 | 11.6% | $705.36 | 8.4% | $916.50 | 10.2% |
| Pupil Transportation | $116.79 | 1.4% | $360.86 | 3.9% | $304.82 | 3.2% | $316.99 | 3.8% | $329.19 | 3.7% |
| Central Support Services | $0.00 | 0.0% | $21.21 | 0.2% | $241.53 | 2.6% | $119.94 | 1.4% | $116.84 | 1.3% |
| **Support Services Expenditures** | **$2,579.26** | **30.0%** | **$3,339.63** | **36.1%** | **$3,889.39** | **41.4%** | **$3,031.49** | **36.2%** | **$3,361.15** | **37.6%** |
| **Non-Instructional Services Expenditures** | **$120.45** | **1.4%** | **$68.76** | **0.7%** | **$103.14** | **1.1%** | **$99.58** | **1.2%** | **$89.72** | **1.0%** |
| **Extracurricular Activities Expenditures** | **$133.67** | **1.6%** | **$227.71** | **2.5%** | **$304.03** | **3.2%** | **$134.73** | **1.6%** | **$211.04** | **2.4%** |
| **Operating Expenditures** | **$8,602.49** | **100%** | **$9,259.21** | **100%** | **$9,404.58** | **100%** | **$8,372.90** | **100%** | **$8,949.80** | **100%** |

**Source**: Marion CSD, Findlay CSD, Massillon CSD, and Newark CSD FY 2003-04 4502's, Exhibit 2
[1] Calculation differences due to rounding

According to **Table 2-9**, Marion CSD's total per-pupil operating expenditures ($8,602) were lower than two of the peer districts and lower than the peer average ($8,950). While Marion CSD is below the peer average in total dollars per student, the percentage of total expenditures for instructional dollars per student of 67.1 percent is higher than the peers and peer average of 59.1 percent. Marion CSD spends the lowest percentage of operating expenditures among the peers for support services. Marion CSD also spends the fewest dollars per student for extracurricular activities, and the most dollars per student for non-instructional services.

**Table 2-10** shows revenues by source and expenditures by object for Marion CSD and the peer districts.

**Table 2-10: Revenue by Source / Expenditures by Object** [1]

| | Marion CSD | Findlay CSD | Massillon CSD | Newark CSD | Peer Average |
|---|---|---|---|---|---|
| Property & Income Tax | 26.8% | 52.5% | 41.8% | 44.1% | 46.1% |
| Intergovernmental Revenues | 67.2% | 42.2% | 55.4% | 53.8% | 50.5% |
| Other Revenues | 5.9% | 5.4% | 2.8% | 2.0% | 3.4% |
| **Total Revenue** | **$39,907,205** | **$47,280,974** | **$33,306,161** | **$46,369,325** | **$42,318,820** |
| Wages | 59.2% | 62.0% | 60.4% | 64.9% | 62.4% |
| Fringe Benefits | 21.0% | 23.3% | 20.1% | 19.4% | 20.9% |
| Purchased Service | 16.0% | 9.2% | 12.3% | 8.8% | 10.1% |
| Supplies & Textbooks | 1.6% | 2.9% | 3.1% | 3.7% | 3.2% |
| Capital Outlays | 0.6% | 0.7% | 1.5% | 0.1% | 0.7% |
| Debt Service | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% |
| Miscellaneous | 1.3% | 1.7% | 1.8% | 1.2% | 1.6% |
| Other Financing Uses | 0.1% | 0.2% | 0.8% | 1.9% | 1.0% |
| **Total Expenditures** | **$41,309,508** | **$49,870,369** | **$33,395,781** | **$48,865,996** | **$44,044,048** |

**Source:** 4502 Exhibit 2, Statement P FY 2003-04
[1] Calculation differences due to rounding

As indicated in **Table 2-10**, Marion CSD's percentage of total revenue from property and income tax is 26.8 percent, compared to the peer average of 46.1 percent. Intergovernmental revenues, which typically include state foundation payments received from ODE, are 67.2 percent of revenue compared to the peer average of 50.5 percent. Therefore, Marion CSD is more reliant on ODE foundation payments than the peers, and collects far less local revenue than comparable districts.

**R2.12 Marion CSD should make every attempt to ensure other funds do not require transfers/advances from the General Fund. The General Fund has been supporting other funds with advances and transfers each year. Eliminating transfers-out to the enterprise funds by ensuring they are self-sufficient will help the District better manage its General Fund obligations.**

**Table 2-11** shows actual and forecasted transfers and advances for FY 2001-02 through FY 2008-09.

**Table 2-11: Forecast of Inter-fund Transactions, General Fund**

| Year | Transfer In | Transfer Out | Advances In | Advances Out |
|---|---|---|---|---|
| **FY 2008-09** | $0 | ($50,000) | $0 | $0 |
| **FY 2007-08** | $0 | ($50,000) | $0 | $0 |
| **FY 2006-07** | $0 | ($50,000) | $0 | $0 |
| **FY 2005-06** | $0 | ($50,000) | $0 | $0 |
| **FY 2004-05**[1] | $0 | ($803,048) | $0 | $0 |
| **FY 2003-04** | $3,723 | ($53,723) | $321,941 | $0 |
| **FY 2002-03** | $0 | ($157,131) | $148,000 | ($327,670) |
| **FY 2001-02** | $1,671,201 | ($1,967,751) | $0 | ($148,000) |

**Source:** Marion CSD 4502 Schedule I, Marion CSD Five-Year Forecast, and Marion CSD Schedule of Food Service Transfers
[1] This reflects a transfer to the Food Service Fund covering both FY 2003-04 actual and projected transfer for FY 2004-05. The treasurer did not make a transfer in FY 2003-04 to highlight this issue to the Marion Board of Education.

The District has historically made substantial transfers from the General Fund to support certain enterprise funds, especially the Food Service Fund (See **food service** section, **R5.7**). Enterprise funds are intended to capture the cost of providing goods or services through user fees or charges. The Government Finance Officers Association recommends that governments use charges and fees to support certain services, and that policies should explain circumstances when fees will not recover full costs. **Table 2-11** demonstrates significant transfers out of the General Fund to subsidize certain activities. However, due to the District's present financial condition, the General Fund can no longer be relied upon to subsidize such business-type activities. The majority of these transfers are to the Food Service fund. The District is working to eliminate this practice, but officials do not believe they can completely eliminate the subsidy in FY 2004-05. In addition, the District does intend to continue a $50,000 annual transfer from the General Fund to the Harding Athletic Fund. Although the District has made substantial reductions in supplemental contracts related to sports, it should still determine whether increased fees or cost-cutting measures could reduce or eliminate this subsidy.

*Financial Implication:* Marion CSD should add an additional $100,000 for support for food service for FY 2004-05 and no support thereafter. (See the **food service** section.) Complete implications of these adjustments are reflected in **Table 2-15**.

**R2.13 Marion CSD should seek to control and limit salary increases in future contract negotiations, particularly since the potential cost savings resulting from performance audit recommendations may not fully offset future projected deficits. The District should limit cost of living adjustments (COLA) to no more than 1.0 percent and hold step increases flat in FYs 2005-06 through 2008-09.**

The District's certificated collective bargaining agreement expires in FY 2003-04, while the classified collective bargaining agreement is in effect until FY 2004-05. According to these agreements, certificated and classified employees have received a 3 percent step and 3 percent cost of living increase annually in prior years.

Even though salaries and wages are at or below the peer districts (see **human resources** section), Marion CSD cannot continue the same COLA increases as in previous years. On average, Marion CSD's salaries are about 3 percent below the peers. Based on the District's current and projected financial condition, and the defeat of renewal and new levies in the November 2004 elections, it should consider limiting future cost of living adjustments.

Step increases at Marion CSD currently are about 3.5 percent. Combined with the average COLA, many Marion employees are receiving annual increases of about 6 percent. This level of pay increase is unsustainable based on the District's current financial condition. **Table 2-12** shows the effect of reducing certificated cost of living increases from 3.0 and 2.5 percent to 1.0 percent with no step increases for FY 2005-06 through FY 2008-09. According to District officials, only about half of the employees receive step raises in any given year.

**Table 2-12: Potential Savings in Certificated and Classified Salaries**

| | FY 2004-05 | FY 2005-06 | FY 2006-07 | FY 2007-08 | FY 2008-09 |
|---|---|---|---|---|---|
| **Salaries Calculation 1.0% COLA** [1] | | | $24,497,812 | $24,734,925 | $24,974,428 |
| **Salary Calculation Five-Year Forecast** | | | $25,695,924 | $26,653,322 | $27,634,655 |
| **Savings** | **No change** | **No change** | **($1,198,112)** | **($1,918,397)** | **($2,660,227)** |

[1] Does not include step increases

By foregoing step increases and providing a minimum COLA, all employees will see some benefit. Also, maintaining a low COLA and holding step increases to zero will help the District better manage its budget during difficult financial times.

*Financial Implication:* As illustrated in **Table 2-12**, the District would avoid costs of approximately $5,776,736 through the last three years of the forecasted period by limiting future certified cost of living adjustments to 1.0 percent with no step increases.

**R2.14 Marion CSD should work with its constituents and stakeholders to identify the quality of service level desired by District residents. Once identified, management must work with District residents to secure revenue to support the level of educational programming desired. Marion CSD has made significant reductions in expenditures. However, these actions will not be sufficient to meet basic operating costs in the future, nor sustain a high level of educational performance. Marion CSD should consider additional revenues through levies.**

As previously discussed, Marion has been very proactive in reducing expenditures the past two years. It has taken steps to significantly reduce personnel costs, supplies and capital outlay, as well as enhance revenue in areas such as food services. However, as evidenced by **R2.3** and **R2.4**, the District is not meeting spending thresholds for instructional materials and capital outlay required by Ohio law. These set-aside amounts are intended to ensure an adequate educational environment and well-maintained buildings. Although the District has attempted to maintain fiscal accountability by spending below these required amounts, the unspent portions of these set-asides are being carried forward into future years where they are accumulating into massive obligations. However, based on the following analysis, it appears the District lacks the current resources to fulfill these obligations while continuing to offer an adequate educational program in other areas, namely teacher staffing. Further, it is incurring additional costs beyond its control such as increased utility expenses from it new buildings.

As shown in **Table 2-13**, Marion CSD receives 26.8 percent of its revenue from property taxes and local sources while the peers receive an average of 46.1 percent. Marion CSD is more dependent on Intergovernmental Revenues (state funding) than peer school districts. Marion CSD is dependent on state funding for approximately 67.2 percent of its total revenue, compared to the peer average of 50.5 percent.

Several issues have significantly reduced the amount of state foundation revenue the District received during FY 2003-04 and may impact the amount it plans to receive during FY 2004-05. For instance, by the State General Assembly reduced the previously scheduled 2.8 percent increase in per student foundation funding for these fiscal years to 2.2 percent. In addition, the trend of decreasing enrollment and increasing open enrollment negatively affects the state foundation revenue received by the District.

**Table 2-13** displays the tuition rates for Marion CSD and the peers. The tuition rates, as calculated by ODE, represent the amount of local tax revenue a district received per student during the last fiscal year. The table also shows the amount of basic support (state aid) the district received per formula ADM for the same year.

## Table 2-13: Pupil Tuition Rate for FY 2002-03

| District | County | Local Tax Revenue from Tax Year 2003 | Formula ADM - FY 2002-03 | Local Yearly Tuition Rate FY 2002-03 | Basic Support per Formula ADM |
|---|---|---|---|---|---|
| Marion CSD | Marion | $12,419,117 | 5,811.69 | $2,136.92 | $4,876.20 |
| Findlay CSD | Hancock | $27,370,213 | 5,997.15 | $4,563.87 | $3,146.23 |
| Massillon CSD | Stark | $14,138,825 | 4,328.83 | $3,266.20 | $4,094.22 |
| Newark CSD | Licking | $22,316,025 | 6,888.47 | $3,239.62 | $3,601.26 |
| **Peer Average** | | **$21,275,021** | **5,738.15** | **$3,689.90** | **$3,613.90** |
| Elgin Local SD | Marion | $4,619,847 | 1,563.85 | $2,954.15 | $3,487.01 |
| Pleasant Local SD | Marion | $4,891,251 | 1,287.70 | $3,798.44 | $2,823.31 |
| Ridgedale Local SD | Marion | $2,782,794 | 892.31 | $3,118.64 | $3,246.62 |
| River Valley Local SD | Marion | $7,165,941 | 1,815.67 | $3,946.72 | $3,043.01 |
| **Marion County Average** | | **$4,864,958** | **1,389.88** | **$3,454.49** | **$4,199.98** |
| Alliance CSD | Stark | $6,494,242 | 3,164.65 | $2,052.12 | $4,882.82 |
| Barberton CSD | Summit | $12,066,798 | 4,312.79 | $2,797.91 | $4,554.56 |
| East Liverpool CSD | Columbiana | $4,504,796 | 3,142.34 | $1,433.58 | $5,581.73 |
| Mansfield CSD | Richland | $19,798,531 | 5,976.50 | $3,312.73 | $4,848.89 |
| Niles CSD | Trumbull | $7,000,484 | 3,024.15 | $2,314.86 | $4,520.54 |
| Xenia Community CSD | Greene | $17,303,959 | 5,218.26 | $3,316.04 | $4,137.85 |
| **Similar Districts Average** | | **$11,194,802** | **4,139.78** | **$2,537.87** | **$4,754.40** |

**Source:** ODE pupil tuition rate reports.

As shown in **Table 2-13**, Marion CSD was well below the peer average tuition rate in FY 2002-03. Local support for Marion CSD is $2,137 per year per ADM (41 percent below the peer average) while the peer average is $3,614. Since the District does not generate sufficient revenues to support its expenditures, it will have to appeal to residents for resources to sustain basic operations, or make additional reductions in key programmatic areas.

**Table 2-14A** and **Table 2-14B** presents the impact of operating levies of different millage amounts on the District's ending fund balance. This assumes the District implements all aspects of the financial recovery plan in **Table 2-15. Table 2-14A** is calculated without certificated staff reductions and **Table 2-14B** includes the reductions.

## Table 2-14 A: Analysis of Impact of Levy (Excludes Certificated Staff Reductions)

| | FY 2004-05 | FY 2005-06 | FY 2006-07 | FY 2007-08 | FY 2008-09 |
|---|---|---|---|---|---|
| Original Results of Operations (**Table 2-1**) | ($842,750) | ($3,228,283) | ($6,071,244) | ($9,379,783) | ($11,887,367) |
| Table 2-15A Not Subject to Negotiation (without teacher reductions) | $0 | ($518,117) | ($524,515) | ($886,514) | ($893,609) |
| Table 2-15B Subject to Negotiation | $0 | ($131,000) | ($1,349,452) | ($2,084,871) | ($2,835,025) |
| Table 2-15C Cost Increases | $100,500 | $500 | $500 | $500 | $500 |
| Table 2-15D Changes to Assumptions | ($87,637) | $518,543 | $716,052 | $779,691 | $1,099,653 |
| **Total Reduction of Expenses** | **$12,863** | **($130,074)** | **($1,157,415)** | **($2,191,194)** | **($2,628,481)** |
| **Revised Results of Operations** | **($855,613)** | **($3,098,209)** | **($4,913,829)** | **($7,188,589)** | **($9,258,886)** |
| **Beginning Cash Balance** | **$1,463,574** | **$607,961** | **($2,490,248)** | **($7,404,077)** | **($14,592,666)** |
| **Ending Cash Balance** | **$607,961** | **($2,490,248)** | **($7,404,077)** | **($14,592,666)** | **($23,851,552)** |
| Encumbrances | ($1,124,284) | ($1,123,516) | ($1,126,516) | ($1,123,516) | ($1,123,516) |
| Renewal Levy - Cumlative | | | | $1,000,500 | $2,001,000 |
| **Ending Fund Balance** | **($516,323)** | **($3,613,764)** | **($8,530,593)** | **($14,715,682)** | **($22,974,068)** |
| | | | | | |
| Cumlative 10-Mill Levy | | | $1,849,204 | $5,547,612 | $9,246,020 |
| **Ending Fund Balance After 10-Mill Levy** | **($516,323)** | **($3,613,764)** | **($6,681,389)** | **($9,168,070)** | **($13,728,048)** |
| | | | | | |
| Cumlative 15-Mill Levy | | | $2,773,808 | $8,321,420 | $8,321,420 |
| **Ending Fund Balance After 15-Mill Levy** | **($516,323)** | **($3,613,764)** | **($5,756,785)** | **($6,394,262)** | **($14,652,648)** |
| | | | | | |
| Cumlative 20-Mill Levy | | | $3,698,401 | $11,095,221 | $18,492,041 |
| **Ending Fund Balance After 20-Mill Levy** | **($516,323)** | **($3,613,764)** | **($4,832,192)** | **($3,620,461)** | **($4,482,027)** |

**Source**: AOS

## Table 2-14 B: Analysis of Impact of Levy (Includes Certificated Staff Reductions)

| | FY 2004-05 | FY 2005-06 | FY 2006-07 | FY 2007-08 | FY 2008-09 |
|---|---|---|---|---|---|
| Original Results of Operations (**Table 2-1**) | ($842,750) | ($3,228,283) | ($6,071,244) | ($9,379,783) | ($11,887,367) |
| Table 2-15A Not Subject to Negotiation | ($2,610,437) | ($3,175,256) | ($3,241,512) | ($3,657,997) | ($3,692,807) |
| Table 2-15B Subject to Negotiation | $0 | ($131,000) | ($1,349,452) | ($2,084,871) | ($2,835,025) |
| Table 2-15C Cost Increases | $100,500 | $500 | $500 | $500 | $500 |
| Table 2-15D Changes to Assumptions | $87,637 | $518,543 | $716,052 | $779,691 | $1,099,653 |
| **Total Reduction of Expenses** | **($2,422,300)** | **($2,787,213)** | **($3,874,412)** | **($4,962,677)** | **($5,427,679)** |
| **Revised Results of Operations** | **$1,579,550** | **($441,070)** | **($2,196,832)** | **($4,417,106)** | **($6,459,688)** |
| **Beginning Cash Balance** | **$1,463,574** | **$3,043,124** | **$2,602,054** | **$405,222** | **($4,011,884)** |
| **Ending Cash Balance** | **$3,043,124** | **$2,602,054** | **$405,222** | **($4,011,884)** | **($10,471,572)** |
| Encumbrances | ($1,124,284) | ($1,123,516) | ($1,126,516) | ($1,123,516) | ($1,123,516) |
| Renewal Levy - Cumlative | | | | $1,000,500 | $2,001,000 |
| **Ending Fund Balance** | **$1,918,840** | **$1,478,538** | **($721,294)** | **($4,134,900)** | **($9,594,088)** |
| | | | | | |
| Cumlative 5-Mill Levy | | | $924,603 | $2,773,808 | $4,623,013 |
| **Ending Fund Balance After 5-Mill Levy** | **$1,918,840** | **$1,478,538** | **$203,309** | **($1,361,092)** | **($4,971,075)** |
| | | | | | |
| Cumlative 10-Mill Levy | | | $1,849,204 | $5,547,612 | $9,246,020 |
| **Ending Fund Balance After 10-Mill Levy** | **$1,918,840** | **$1,478,538** | **$1,127,910** | **$1,412,712** | **($348,068)** |
| | | | | | |
| Cumlative 15-Mill Levy | | | $2,773,808 | $8,321,420 | $13,869,032 |
| **Ending Fund Balance After 15-Mill Levy** | **$1,918,840** | **$1,478,538** | **$2,052,514** | **$4,186,520** | **$4,274,944** |

**Source**: AOS

**Table 2-14B** shows the effect that different levy mill levels, in conjunction with AOS identified cost savings (including a reduction of certificated personnel), would have on the District's ending fund balance. If voters pass an operating levy that addresses the needs of the District, whether as a permanent or emergency levy, it would be able to mitigate large future operating deficits during the forecast period. Therefore, Marion CSD should strive to share information with the community about the affect that passing an operating levy will have on the District's finances.

## *Financial Recovery Plan*

**R2.15 Marion CSD should analyze and use the proposed financial recovery plan outlined in Table 2-15 to evaluate the recommendations presented within this performance audit and determine the impact of the related cost savings on its financial condition. Marion CSD should also consider implementing the recommendations in this performance audit to improve the District's current and future financial situation. In addition, the District should update its forecast on an ongoing basis as it addresses critical financial issues.**

Marion CSD's forecast, presented in **Table 2-1**, projects a cash deficit at the end of FY 2005-06 and fund deficit at the end of FY 2004-05. The cash deficit is expected to reach $29.9 million and the fund deficit is expected to reach $25.3 million by FY 2008-09.

**Table 2-15** presents a potential financial recovery plan for management to use as a tool to assess the impact that implementation of various performance recommendations will have on the District's financial condition. The revised forecast contains the same financial projections presented in **Table 2-1**, along with additional lines to incorporate the financial savings and implementation costs associated with the performance audit recommendations. Accompanying tables (**Tables 2-15A, 2-15B, 2-15C,** and **2-15D**) summarize the financial implications associated with the recommendations contained within this report. The District could implement some recommendations immediately, while others will require further management action to realize the proposed savings.

For Marion CSD to achieve and maintain financial stability, it will be necessary to make difficult management decisions. The District should consider the ideas and recommendations included in this report for implementation. However, since the audit is not all-inclusive, the District should explore other cost savings and revenue enhancements for inclusion in the financial recovery plan.

## Table 2-15: Proposed Financial Recovery Plan (000)s

| | Actual 2001-02 | Actual 2002-03 | Actual 2003-04 | Forecast 2004-05 | Forecast 2005-06 | Forecast 2006-07 | Forecast 2007-08 | Forecast 2008-09 |
|---|---|---|---|---|---|---|---|---|
| General Real Estate Property Tax | $7,987 | $8,573 | $8,714 | $8,438 | $7,713 | $6,988 | $5,988 | $4,987 |
| Tangible Personal Property Tax | $2,119 | $2,040 | $1,802 | $1,740 | $1,750 | $1,725 | $1,700 | $1,675 |
| Local Taxes | $137 | $291 | $195 | $175 | $170 | $170 | $170 | $170 |
| Unrestricted Grants-in-Aid | $22,129 | $22,176 | $24,896 | $24,925 | $25,000 | $25,000 | $25,000 | $25,000 |
| Restricted Grants-in-Aid | $2,626 | $2,755 | $1,543 | $1,285 | $1,290 | $1,290 | $1,290 | $1,290 |
| Other Operating Revenues | $877 | $780 | $1,882 | $2,654 | $2,500 | $2,500 | $2,500 | $2,500 |
| **Total Operating Revenues** | **$36,964** | **$37,785** | **$40,199** | **$40,367** | **$39,423** | **$38,573** | **$37,448** | **$36,422** |
| Salaries & Wages | $24,439 | $25,438 | $25,233 | $23,994 | $24,941 | $25,696 | $26,653 | $27,635 |
| Fringe Benefits | $7,227 | $7,884 | $8,693 | $8,002 | $8,804 | $9,629 | $10,290 | $10,730 |
| Purchased Services | $2,650 | $3,069 | $6,619 | $7,287 | $7,486 | $7,708 | $8,238 | $8,288 |
| Supplies, Materials & Textbooks | $1,236 | $690 | $661 | $540 | $637 | $717 | $727 | $737 |
| Capital Outlay | $339 | $472 | $235 | $5 | $160 | $260 | $285 | $285 |
| Debt Service: Principal | | $27 | $46 | $46 | $19 | | | |
| Other Expenditures | $505 | $531 | $539 | $552 | $555 | $585 | $585 | $585 |
| Performance Audit Recommendations-Not Subject to Negotiations | | | | (2,610) | (3,175) | (3,242) | (3,658) | (3,639) |
| Performance Audit Recommendations-Subject to Negotiations | | | | | (112) | (1,349) | (2,085) | (2,835) |
| Cost Increases | | | | 101 | 1 | 1 | 1 | 1 |
| Revised Assumptions | | | | 88 | 519 | 716 | 780 | 1,100 |
| **Total Operating Expenditures** | **$36,396** | **$38,111** | **$42,027** | **$38,004** | **$39,814** | **$40,719** | **$41,815** | **$42,831** |
| Proceeds From TAN Notes | | $132 | | | | | | |
| Other Financing Sources/(Uses) | | $14 | $21 | $20 | | | | |
| Net Transfers/Advances In/(Outs) | ($445) | ($337) | $404 | ($803) | ($50) | ($50) | ($50) | ($50) |
| **Net Financing** | **($445)** | **($190)** | **$425** | **($783)** | **($50)** | **($50)** | **($50)** | **($50)** |
| **Result of Operations (Net)** | **$123** | **($516)** | **($1,402)** | **$1,580** | **($441)** | **($2,196)** | **($4,417)** | **($6,459)** |
| Beginning Cash Balance | $3,258 | $3,382 | $2,866 | $1,464 | $3,044 | $2,603 | $407 | ($4,010) |
| **Ending Cash Balance** | **$3,382** | **$2,866** | **$1,464** | **$3,044** | **$2,603** | **$407** | **($4,010)** | **($10,469)** |
| Outstanding Encumbrances | $612 | $683 | $691 | $621 | $620 | $620 | $620 | $620 |
| Bus Purchase | | | | | | | | |
| "345" Textbook / Instructional | | | | $504 | $504 | $507 | $504 | $504 |
| "345" Capital Reserve | | | | | | | | |
| **Ending Fund Balance** | **$2,769** | **$2,183** | **$773** | **$1,919** | **$1,479** | **($720)** | **($5,134)** | **($11,593)** |
| Property Tax Renewal/Replacement | | | | | | | $1,001 | $1,001 |
| Cumulative Balance Renewal/Replacement | | | | | | | $1,001 | $2,002 |
| Fund Balance for Certification | $2,769 | $2,183 | $773 | $1,919 | $1,479 | ($720) | ($4,133) | ($9,591) |
| **Unreserved Fund Balance** | **$2,769** | **$2,183** | **$773** | **$1,919** | **$1,479** | **($720)** | **($4,133)** | **($9,591)** |

**Source**: Marion CSD's financial forecast and recommendations identified throughout this performance audit

**Tables 2-15A**, **2-15B**, **2-15C**, and **2-15D** present the financial implications from the recommendations contained in this report.

## Table 2-15A: Summary of Performance Audit Recommendations Not Subject to Negotiation

| | Recommendation | FY 2004-05 | FY 2005-06 | FY 2006-07 | FY 2007-08 | FY 2008-09 |
|---|---|---|---|---|---|---|
| **R3.1** | Reduction in certificated staff | $2,610,437 | $2,657,139 | $2,716,997 | $2,771,483 | $2,799,198 |
| **R3.2** | Discontinue administrative retirement pick-up | | $242,800 | $245,200 | $247,650 | $250,100 |
| **R4.2** | Close two elementary schools; Lincoln in FY 2005-06 and Hayes or Harrison in FY 2007-08 | | $248,517 | $252,175 | $611,380 | $615,677 |
| **R4.3** | Reduce overtime through automated work order system | | $26,800 | $27,140 | $27,484 | $27,832 |
| | **Total** | $2,610,437 | $3,175,256 | $3,241,512 | $3,657,997 | $3,692,807 |

**Source**: Financial implications identified throughout this performance audit
**Note:** Savings related to staff reductions (salaries and benefits) are appreciated each year based on the COLA and step increases in the Five-Year Forecast.

## Table 2-15B: Summary of Performance Audit Recommendations Subject to Negotiation

| | Recommendation | FY 2004-05 | FY 2005-06 | FY 2006-07 | FY 2007-08 | FY 2008-09 |
|---|---|---|---|---|---|---|
| **R2.13** | Limit future cost of living increases to 1 percent with flat step increases | | | $1,198,112 | $1,918,397 | $2,660,227 |
| **R3.3** | Increase classified employee contributions for health insurance premium | | $131,600 | $151,340 | $166,474 | $174,798 |
| | **Total** | | $131,600 | $1,349,452 | $2,084,871 | $2,835,025 |

**Source**: Financial implications identified throughout this performance audit
**Note:** Savings related to salaries and benefits are appreciated each year based on the Five-Year Forecast.

## Table 2-15C: Costs Increases

| | Recommendation | FY 2004-05 | FY 2005-06 | FY 2006-07 | FY 2007-08 | FY 2008-09 |
|---|---|---|---|---|---|---|
| **R2.12** | Increase transfers-out of General Fund to subsidize Food Service Fund for additional year | $100,000 | | | | |
| **R2.6** | Training-related costs for forecasting software | $500 | $500 | $500 | $500 | $500 |
| | **Total** | ($100,500) | ($500) | ($500) | ($500) | ($500) |

**Source**: Financial implications identified throughout this performance audit

## Table 2-15D: Revised Assumptions

| | Recommendation | FY 2004-05 | FY 2005-06 | FY 2006-07 | FY 2007-08 | FY 2008-09 |
|---|---|---|---|---|---|---|
| **R2.2** | Open enrollment reduced expenses | $650,565 | $704,383 | $730,010 | $904,000 | $826,318 |
| **R2.2** | Community school additional expenses | ($260,118) | ($460,082) | ($675,167) | ($899,341) | ($1,132,900) |
| **R2.3** | Increase textbook expenditures | ($302,810) | ($262,844) | ($270,895) | ($284,350) | ($293,070) |
| **R2.4** | Increase capital expenditures | $0 | ($500,000) | ($500,000) | ($500,000) | ($500,000) |
| | **Total** | **$87,637** | **($518,543)** | **($716,052)** | **($779,691)** | **($1,099,652)** |

**Source**: Financial implications identified throughout this performance audit

**Table 2-16** illustrates ending cash fund balances as a percentage of total revenues for the following two scenarios:

- Using AOS revised forecasting assumptions and methodology, but without implementing the recommendations; and
- Implementing AOS recommendations.

**Table 2-16: Fund Balance to Prior Year Total Receipts**

| Fiscal Year | Scenario One: No AOS Recommendations [1] | Scenario Two: With AOS Recommendations |
|---|---|---|
| FY 2001-02 | | |
| FY 2002-03 | 5.9% | 5.9% |
| FY 2003-04 | 2.0% | 2.0% |
| FY 2004-05 | (1.2%) | 6.1% |
| FY 2005-06 | (9.2%) | 5.0% |
| FY 2006-07 | (24.4%) | (0.4%) |
| FY 2007-08 | (46.3%) | (9.2%) |
| FY 2008-09 | (75.6%) | (23.4%) |

**Source:** District forecast and financial recover plan developed by AOS
[1] Based on revised assumptions shown in **Table 2-15.**

**This page intentionally left blank.**

# Human Resources

## Background

This section of the report focuses on human resources operations in the Marion City School District (Marion CSD). Comparisons are made throughout this section of the report to the following peer school districts: Findlay City School District (Findlay CSD), Massillon City School District (Massillon CSD) and Newark City School District (Newark CSD). Peer districts were identified based upon comparable characteristics identified by the Ohio Department of Education (ODE), a review of various demographic information, and input from Marion CSD personnel. Best practices from ODE, the State Employee Relations Board (SERB) and other school districts are used for additional comparisons.

### *Organizational Function*

The primary human resource responsibilities at Marion CSD are completed by the Human Resources Director and the Treasurer along with their assistants. Human resource responsibilities include coordinating the activities and programs for the recruitment and selection of employees; monitoring compliance with employment standards (criminal background checks and teaching certifications); facilitating employee performance evaluations; administering and monitoring grievance policies and procedures; negotiating and administering union contracts; conducting disciplinary hearings; maintaining personnel files; placing selected substitutes; and participating in new employee orientations. The Treasurer's Office is responsible for administering the health insurance plans and processing payroll.

### *Staffing*

**Table 3-1** illustrates the actual staffing levels at Marion CSD and the peer districts during FY 2003-04 as reported in EMIS. Adjustments were made to the corresponding EMIS reports based upon interviews with the appropriate district personnel to ensure comparability from district to district. Also, during the course of the audit, the District reduced administrative positions by an additional 3.7 FTEs. These changes are reflected in brackets within the table.

## Table 3-1: District Staffing by FTE for FY 2003-04

| Category | Marion CSD[1] | Findlay CSD | Massillon CSD | Newark CSD | Peer Average |
|---|---|---|---|---|---|
| **Administrators** | **40.7 [37.0]** | **38.9** | **36.7** | **35.0** | **36.9** |
| **Professional Education: Subtotal** | **354.2** | **454.4** | **320.6** | **491.7** | **422.2** |
| Curriculum Specialists | 0.0 | 0.0 | 2.0 | 0.0 | 0.7 |
| Counseling | 9.0 | 11.0 | 8.0 | 8.5 | 9.2 |
| Librarian / Media | 2.0 | 3.0 | 2.0 | 5.0 | 3.3 |
| Remedial Specialists | 19.3 | 4.0 | 3.0 | 48.8 | 18.6 |
| Regular Education Teachers | 232.5 | 287.7 | 188.0 | 284.0 | 253.2 |
| Special Education Teachers | 51.5 | 69.0 | 42.0 | 63.5 | 58.2 |
| Vocational Education Teachers | 7.0 | 34.0 | 29.0 | 15.0 | 26.0 |
| Tutor / Small Group Instructor | 1.0 | 21.3 | 23.9 | 1.0 | 15.4 |
| Educational Service Personnel | 25.2 | 18.9 | 17.0 | 52.9 | 29.6 |
| Supplemental Service | 0.0 | 0.0 | 3.7 | 1.0 | 1.6 |
| Other Professional | 6.7 | 5.5 | 2.0 | 12.0 | 6.5 |
| **Professional – Other** | **16.8** | **29.7** | **15.2** | **25.4** | **23.4** |
| **Technical: Subtotal** | **15.0** | **27.2** | **9.0** | **24.7** | **20.3** |
| Computer Operator | 1.0 | 5.0 | 0.0 | 0.0 | 1.7 |
| Graphic Arts | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Practical nursing | 0.0 | 6.2 | 0.0 | 10.9 | 5.7 |
| Computer Programmer | 0.0 | 0.0 | 1.0 | 0.0 | 0.3 |
| Printer | 2.0 | 0.0 | 0.0 | 1.5 | 0.5 |
| Library Aide | 10.0 | 11.0 | 8.0 | 12.3 | 10.4 |
| Other Technical | 1.0 | 5.0 | 0.0 | 0.0 | 1.7 |
| **Office / Clerical: Subtotal** | **72.9** | **106.7** | **92.3** | **74.9** | **91.3** |
| Bookkeeping | 0.0 | 0.0 | 2.0 | 5.0 | 2.3 |
| Clerical | 37.0 | 35.0 | 32.8 | 45.8 | 37.9 |
| Messenger | 0.0 | 0.0 | 0.5 | 0.0 | 0.2 |
| Record Keeping | 0.0 | 0.0 | 0.0 | 5.0 | 1.7 |
| Teaching Aide | 34.9 | 71.0 | 57.0 | 17.3 | 48.4 |
| Telephone Operator | 0.0 | 0.0 | 0.0 | 1.0 | 0.3 |
| Parent Mentor | 1.0 | 0.7 | 0.0 | 0.8 | 0.5 |
| **Crafts / Trades** | **4.0** | **13.0** | **8.0** | **12.0** | **11.0** |
| **Transportation** | **11.3** | **28.6** | **16.3** | **31.7** | **25.5** |
| **Attendance** | **0.0** | **1.0** | **1.0** | **2.0** | **1.3** |
| **Custodial** | **36.3** | **53.0** | **27.8** | **48.7** | **43.2** |
| **Food Service** | **33.5** | **33.2** | **26.0** | **31.2** | **30.1** |
| **Guard/watchman** | **0.0** | **3.7** | **0.0** | **1.3** | **1.7** |
| **Monitoring** | **0.0** | **8.7** | **24.5** | **15.2** | **16.1** |
| **Groundskeeping** | **1.0** | **0.0** | **3.0** | **1.0** | **1.3** |
| **Stores Handling** | **0.0** | **0.0** | **2.0** | **0.0** | **0.7** |
| **Other Service Worker/Laborer** | **0.0** | **0.0** | **0.0** | **15.0** | **5.0** |
| **Total FTEs** | **585.6 [581.9]** | **798.1** | **582.4** | **809.8** | **730.1** |

**Source:** District and Peer Educational Management Information System (EMIS) reports and payroll reports.
[1] Marion CSD numbers contain adjustments reflecting significant reductions in FY 2004-05

**Table 3-1** shows that Marion CSD has fewer employees in most every category when compared to the peer average. In addition, the administrator positions were reduced in FY 2004-05 by 3.7 FTEs, bringing the District more in line with the peers. Marion CSD is higher than the peer average in remedial specialists, however these positions are also funded through federal grants for at-risk students. Since Marion CSD was recently in academic watch, federal grants have allowed the District to implement programs to address academic deficiencies without relying on the general fund. Marion CSD's Federal Programs administrator is fully funded through grant revenues. The District also has more food services employees than the peers, which is addressed in the **Food Services** section of this report.

Staffing levels within a school district vary depending on the number of students enrolled. **Table 3-2** illustrates the staffing levels per 1,000 Average Daily Membership (ADM) at Marion CSD and the peer districts. Reductions in staffing levels during the audit period are shown in brackets within the table.

## Table 3-2: District Staffing Per 1,000 ADM

| Category | Marion CSD | Findlay CSD | Massillon CSD | Newark CSD | Peer Average |
|---|---|---|---|---|---|
| **Average Daily Membership (ADM)** | **5,446** | **6,117** | **4,481** | **6,615** | **N/A** |
| **Administrators: Subtotal** | **7.4 [6.6]** | **6.4** | **8.2** | **5.0** | **6.5** |
| **Professional Education: Subtotal** | **65.6** | **74.3** | **71.4** | **74.4** | **73.3** |
| Curriculum Specialists | 0.0 | 0.0 | 0.4 | 0.0 | 0.1 |
| Counseling | 1.6 | 1.8 | 1.8 | 1.3 | 1.6 |
| Librarian / Media | 0.6 | 0.5 | 0.4 | 0.8 | 0.6 |
| Remedial Specialists | 3.5 | 0.7 | 0.7 | 7.4 | 2.9 |
| Regular Education Teachers | 43.5 | 47.0 | 42.0 | 42.9 | 44.0 |
| Special Education Teachers | 9.5 | 11.3 | 9.4 | 9.6 | 10.1 |
| Vocational Education Teachers | 1.3 | 5.6 | 6.5 | 2.3 | 4.8 |
| Tutor / Small Group Instructor | 0.2 | 3.5 | 5.3 | 0.2 | 3.0 |
| Educational Service Personnel | 4.3 | 3.1 | 3.8 | 8.0 | 5.0 |
| Supplemental Service | 0.0 | 0.0 | 0.7 | 0.2 | 0.3 |
| Other Professional | 1.2 | 0.9 | 0.4 | 1.8 | 1.1 |
| **Professional – Other** | **3.1** | **5.5** | **2.2** | **4.3** | **4.0** |
| **Technical: Subtotal** | **2.8** | **4.6** | **2.0** | **4.1** | **3.6** |
| Computer Operator | 0.2 | 0.8 | 0.0 | 0.0 | 0.3 |
| Graphic Arts | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Practical Nursing | 0.0 | 1.1 | 0.0 | 2.0 | 1.0 |
| Computer Programmer | 0.0 | 0.0 | 0.2 | 0.0 | 0.1 |
| Library Technician | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Printer | 0.4 | 0.0 | 0.0 | 0.3 | 0.1 |
| Library Aide | 1.8 | 1.8 | 1.8 | 1.9 | 1.8 |
| Other Technical | 0.2 | 0.8 | 0.0 | 0.0 | 0.3 |
| **Office / Clerical: Subtotal** | **13.4** | **17.5** | **20.6** | **11.3** | **16.5** |
| Bookkeeping | 0.0 | 0.0 | 0.4 | 0.8 | 0.4 |
| Clerical | 6.8 | 5.7 | 7.3 | 6.9 | 6.7 |
| Messenger | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| Records Managing | 0.0 | 0.0 | 0.0 | 0.8 | 0.3 |
| Teaching Aide | 6.4 | 11.6 | 12.7 | 2.6 | 9.0 |
| Telephone Operator | 0.0 | 0.0 | 0.0 | 0.2 | 0.1 |
| Parent Mentor | 0.2 | 0.1 | 0.0 | 0.1 | 0.1 |
| **Crafts / Trades** | **0.7** | **2.1** | **1.8** | **1.8** | **1.9** |
| **Transportation** | **2.1** | **4.7** | **3.6** | **4.8** | **4.4** |
| **Custodial** | **6.7** | **8.7** | **6.2** | **7.4** | **7.4** |
| **Food Service** | **6.1** | **5.4** | **5.8** | **4.7** | **5.3** |
| **Guard/Watchman** | **0.0** | **0.7** | **0.0** | **0.2** | **0.3** |
| **Monitoring** | **0.0** | **1.4** | **5.5** | **2.3** | **3.1** |
| **Groundskeeping** | **0.2** | **0.0** | **0.7** | **0.2** | **0.3** |
| **Stores Handling** | **0.0** | **0.0** | **0.4** | **0.0** | **0.1** |
| **Other Service Worker / Laborer** | **0.0** | **0.0** | **0.0** | **2.3** | **0.8** |
| **Total FTEs per 1,000 ADM** | **107.3 [106.8]** | **131.1** | **128.4** | **122.8** | **127.4** |

**Source:** District and Peer Educational Management Information System (EMIS) reports and payroll reports.
[1] Marion CSD numbers contain adjustments reflecting significant reductions in FY 2004-05

As illustrated in **Table 3-2**, Marion CSD staffing is appreciably lower than the peers when FTEs are compared on a per 1,000 ADM basis. Total FTEs per 1,000 ADM is significantly lower than the peer average.

## *Collective Bargaining Agreements/Policies*

Certificated and classified personnel at Marion CSD are governed under separate negotiated agreements. During the performance audit, certain contractual and employment issues were assessed and compared to the peer districts. Because contractual and employment issues often directly affect the operating budget, many of the issues have been assessed to show their financial implications for Marion CSD. Implementing the associated recommendations would require negotiation. **Table 3-3** and **Table 3-4** illustrate key contractual issues in the certificated and classified negotiated agreements.

## Table 3-3: Certificated Contractual Comparison

| | Marion CSD | Findlay CSD | Massillon CSD | Massillon Group Teachers | Newark CSD |
|---|---|---|---|---|---|
| Length of work day | Not Stated | 8 Hours, including a duty free lunch | Elem. 7.25 hours<br>High 7.5 hours<br>Middle 7.5 hours<br>* All include a 40 minute duty free lunch | 7 hours, Including 45 minute duty-free lunch | 7.5 hours including a half-hour duty-free lunch |
| Maximum class size | Not Stated | K-8 25<br>Music 30<br>Physical Ed 30<br>Science 25<br>Social Studies 25<br>English 25<br>Foreign Language 25 | Not stated | | Should meet or exceed state minimum standards. |
| <u>Number of contract days</u><br>Instructional days<br>In-service days/professional dev.<br>Parent/teacher conferences | Not Stated | Not stated | 184<br>178<br>2<br>3 | | 186<br>178<br>3<br>2<br>3 |
| Maximum number of sick days accrued | 202 | 184 | 303 | 303 | 280 |
| Maximum number of sick days paid out at retirement | 52.3 | 53 | 74 | 74 | 70 |
| Number of years required for severance | Retirement in STRS | Retirement in STRS | Retirement in STRS | Retirement in STRS | 5 |
| Number of personal days | 2 | 3 | 3 | 3 | 3 |
| Number of leave days for association business | 5 days total for District | President receives one class period per day or $4,306 | None stated | | Up to 20 days total for the District |
| Sabbatical<br><br>Professional leave | <br><br>3 | <br><br>Not stated | 1 semester or 1 year for full time study | <br><br>3 | After 5 years, may take up to a year<br>5 |
| Retirement Incentive in Contract or additional severance | $13,000 for FY 2003-04 | No | $400 for each year of Teaching Service at Massillon | $300 for each year of Teaching Service at Massillon | $500 |
| RIF restrictions | No | In accordance with ORC | In accordance with ORC | In accordance with ORC | No |
| Cost of living increases each year of the contract | 0% for FY '04 | 3.5% | 4% | 4% | 4% |
| Average step increase | 3.6% | 3.5% | 3.7% | | 3.6% |
| Tuition Reimbursement | $45,000 total for the District | $40,903 total for the District | $20,000 total for District | | $50,000 total for the District |

**Source:** District and Peer certificated collective bargaining agreements. .

# Table 3-4: Classified Contractual Comparison

| | **Marion CSD** | **Findlay CSD Bus Drivers** | **Findlay CSD Custodian, Grounds, and Maintenance** | **Massillon CSD** | **Massillon CSD Secretaries** | **Newark CSD** |
|---|---|---|---|---|---|---|
| Evaluations required | Yes, annual | No | No | Yes | Yes | No |
| Minimum call-in hours paid to employees for emergencies | 2 hours | N/A | 2 hours | 2 hours | N/A | 2 hours |
| Vacation time to accumulate | 0-7 years, 10 days<br>8-16 years, 15 days<br>17+ years, 20 days | N/A | 1-8 years, 2 weeks<br>9-15 years, 3 weeks<br>16+ years, 4 weeks | 1-6 years, 10 days<br>7-12 years, 15 days<br>13-18years, 20 days<br>1 additional day for each year up to 26 days | 1-5 years, 10 days<br>6-10 years, 15 days<br>11-15 years, 20 days<br>16+<br>1 additional day for each year up to 26 days | 1-5 years, 10 days<br>6-10 years, 15 days<br>11-15 years, 17 days<br>16-20 years, 20 days<br>21+ years, 22 days |
| Maximum number of sick days accrued | 265 | No limit | No limit | 303 | 303 | No limit |
| Maximum number of sick days paid at retirement | 45 | 50 | 25% of accumulated sick leave | 25% of accumulated sick leave (75.8) | 25% of accumulated sick leave (75.8) | 60 days |
| Retirement incentive/enhancement | No | No | No | $200 for each year of service at Massillon CSD | $200 for each year of service at Massillon CSD | No |
| Number of years required for severance pay | Retirement with SERS | Retirement with SERS | 5 years and retirement under SERS | 10 years and retirement under SERS | | Retirement with SERS |
| Number of personal days | 4 | 3 | 3 | 3 | 3 | 3 |
| Holidays for 12-month employees | 10 | | 12 | 13 | 13 | 9 |
| Holidays for less than 12 month employees | 7 | 8 | 10 | 11 | 11 | 10 |

| | Marion CSD | Findlay CSD Bus Drivers | Findlay CSD Custodian, Grounds, and Maintenance | Massillon CSD | Massillon CSD Secretaries | Newark CSD |
|---|---|---|---|---|---|---|
| Number of hours required for benefits | 3 hours per day | 4 hours per day | 1560 hours per year (30 hours per week) | 7 hours per day for cafeteria, monitors, and library techs. Bus drivers that have a regular route and aides that work at least 30 hours per week | | 20 hours per week |
| Labor-Management Committee | No | No | No | No | No | Yes |
| Tuition Reimbursement | $6000 annual total for workshops and tuition reimburse-ment | None | None | None | None | 10,000 annual total, limited to $800 per employee |
| Attendance Incentive | Payment varies from $75-$225 based on contract year and personal and sick leave use | 1 day of pay for each semester of perfect attendance | 1 day of pay for each semester of perfect attendance | Annual Bonus: $150 for perfect attendance $75 for 1-3 days missed $50 for 4-6 days missed | Annual Bonus: $150 for perfect attendance $75 for 1-3 days missed $50 for 4-6 days missed | $10 for each contract hour for attendance rate of 97% $20 for each contract hour for attendance rate of 98% $30 for each contract hour for attendance rate of 99% $40 for each contract hour for attendance rate of 100% |
| Cost of living increases each year of the contract | 2002 3.5%<br>2003 3.5%<br>2004 3.0% | 2003 $.44 | Maintenance $.45<br>Custodians $.44<br>Delivery Drivers $.34 | 2002 4%<br>2003 4%<br>2004 4%<br>2005 4%<br>2006 4% | 2002 4%<br>2003 4%<br>2004 4%<br>2005 4 %<br>2005 4% | 7/2001 3.5%<br>7/2002 3.5% |
| Average Step Increase | 1%-3.2% | 1.5% | 1.25% | 1.5%-2.7% | 2.5% | 2.0% |

**Source:** District and Peer classified collective bargaining agreements. .

## *Assessments not Yielding Recommendations*

In addition to the analyses presented in this report, assessments were conducted on several aspects of **human resources** operations which did not warrant changes and did not yield any recommendations. These areas include the following:

- **Salaries and step schedules:** These were found to be line with the peer districts. However, the financial condition of the District may affect increases in the future. The Financial Systems section of this report details the effect of future COLAs.

- **Overall staffing:** Total staffing levels at Marion CSD are similar to or less than the peer districts in most categories.

- **Health Insurance Plan Features:** The medical plan offered and coverage available was similar to the peer districts.

# Recommendations

*Staffing*

**R3.1 The District, with input from the community, should determine the programmatic approach and corresponding optimum level of staffing to achieve educational goals and maximize the funding available to the District. These decisions should be made based on community expectations and associated financial support for District programs. If the funding is not available to maintain current staffing levels, the District may have to move toward state minimum standards. The District may be able to continue to reduce regular education teaching staff by up to 59 FTEs and up to 12 FTE ESP professionals. However, further reductions in teaching staff may affect the educational programs in the District.**

**Table 3-5** shows the ratio of regular education students to regular education teachers at Marion CSD and the peer districts.

**Table 3-5: Comparison of Student-to-Teacher Ratios [1]**

| | Marion CSD | Findlay | Massillon | Newark | Peer Average |
|---|---|---|---|---|---|
| **Regular teachers to regular students** | 17.1 to 1 | 16.9 to 1 | 18.0 to 1 | 19.2 to 1 | 18.0 to 1 |

**Source:** FY 2004 EMIS staff summary State Foundation Reports for all districts, MCSD FY 2004-05 adjustments
1 Due to significant staff decreases, Marion CSD data has been adjusted to reflect FY 2004-05 data. The peers did not implement dramatic adjustments and therefore FY 2003-04 data is presented.

Although Marion CSD appears to have a lower ratio of regular students to regular teachers, two issues impact this data. First, the District may be miscoding several middle school art, physical education and music teachers as regular teachers instead of educational service personnel teachers – inflating the regular teacher count. Also, the District has the highest percentage of special needs students (19.7 percent) among the peer districts (15.8 percent average). While state law does not recognize most special needs students as part of the regular student population reflected in **Table 3-5**, Marion CSD mainstreams many special needs students into the regular classroom.

Marion CSD implemented significant teacher reductions in FY 2003-04 and yet maintained its improved ranking of academic watch. However, its regular student population has dropped by an estimated 100 students from FY 2003-04 to FY 2004-05. While further reductions could impair this ranking, given the District's dire financial condition, it must impose some level of additional teacher reductions. As **R 2.14** in the **Financial Section** indicates, passage of an operating levy and implementation of all other cost reductions/revenue enhancements contained in this audit report are not sufficient to remove the District from fiscal watch.

The Ohio Administrative Code §3301-35-05 (3) requires that a district maintain a district wide student-teacher ratio no greater than 25 to1. This ratio applies to regular needs students only. The District could achieve the state minimum requirements for a district-wide student teacher ratio of 25 to 1, with 159 FTE regular education teachers. However, given the District's large mainstreamed special education population, and requirements that pupil ratios in grades K-5 cannot exceed 25 to 1, a reduction to minimum standards is likely not feasible. Assuming a reduction in personnel to within 20 percent of State minimum standards (174 teachers), the District may be able to reduce up to 59 FTE from the regular education teacher staffing. This number includes miscoded ESP teachers from the middle school level.

**Table 3-6** shows the Educational Service Personnel (ESP) staffing at Marion CSD and the peer districts.

**Table 3-6: Comparison of ESP Staffing Levels**

| Classification | Marion CSD | Findlay CSD | Massillon CSD | Newark CSD | Peer Average |
|---|---|---|---|---|---|
| **ESP Teachers** | 25.2 | 18.9 | 17.0 | 52.9 | **29.6** |
| **Counselors** | 9.0 | 11.0 | 8.0 | 8.0 | **9.0** |
| **Librarian Media Specialists** | 2.0 | 3.0 | 2.0 | 5.0 | **3.3** |
| **Nurses** | 4.0 | 6.2 | 4.6 | 18.3 | **9.7** |
| **Social Work** | 0.0 | 3.0 | 0.0 | 0.0 | **1.0** |
| **Totals** | **40.2** | **42.1** | **31.6** | **84.2** | **52.6** |
| **ESP FTE per 1,000 ADM** | **7.38** | **6.88** | **7.05** | **12.72** | **8.9** |

**Source:** Marion CSD EMIS staff summary reports and peer district EMIS staff summary reports

Marion CSD has slightly more ESP professionals than Findlay CSD and Massillon CSD. Only Newark CSD has significantly more ESP FTEs than the other Districts. However, based on the financial situation of the District, there is opportunity for additional cost savings in this area considering the minimum staffing requirements for ESP professionals.

The minimum standard identified in the Ohio Administrative Code (OAC) §3301-35-05(A)(4) for Educational Service Personnel is 5.0 FTEs per 1,000 students. If the District were to adjust the ESP staffing ratio to the minimum standard it would need to employ 27.25 FTE ESP professionals to meet State requirements. Therefore, the District could reduce up to 12 FTE ESP professionals and still meet the state minimum standard in this area.

*Financial Implication:* Reducing regular education teaching staff by 59 FTEs would generate savings of approximately $2,169,200 annually including salaries and benefits. ESP reductions to state minimums would generate approximately $441,200 annually including salaries and benefits.

## *Compensation*

**R3.2 Marion CSD should review the number of administrative positions for which the Board pays the employee's share of STRS and SERS retirement contributions. Assuming responsibility for the administrators' retirement contribution effectively increases the salary of those positions by 10 percent.**

Marion City School District paid the employee's portions of STRS and SERS retirement contributions for 42 administrative positions in the District in FY 2003-04, at a total cost of approximately $263,200. Findlay CSD pays the employees' share of retirement contributions for 45 administrative positions and Newark offers this benefit to 38 administrative employees. Massillon CSD only offers this benefit to its Superintendent and Treasurer. When reviewing administrative salaries, it is important to consider the effect of paying the employees' share of retirement contributions on administrator retention and recruitment.[3-1] However, the District should seek to reduce or restrict this benefit based on its current financial difficulties.

Marion CSD should seek to reduce the number of employees for whom it pays the employee's share of the STRS and SERS contribution. Although the peers provide this benefit to a wide range of employees, Marion should seek to constrain this benefit to only top administrators. Reducing this benefit to top administrative personnel could result in a cost savings of over $242,800 annually.

*Financial Implication:* Constraining the pick-up of the employee share to the superintendent and treasurer could save the District $242,800 annually.

## *Health Care Costs*

**R3.3 Marion CSD should seek to negotiate the requirement for all employees to contribute at least 10 percent to their monthly health care premiums. Specifically, the District should seek to negotiate a higher employee contribution rate for classified employees hired prior to July 2002. The District should also consider raising the required number of hours worked for part time employees to be eligible**

[3-1] The District administration and Board expressed concern about principal and teacher salary equity and the effect that elimination of SERS/STRS pick-up will have on salary equity within the District.

**for benefits to 20 hours per week and 32.5 hours per week to be eligible for full time benefits.**

**Table 3-7** shows the monthly premium costs and employee contributions for health insurance plans at Marion CSD, the peer districts, and the State Employment Relations Board's (SERB) 2003 annual report on the cost of health insurance in Ohio's Public Sector.

## Table 3-7: Comparison of Monthly Health Insurance Premiums

| District | Plan | Monthly Premium for Single Plan | Monthly Premium for Family Plan | Employee Share for Single Plan | Employee Share for Family Plan |
|---|---|---|---|---|---|
| **Marion CSD** | Medical Mutual | 327.43 | 982.30 | 32.74 | 98.23 |
| Classified hired before 7/1/02 | | 327.43 | 982.30 | 14.00 | 14.00 |
| Part-time, 3-5.5 hours | | 327.43 | 982.30 | 163.71 | 491.15 |
| **Findlay CSD** | Medical Mutual | 292.07 | 759.39 | 17.50 | 55.00 |
| Classified | | 292.07 | 759.39 | 20.44 | 53.16 |
| Custodians | | 292.07 | 759.39 | 17.50 | 55.00 |
| Classified, part time | | 292.07 | 759.39 | Based on % of full time | Based on % of full time |
| Bus Drivers | | 292.07 | 759.39 | 29.20 | 43.80 |
| **Newark CSD** | United Health Care Choice Plus | 367.23 | 918.15 | 73.45 | 183.63 |
| Certificated Part time (3-5 hours/day) | | 367.23 | 918.15 | 220.34 | 550.89 |
| Classified | | 367.23 | 918.15 | 91.81 | 229.54 |
| Classified, part time (20-34 hours/week | | 367.23 | 918.15 | 91.81 | 321.35 |
| **Massillon CSD** | Medical Mutual Aultcare Supermed Plus | 275.62 | 669.56 | 0 | 0 |
| **Peer Average (Full time Certificated)** | | 311.64 | 782.37 | 30.32 | 79.54 |
| **SERB Average Schools (less than 1,000 employees)** | | 396.21 | 944.96 | 36.31 | 102.63 |

**Source:** Marion CSD and Peer school districts, State Employee Relations Board

Monthly health insurance premiums can be affected by the level of benefits offered as well as an organization's experience with a plan. A comparison of the plan benefits offered by Marion CSD medical plans showed them to be in line with the peers.

During the course of this audit, Marion CSD renegotiated its health insurance plan, reducing monthly premiums by approximately 9 percent to $297 for a single plan and $893 for a family plan. This brought monthly premiums much more in line with peer and state averages.

Marion CSD offers benefits to part time employees working only 3 hours per day, and staff working at least 5.5 hours per day are eligible for full-time benefits. Newark CSD requires that part-time classified employees work at least 20 hours per week to be eligible for benefits. Marion CSD should require at least 20 hours per week to qualify for benefits at the part-time level and at least 32.5 hours per week to qualify for benefits at the full-time level.

Newark CSD and Findlay CSD both require employees to share the cost of monthly premiums. The amount of premium the employee pays depends of type of employee and the number of hours they work. Marion CSD certificated employees contribute 10 percent. The SERB average for employee contributions is approximately 9 percent for single plans and 11 percent for family plans.

*Financial Implication:* If Marion CSD was able to renegotiate the classified agreement to require classified employees hired prior to 2002 to pay the 10 percent employee contribution to health insurance premiums, the district would save approximately $112,000 annually.

## *Collective Bargaining Agreements*

**R3.4 Marion CSD should seek to reduce personal days for classified employees to 3 to be in line with peer districts and help meet current financial challenges in the District.**

**Table 3-4** shows the comparison of key contractual issues between Marion CSD and the peer districts for the classified bargaining agreements. Marion CSD is the only district among the peers to offer four personal days. Certificated personnel at Marion CSD only receive two personal days. Although substitutes may not be called in to cover every classified employee on personal leave, savings could also be realized through a reduction in overtime and increased productivity.

# Financial Implications Summary

The following tables summarize estimated annual cost savings from the recommendations discussed above. The financial implications are divided into two groups: those that are, and those that are not subject to negotiations. Implementation of those recommendations subject to negotiations would require an agreement with the affected bargaining units.

**Summary of Financial Implications Not Subject to Negotiations**

| **Recommendations** | **Estimated Annual Cost Savings** |
|---|---|
| R3.1 Staffing Reductions | $2,610,400 |
| R3.2 Administrative retirement pick-up | $242,800 |
| | |
| **Totals** | **$2,853,200** |

**Summary of Financial Implications Subject to Negotiations**

| **Recommendations** | **Estimated Annual Cost Savings** |
|---|---|
| R3.3 Increasing employee contributions for Health Insurance | $112,000 |
| | |
| **Total** | **$112,000** |

**This page intentionally left blank.**

# Facilities

## Background

This section focuses on Marion City School District's (Marion CSD) custodial and maintenance operations, as well as facilities-related staffing levels, energy management initiatives, and building capacity and utilization. The objective is to analyze District building operations and develop recommendations for improvement in efficiency, as well as possible reductions in expenditures. These operations are evaluated against best practices and operational standards from the Ohio Department of Education (ODE), American School & University (AS&U), the National Center for Education Statistics (NCES), and peer districts. Analyses contained within this section do not include the Marion City Digital Academy, as it is a legally separate, not-for-profit entity, under a contractual agreement with the District.

### *Organizational Structure and Function*

As of FY 2004-05, Marion CSD consists of 9 schools: 7 elementary schools (grades Pre-K through 5), 1 middle school (grades 6-8), and 1 high school (grades 9-12). In FY 1997-98, the District undertook a $97 million facilities project with the Ohio School Facilities Commission (OSFC) to renovate and close older buildings and consolidate students into several newly constructed buildings. As a result, the District demolished six elementary and two middle schools, consolidating grades 6-8 into one building (Grant). In addition, Marion CSD constructed a new high school (Harding) which opened in FY 2002-03.

Marion CSD's custodial/maintenance department is responsible for the cleaning, operation, and upkeep of District facilities, including all schools, the administration and service buildings, and the athletic stadium. In addition, maintenance employees and grounds keepers are responsible for all of the grounds maintenance including playground upkeep, mowing, trimming, snow removal, athletic field preparation and maintenance, and equipment maintenance.

### *Staffing*

Custodial personnel report directly to the building principal and consist of 41 employees or 31.6 full-time equivalents (FTEs) – excluding 1.6 custodian II FTE positions which are vacant. Custodial staffing levels within individual buildings range from 0.8 FTE at the administration building to 9.4 FTEs at the high school, depending on the size and needs of the building. Three of the smaller elementary buildings have only two assigned custodians per building. The middle and high schools, which comprise nearly 55 percent of the District's square footage, assign custodians to staff the building on a 24-hour basis during the school year.

The District also employs 2.2 maintenance FTEs and 4.0 grounds keeper FTEs, who report to the maintenance supervisor/storekeeper (1.0 FTE). Grounds keepers at the middle and high schools report to the athletic directors and the building principals of their respective buildings. Currently, there are no maintenance worker or grounds keeper vacancies. Finally, the District employs a courier (0.9 FTE) whose duties include delivering mail and food commodities between schools and collecting breakfast and lunch money. The courier also occasionally assists the custodial/maintenance department with cleaning, hauling, and mowing as needed.

**Table 4-1** illustrates custodial/maintenance department staffing levels and the number of FTEs responsible for maintaining Marion CSD's facilities.

**Table 4-1: Number of Positions and FTEs in FY 2003-04**

| Classification | No. | FTEs | Vacancies |
|---|---|---|---|
| **Administrative** | **3.0** | **2.7** | **0.0** |
| • Assistant Superintendent | 1.0 | 0.8 [1] | 0.0 |
| • Maintenance Supervisor/Storekeeper | 1.0 | 1.0 | 0.0 |
| • Other | 1.0 | 0.9 [2] | 0.0 |
| **Custodial** | **41.0** | **31.0** | **1.6** |
| • Head Custodian | 11.0 | 9.6 [3] | 0.0 |
| • Regular Custodian | 9.0 | 9.0 | 0.0 |
| • Custodian II | 21.0 | 12.4 | 1.6 |
| **Maintenance and Grounds** | **8.0** | **6.2** | **0.0** |
| • Maintenance | 4.0 | 2.2 | 0.0 |
| • Groundskeeper | 4.0 | 4.0 | 0.0 |
| **Total** | **52.0** | **39.9** | **1.6** |

**Source**: Marion CSD
**Note**: Due to differences in reporting methodology, staffing figures may not match EMIS data.
[1] Oversight of the custodial/maintenance department currently accounts for 80 percent of assistant superintendent's time; however, he indicates that this time will decrease as the school construction project comes to a close.
[2] Courier works seven hours per day.
[3] One of these individuals only works six hours per day and two others also perform maintenance duties – reflected as 0.1 FTE each.

## *Key Statistics*

Key statistics related to the maintenance and operation of Marion CSD's facilities are presented in **Table 4-2**. In addition, results from the 33rd Annual AS&U Maintenance and Operations Cost Study, which was released in April 2004, are included in **Table 4-2** and throughout this section. The AS&U conducted a detailed survey of chief business officials at public school districts across the nation to gather information regarding staffing levels, expenditures and salaries for maintenance and custodial workers. This year's report provides the median number for each category on a national level and by district enrollment. Additional benchmarks are provided by the NCES in a 2003 report issued by its School Facilities Maintenance Task Force.

According to the 33rd Annual AS&U study, school district expenditures for maintenance and operations continue to hover around historic lows: "while indoor environmental quality and cleanliness of schools have received more attention, adequate funding to provide effective maintenance and operations services remains elusive." Expenditure reductions in this area are a "stark reminder of how difficult it continues to be to upkeep and operate America's aging education infrastructure on a shoestring budget." NCES further asserts that while there are no nationwide standards for describing "cleanliness," The actual number of square feet that a custodian can clean depends on several variables (e.g., flooring, wall covers, and number of windows) which must be taken into account when determining workload expectations.

Benchmarks provided by AS&U and the NCES are based on comparisons of national data. Since the study reports the median rather than the average, and utilities expenditures across the nation vary based on cost and consumption, the AS&U median cost per square foot may be lower than those expenditures in Ohio.

## Table 4-2: Key Statistics and Indicators

| | |
|---|---|
| **Number of School Buildings** [1] | **9** |
| • Elementary Schools (Peer average is 8) | 7 |
| • Middle School (Peer average is 4) | 1 |
| • High School (Peer average is 2) | 1 |
| **Total Square Feet Maintained** [1] | **879,088** |
| • Administration Offices | 8,660 |
| • Elementary Schools | 371,860 |
| • Middle School | 207,118 |
| • High School | 275,550 |
| • Other [2] | 15,900 |
| **Square Feet per Custodial FTE** [3] | **27,845** |
| • Administrative Offices (0.8 FTE) | 10,825 |
| • Elementary Schools (14.5 FTEs) | 27,342 |
| • Middle School (6.9 FTEs) | 29,588 |
| • Senior High School (9.4 FTEs) | 28,703 |
| **AS&U 33rd Annual Cost Survey > 3,500 Students Median** | **21,520** |
| **AS&U 33rd Annual Cost Survey National Median** | **23,787** |
| **NCES – School Facilities Maintenance Task Force** | **28,000** |
| ***Peer District Average*** | ***18,295*** |
| **Square Feet per Maintenance FTE** [4] | **274,715** |
| **AS&U 33rd Annual Cost Survey > 3,500 Students Median** | **90,757** |
| **AS&U 33rd Annual Cost Survey National Median** | **80,887** |
| ***Peer District Average*** | ***140,062*** |
| **Acres per Groundskeeper FTE** | **65** |
| **AS&U 33rd Annual Cost Survey > 3,500 Students Median** | **102** |
| **AS&U 33rd Annual Cost Survey National Median** | **47** |
| **NCES – School Facilities Maintenance Task Force** | **20** |
| ***Peer District Average*** | ***31*** |
| **FY 2003-04 Maintenance and Operations Expenditures Per Square Foot** [5] | **$4.63** |
| • Custodial and Maintenance (excluding utilities) | $2.98 |
| • Utilities | $1.65 |
| **AS&U 33rd Annual Cost Survey > 3,500 Students Median** | **$4.09** |
| **AS&U 33rd Annual Cost Survey National Median** | **$3.89** |
| ***Peer District Average*** | ***$6.01*** |

**Source**: Marion CSD and peer districts; AS&U 33rd Annual Maintenance and Operations Cost Survey; National Center for Education Statistics *School Facilities Maintenance Task Force* report.
[1] Figures are based upon the completion of the renovation and construction project.
[2] Includes the service building and Harding stadium.
[3] Excludes square footage for the service building and Harding stadium, as these are cleaned by groundskeepers.
[4] Includes the maintenance supervisor/storekeeper.
[5] Includes all expenditures reported for the 2700 function code.

### *Financial Data*

**Table 4-3** is a three-year summary of actual expenditures for all funds reported in the 2700 function code of the Uniform School Accounting System (USAS) for maintaining and operating Marion CSD's facilities.

**Table 4-3: Maintenance and Operations Expenditures**

| Object Code | FY 2001-02 | FY 2002-03 | Percentage Change | FY 2003-04 | Percentage Change |
|---|---|---|---|---|---|
| **100 – Salaries/Wages** | $1,276,410 | $1,358,801 | 6.5% | $1,396,331 | 2.8% |
| **200 – Retirement/Insurance** | $526,973 | $528,570 | 0.3% | $561,640 | 6.3% |
| **400 – Purchased Services** | $1,119,078 | $1,507,891 | 34.7% | $1,915,883 | 27.1% |
| **500 – Supplies/Materials** | $109,884 | $143,124 | 30.3% | $100,711 | (29.6%) |
| **600 – Capital Outlay** | $14,234 | $35,083 | 146.5% | $89,401 | 154.8% |
| **700 – Capital Outlay – Replacement** | $5,632 | $24,525 | 335.4% | $3,973 | (83.8%) |
| **800 – Other** | $1,412 | $1,604 | 13.6% | $1,412 | (12.0%) |
| **Total** | **$3,053,622** | **$3,599,599** | **17.9%** | **$4,069,351** | **13.1%** |

**Source**: Marion CSD

Explanations for significant FY 2003-04 variances (+/- 10 percent) are as follows:

- **Purchased Services increase of 27.1 percent**: This can be attributed to significant increases in utilities expenditures from the school construction and renovation project, and utility rate increases. Specifically, Marion CSD's electricity and water/sewage expenditures increased by 104 and 11.5 percent, respectively. According to the assistant superintendent, the staggered construction/closure schedule required the District to maintain up to 19 buildings simultaneously. The assistant superintendent indicates, however, that utilities expenditures are likely to decrease in FY 2004-05, citing the efficiency of the new HVAC system and the demolition of eight buildings (see **Table 4-4** and the **Financial Systems** section for more information regarding Marion CSD's purchased services expenditures).

- **Supplies/Materials decrease of 29.6 percent**: During FY 2003-04, the District implemented budget cuts to this line-item, in order to reduce overall expenditures. Furthermore, Marion CSD centralizes purchasing and buys supplies in bulk, which has helped to minimize expenditures per square foot when compared to the peer average (see **Table 4-4**).

- **Capital Outlay (including replacement) increase of 56.6 percent**: The overall increase in total capital outlay expenditures can be directly attributed to the school construction and renovation project. Specifically, in FY 2003-04, the District purchased new cleaning and maintenance equipment in conjunction with the opening of the new buildings. This resulted in an expenditure increase in the classroom facilities maintenance fund. According to the District, these expenditures will decrease over the next year, as the construction and renovation project comes to an end.

**Table 4-4** compares Marion CSD's FY 2003-04 expenditures per square foot, broken down by facilities-related cost area, with those of the peers and the AS&U survey.

**Table 4-4: Facilities Expenditures per Square Foot in FY 2003-04**

| Cost Area | Marion CSD | Findlay CSD | Massillon CSD | Newark CSD | Peer Average | AS&U Median 3,500+ Students |
|---|---|---|---|---|---|---|
| **District Square Feet** | 879,088 | 898,106 | 798,045 | 866,987 | 854,379 | N/A |
| **Salaries/Benefits** [1] | **$1,957,971** | **$3,189,546** | **$2,068,278** | **$2,738,955** | **$2,665,593** | |
| Per Square Foot | $2.23 | $3.55 | $2.59 | $3.16 | $3.12 | $2.06 |
| **Purchased Services** [2] | **$467,477** | **$1,743,946** | **$721,183** | **$452,818** | **$972,649** | |
| Per Square Foot | $0.53 | $1.94 | $0.90 | $0.52 | $1.14 | $0.17 |
| **Utilities** | **$1,448,406** | **$996,091** | **$1,361,018** | **$959,317** | **$1,105,475** | |
| Per Square Foot | $1.65 | $1.11 | $1.71 | $1.11 | $1.29 | $1.18 |
| **Supplies/Materials** | **$100,711** | **$128,395** | **$257,289** | **$345,962** | **$243,882** | |
| Per Square Foot | $0.11 | $0.14 | $0.32 | $0.40 | $0.29 | $0.30 |
| **Capital Outlay** [3] | **$93,374** | **$46,469** | **$124,678** | **$100,833** | **$90,660** | |
| Per Square Foot | $0.11 | $0.05 | $0.16 | $0.12 | $0.11 | N/A |
| **Other** | **$1,412** | **$151** | **$39,862** | **$160** | **$13,391** | |
| Per Square Foot | <$0.01 | <$0.01 | $0.05 | <$0.01 | $0.02 | $0.38 |
| **Total Expenditures** | **$4,069,351** | **$6,104,598** | **$4,572,308** | **$4,598,045** | **$5,091,650** | |
| Per Square Foot | $4.63 | $6.80 | $5.73 | $5.30 | $5.96 | **$4.09** |

**Source**: Marion CSD, the peers, and AS&U
**Note 1**: Includes actual expenditures for all funds reported in the 2700 function code of the Uniform School Accounting System (USAS).
**Note 2**: Cost area expenditures are rounded to the nearest $1, while per square foot figures are not.
**N/A**: AS&U does not track these figures.
[1] Includes salaries/wages and retirement/insurance expenditures.
[2] Excludes utilities expenditures.
[3] Includes capital outlay – replacement expenditures.

With the exception of utilities expenditures, Marion CSD is in-line with or below the peer average in each expenditure area. The District's relatively high utilities expenditures can be attributed to significant increases in both electricity and water/sewer costs. In FY 2003-04, annual expenditures in these areas increased by 104 and 11.5 percent, respectively (see **Table 4-3**). According to Marion CSD, these expenditures are expected to decrease in FY 2004-05 in conjunction with the demolition and consolidation of elementary and middle schools, as well as the District's efforts to increase efficient energy management.

### *Assessments Not Yielding Recommendations*

In addition to the analyses presented in this report, assessments were conducted in the following areas that did not warrant changes or yield any recommendations:

- **Staffing Levels**: Marion CSD employs fewer FTEs per square foot than the peer average. This enables the District to clean and maintain more square feet and acres per FTE, exceeding both the peer average and AS&U benchmarks (see **Table 4-2**). Marion CSD has indicated that it is filling vacancies in the custodian II position with substitute employees to help alleviate a perceived shortage in this area. However, the District's current financial situation prevents it from hiring permanent replacements. Once the District implements a computerized work order tracking system, it should monitor employee performance to optimize staffing levels and reduce overtime expenditures (see **R4.3**).

- **Salaries/Benefits**: In FY 2003-04, Marion CSD's salaries/benefits expenditures were approximately 14 percent below the peer average. Although the District exceeds AS&U's benchmark by $0.17 per square foot, it falls $0.89 (approximately 29 percent) below the peer average (see **Table 4-4**). Regardless, based on a review of collective bargaining agreements, it appears that Marion CSD's custodial/maintenance department personnel receive slightly higher annual step increases, compared to the peer average (see the **Human Resources** section for additional information regarding collective bargaining agreements). Furthermore, the District pays its maintenance FTEs higher hourly wages, exceeding the peer average by $1.27/hour, or about 9 percent. However, Marion CSD employs fewer maintenance FTEs who are each responsible for more square feet. Therefore, wages for maintenance employees may be commensurate with workload.

- **Use of Permanent Improvement Levy Funds**: Marion CSD does not receive any revenue from a permanent improvement levy.

- **Personnel Training**: After two years of consecutive service in the District, classified employees are eligible to receive $6,000 per year for continuing education. In addition, employees are encouraged to participate in an annual, work-related growth plan. The goal of this plan is to improve the skills of all classified employees. According to the assistant superintendent, all custodial employees are required to participate in safety training sessions that address asbestos awareness and blood-borne pathogens. The District also indicates that custodial/maintenance department employees recently received training in floor care, playground and mower equipment safety, HVAC systems, telephones, as well as in locking and lighting systems.

- **Preventive Maintenance**: As a part of the school construction and renovation project, Marion CSD is in the process of completing comprehensive preventive maintenance plans for each of its buildings. These plans include schedules for maintenance and repair on various systems, such as HVAC and plumbing, with unit cost estimates for parts and labor. The District's preventive maintenance practices have contributed to the relatively low costs per square foot, compared to the peers (see **Table 4-4**).

# Noteworthy Accomplishments

During the course of this performance audit, the following noteworthy accomplishments or best practices were observed:

- **The District has effectively minimized facilities-related expenditures for purchased services, as well as supplies/materials.**

  Excluding utilities, District expenditures for purchased services and supplies/materials are approximately 54 and 59 percent below the peer average, respectively (see **Table 4-4**). Although Marion CSD exceeds AS&U benchmarks, the District centralizes supply purchasing and buys in bulk, which helps to minimize expenditures. Specifically, in FY 2003-04, Marion CSD's supplies/materials expenditures per square foot were approximately 60 percent below the peer average.

- **The District recently implemented a proactive energy management system, including a centralized HVAC computer system that enables the District to more effectively monitor and adjust temperatures in all school buildings.**

  In response to recent increases in utilities expenditures, the District has taken a proactive approach to energy management. In conjunction with the school construction and renovation project, Marion CSD has implemented a computerized system to help manage energy usage. The maintenance supervisor/storekeeper can automatically establish temperature set-backs based on school building schedules which may reduce the energy needed to heat and cool buildings. This system also allows for automated, 24-hour contact with the maintenance supervisor/storekeeper in the event of a system failure, minimizing damage that may occur during off-hours. Finally, the District participates in Ohio Energy's "Energy for Education" program. According to the assistant superintendent, participation in this program will potentially result in a 10 percent reduction in electricity costs during FY 2004-05.

# Recommendations

## *Long Range Planning and Facilities Use*

**R4.1 Upon completion of the building construction and renovation project, Marion CSD should develop an up-to-date facilities master plan. This plan should include a 10-year student enrollment history with a realistic 5-10 year forecast (see R4.2), as well as building capacity data and the methodology used for their calculation. In addition, the District should include a list of the cost estimates for planned capital improvements and a description of how facility use is linked to the District's educational plan. Finally, the District should include information as to the potential sources of funding (e.g., levies) for future capital improvements.**

Marion CSD has not updated its facilities master plan since 1998, when the school construction and renovation project commenced. Prior to that, the District implemented two facilities plans with the aid of consultants.

DeJong & Associates, Inc., one of the nation's leading experts in educational facility planning, identifies the following as essential components of a facilities master plan:

- Historical and projected student enrollment figures;
- Demographic profile of the community/school district;
- Facility inventory;
- Facility assessment (condition and educational adequacy of buildings);
- Capacity analysis;
- Educational programs;
- Academic achievement; and
- Financial and tax information.

Newark CSD consulted with Planning Advocates, Inc. to develop its facility needs plan, which is dated June, 2003 and contains elements recommended by DeJong & Associates, Inc.

With the exception of a realistic, 5-10 year student enrollment forecast (see **R4.2**), Marion CSD has all of the information needed to update its master plan. Using this information, the District should work with a cross-section of school personnel, parents, students, and community members to develop a plan that clearly states the future plans for each facility in the District.

A master plan should serve as a roadmap for addressing the Marion CSD's facility needs. The document should specify planned projects, including timing and sequencing, and estimated costs along with information regarding sources of funding to pay for capital improvements. The plan should also include the condition of existing facilities, the District's planned educational programs, the demography of the district, and a description of the District's vision of its future facility needs. By working with the community to update its master facilities plan, the District can more effectively communicate its needs and vision.

**R4.2 In conjunction with updating its facilities master plan (see R4.1), Marion CSD should develop and formally adopt a 5-10 year forecast methodology for realistically projecting student enrollment. Furthermore, the District should periodically review its projections for accuracy and compare the data with building capacities to determine the appropriate number of school buildings and classrooms required to house actual and projected student populations.**

**Assuming elementary student enrollment continues to decline at the current rate, the District should also consider closing two of its older buildings with the smallest capacities (Lincoln and either Harrison or Hayes) and consolidating those students into remaining buildings. While this may require some redistricting, Marion CSD can realize significant savings through personnel reductions and increased efficiency in maintenance and operations. Should the District decide to close buildings and redraw its boundaries, however, it should consider community feedback and ensure that all changes are made in accordance with the spirit of its master plan.**

In 1998, Marion CSD's facilities master plan, based on the Ohio School Facilities Commission enrollment projection, estimated total enrollment at nearly 6,200 students by FY 2005-06. This projection, however, has not been updated to reflect actual data and therefore does not represent a realistic forecast of student enrollment.

**Table 4-5** illustrates the District's actual enrollment history, by grade level, since 1994.

## Table 4-5: Marion CSD Student Enrollment History

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **K** | 498 | 564 | 543 | 530 | 520 | 482 | 432 | 390 | 365 | 375 | 405 |
| **1** | 566 | 509 | 544 | 548 | 540 | 545 | 518 | 467 | 451 | 399 | 427 |
| **2** | 531 | 534 | 473 | 525 | 523 | 512 | 512 | 483 | 453 | 437 | 390 |
| **3** | 563 | 508 | 548 | 483 | 473 | 509 | 507 | 477 | 491 | 436 | 415 |
| **4** | 506 | 543 | 490 | 516 | 455 | 457 | 490 | 490 | 464 | 497 | 416 |
| **5** | 464 | 484 | 525 | 494 | 520 | 425 | 457 | 480 | 485 | 437 | 465 |
| **Elementary** | **3,128** | **3,142** | **3,123** | **3,096** | **3,031** | **2,930** | **2,916** | **2,787** | **2,709** | **2,581** | **2,518** |
| **6** | 482 | 443 | 466 | 493 | 467 | 494 | 418 | 432 | 458 | 445 | 412 |
| **7** | 470 | 470 | 446 | 468 | 487 | 445 | 492 | 421 | 435 | 442 | 439 |
| **8** | 466 | 444 | 472 | 421 | 442 | 446 | 445 | 474 | 413 | 410 | 446 |
| **Middle** | **1,418** | **1,357** | **1,384** | **1,382** | **1,396** | **1,385** | **1,355** | **1,327** | **1,306** | **1,297** | **1,297** |
| **9** | 585 | 469 | 435 | 557 | 533 | 522 | 548 | 582 | 600 | 510 | 500 |
| **10** | 384 | 504 | 442 | 342 | 448 | 382 | 422 | 371 | 384 | 407 | 408 |
| **11** | 350 | 360 | 429 | 416 | 297 | 329 | 282 | 323 | 346 | 333 | 360 |
| **12** | 326 | 308 | 323 | 325 | 365 | 321 | 351 | 303 | 337 | 360 | 339 |
| **High** | **1,645** | **1,641** | **1,629** | **1,640** | **1,643** | **1,554** | **1,603** | **1,579** | **1,667** | **1,610** | **1,607** |
| **TOTAL** | **6,191** | **6,140** | **6,136** | **6,118** | **6,070** | **5,869** | **5,874** | **5,693** | **5,682** | **5,488** | **5,422** |

**Source**: Ohio Department of Education
**Note**: Due to differences in reporting methodology, these figures may be slightly higher than those reported by Marion CSD. In addition, these figures do not include pre-school and special education students.

Based on a review of historical student enrollment, the District's 1998 projection does not appear sound. In fact, according to ODE, total student enrollment has decreased 12.4 percent since 1994; an average annual decrease of 1.2 percent. Elementary (grades K-5) enrollment experienced the highest average annual rate of decline; about 2.0 percent over the past 10 years. Annual middle (grades 6-8) and high (grades 9-12) school enrollment decreased by an average of 0.9 and 0.2 percent, respectively. In addition, open enrollment began impacting Marion CSD in 1998.

**Table 4-6** presents a conservative, five-year enrollment forecast which assumes that Marion CSD's average annual rate of decline for elementary, middle, and high school students will remain constant.

## Table 4-6: Marion CSD Five-Year Enrollment Forecast

| | Actual 2004 | AOS Projected 2005 | AOS Projected 2006 | AOS Projected 2007 | AOS Projected 2008 | AOS Projected 2009 |
|---|---|---|---|---|---|---|
| **Elementary** | 2,518 | 2,468 | 2,419 | 2,371 | 2,324 | 2,278 |
| **Middle** | 1,297 | 1,285 | 1,273 | 1,262 | 1,251 | 1,240 |
| **High** | 1,607 | 1,604 | 1,601 | 1,598 | 1,595 | 1,592 |
| **Total** | **5,422** | **5,357** | **5,293** | **5,231** | **5,170** | **5,110** |

**Source**: Auditor of State enrollment projection of Marion CSD students

The District should consider these projections when developing its facilities master plan (see **R4.1**). By developing a conservative enrollment forecast that is based on actual, historical data, Marion CSD can more effectively plan for the use of its buildings, as well as the personnel required to maintain and operate them. Newark CSD compares its enrollment projections with existing building capacities to determine utilization rates, which helps to facilitate the planning and decision-making process.

**Table 4-7** summarizes Marion CSD's current building capacity by grade level and projects the utilization rates of each, using the five-year student enrollment forecast.

**Table 4-7: Current Building Capacity and Projected Utilization Rates**

| | Current Capacity | AOS Projected 2005 | AOS Projected 2006 | AOS Projected 2007 | AOS Projected 2008 | AOS Projected 2009 |
|---|---|---|---|---|---|---|
| **Elementary** | 3,140 | 79% | 77% | 75% | 74% | 72% |
| **Middle** | 1,500 | 86% | 85% | 84% | 83% | 83% |
| **High** | 1,650 | 97% | 97% | 97% | 97% | 96% |
| **Total** | **6,290** | **85%** | **84%** | **83%** | **82%** | **81%** |

**Source**: Marion CSD; Auditor of State enrollment projections
**Note**: Assumes an optimal utilization rate of 85 percent, as defined by DeJong & Associates, Inc.

In terms of elementary capacity, Marion CSD is projected to fall below the optimal utilization rate (85 percent) in every year of the forecast. Assuming the District continues to experience decreases in student enrollment, it may become necessary to close elementary buildings and consolidate students within other schools. For example, the district may consider closing Lincoln as it has the smallest capacity (240 students), followed by Harrison and Hayes (350 students each). Because middle and high school students are each housed within individual buildings, no changes can be made to affect utilization rates.

**Table 4-8** uses several key ratios to compare the number of elementary buildings operated by Marion CSD with the peers.

## Table 4-8: Elementary Building Comparison

| | Marion CSD | Findlay CSD | Massillon CSD | Newark CSD | Peer Average |
|---|---|---|---|---|---|
| **Elementary Buildings** | 7 [1] | 9 | 7 | 9 [2] | 8 |
| **Elementary Students (in 100s)** | 25.2 [3] | 28.4 [3] | 19.5 [3] | 28.7 [2] | 25.5 |
| **District Square Miles** | 9 | 37 | 12 | 19 | 22.6 |
| **Elementary Buildings per Square Mile** | 0.8 | 0.2 | 0.4 | 0.5 | 0.5 |

**Source**: Marion CSD and the peers; Ohio Department of Education
[1] Figure based upon completion of school construction and renovation project.
[2] Excludes 5th and 6th grade students enrolled in three intermediate buildings.
[3] Includes students enrolled in grades K-5 during FY 2003-04.

Although Marion CSD enrolls a commensurate level of elementary students, it operates and maintains a significantly higher percentage of elementary buildings per square mile, compared to the peer average. In consideration of projected elementary enrollment, this is an indication that the District may be able to close buildings without negatively impacting service levels.

**Table 4-9** summarizes Marion CSD's building capacity by grade level, assuming the District closes Lincoln in FY 2005-06 and either Harrison or Hayes in FY 2007-08. By staggering these closings over the forecast period, the District can more effectively prepare for the redistricting and student transitioning that would be required.

## Table 4-9: Proposed Building Capacity and Projected Utilization Rates

| | Current Capacity | Projected 2005 | Proposed Capacity | Projected 2006 | Projected 2007 | Proposed Capacity | Projected 2008 | Projected 2009 |
|---|---|---|---|---|---|---|---|---|
| **Elementary** | **3,140** | 79% | **2,900** | 83% | 82% | **2,550** | 91% | 89% |
| **Middle** | **1,500** | 86% | **1,500** | 85% | 84% | **1,500** | 83% | 83% |
| **High** | **1,650** | 97% | **1,650** | 97% | 97% | **1,650** | 97% | 96% |
| **Total** | **6,290** | **85%** | **6,050** | **87%** | **86%** | **5,700** | **91%** | **90%** |

**Source**: Marion CSD; Auditor of State enrollment projections
**Note**: Assumes an optimal utilization rate of 85 percent, as defined by DeJong & Associates, Inc.

The District's overall utilization rate is projected to slightly exceed the AS&U benchmark, which can be attributed to over-capacity at the high school. Assuming the average annual decrease in elementary student enrollment continues, however, the District can close two elementary buildings and maintain an improved utilization rate by the end of the forecast period. Furthermore, by closing two buildings Marion CSD can reduce its overall size by 66,342 square feet and achieve cost savings associated with cleaning and maintaining them. These closings will also bring the District more in line with the peer average number of elementary buildings per square mile (see **Table 4-8**).

*Financial Implication*: Assuming Marion CSD closes Lincoln (22,592 square feet) in FY 2005-06 and either Harrison or Hayes (43,750 square feet each) in FY 2007-08, the District can achieve approximately $307,100 in annual, facilities-related cost savings.[4-1] This financial implication does not account for additional savings that could be achieved through reductions in certificated and administrative personnel. The District could achieve additional annual cost savings of at least $63,400 (five food service employees) and $275,700 (two each, principals, secretaries, media specialists, and kindergarten aides) in salaries and benefits through the building closures. Combined with the original financial implication, this recommendation would provide an annual cost savings of approximately $582,800. This savings estimate does not consider any affect on transportation costs or reimbursements.

## *Work Order Process*

**R4.3 The custodial/maintenance department should track work orders electronically. A computerized system would allow the District to track and monitor the status of individual work orders, the amount of supplies and materials used, as well as the productivity and performance of assigned personnel, including staffing levels and overtime usage.**

Marion CSD's current work order system is paper-based. Once work order request forms are received, the maintenance supervisor/storekeeper prioritizes and assigns them to the appropriate building personnel. The maintenance supervisor/storekeeper then meets regularly with assigned staff to monitor progress and ensure work is completed in a timely manner.

Although the District reduced its facilities-related overtime expenditures by four percent in FY 2003-04, they are higher than the peer average. **Table 4-10** compares Marion CSD's overtime expenditures with those of the peers.

[4-1] This figure includes all 2700 Function Code expenditures for utilities, salaries/benefits, etc. This figure also assumes that the District's current maintenance and operations cost per square foot ($4.63) will remain constant.

## Table 4-10: Marion CSD and Peer Overtime Expenditures

| | Marion CSD | Findlay CSD | Massillon CSD | Newark CSD | Peer Average | Above (Below) |
|---|---|---|---|---|---|---|
| **FTEs** | 39.9 | 68.0 | 41.0 | 62.8 | 57.2 | (30.2%) |
| **District Square Feet** | 879,088 | 898,106 | 798,045 | 866,987 | 854,379 | 2.9% |
| **Salaries/Wages** | $1,396,331 | $2,136,226 | $1,495,564 | $2,007,985 | $1,879,925 | (25.7%) |
| **Overtime** [1] | $95,170 | $73,747 | $107,000 | $96,085 | $92,277 | 3.1% |
| **Overtime as a Percentage of Salaries/Wages** | 6.8% | 3.5% | 7.2% | 4.8% | 4.9% | 1.9% |
| **Overtime per FTE** | $2,385 | $1,084 | $2,609 | $1,530 | $1,741 | 37.0% |
| **Overtime per Square Foot** | $0.11 | $0.08 | $0.13 | $0.11 | $0.11 | 0.0% |

**Source**: Marion CSD and the peers
**Note**: FTE figures only include custodial, maintenance, and grounds keeping personnel.
[1] Similar to the peers, Marion CSD's employees accrue overtime at one and one-half times the normal rate of pay.

Marion CSD's overtime expenditures exceed the peer average per FTE. While this can be attributed, in part, to lower staffing levels and the school construction and renovation project, the District should monitor overtime usage in order to effectively minimize expenditures (see the **Human Resources** section for additional information regarding classified employee overtime usage). The implementation of a computerized work order tracking system will help to facilitate this process. According to the assistant superintendent, the maintenance supervisor/storekeeper is in the process of computerizing work orders by developing spreadsheets to track work order status. In addition, newly renovated buildings will not require boiler checks and should reduce overtime expenditures.

According to the National Center for Education Statistics (NCES), in its *Planning Guide for Maintaining School Facilities*, a work order system helps school districts register and acknowledge work requests, prioritize tasks, assign personnel, confirm progress, facilitate preventive maintenance, allow feedback from relevant stakeholders, and track the costs of parts and labor. At a minimum, the system should include the following:

- Date received;
- Date approved;
- Tracking number;
- Priority and location;
- Status (e.g., open or closed);
- Name of supervisor;
- Name(s) of assigned personnel;
- Supply and labor hours/costs; and
- Date completed.

Findlay CSD, which has the lowest usage of overtime among the peers (see **Table 4-10**), uses a computerized work order tracking system to generate monthly reports which help to facilitate preventive maintenance planning. Newark CSD currently processes work orders manually, but has recently implemented a computerized system (Public School Works) that will help the district track orders on a per building basis. According to Newark CSD, one major advantage of computerizing its system is the ability to follow-up on outstanding work orders while prioritizing incoming projects. A computerized work order tracking system will enable Marion CSD to more effectively prioritize custodial and maintenance projects, while increasing the accountability of assigned personnel.

*Financial Implication*: Assuming Marion CSD reduces its facilities-related overtime expenditures – in relation to salaries/wages – to the peer average percentage, the District can achieve annual cost savings of nearly $26,800 (about $700 per FTE).

# Financial Implications Summary

The following table represents a summary of annual cost savings. For the purpose of this table, only recommendations with quantifiable impacts are listed.

**Summary of Financial Implications for Facilities**

| Recommendation | Annual Cost Savings |
|---|---|
| **R4.2** Close two elementary buildings by FY 2007-08. | $582,800 |
| **R4.3** Reduce facilities-related overtime expenditures via a computerized work order tracking system. | $26,800 |
| **Total** | **$609,600** |

**This page intentionally left blank.**

# Food Services

## Background

This section focuses on the food services operations within Marion City School District (Marion CSD or District). The objective is to analyze the current and future financial condition of the food service department, develop recommendations for improvements in processes, and identify opportunities to increase efficiency.

### *Organizational Structure and Function*

Marion CSD's food service department consists of 44 employees, including the director of food service, 1 secretary, 9 head cooks, and 33 line cooks and/or cashiers. The food service director is responsible for oversight of the food service program, including the monitoring of revenues and expenses, menu development, purchasing, and record keeping as required by the Ohio Department of Education (ODE).

The food service department prepares and serves breakfast and lunch at the District's nine school buildings. Food preparation is localized, meaning that all food is prepared at the building in which it will be served. Each building is staffed with 1 head cook and a combination of line cooks and/or cashiers determined by the building's student population. Head cooks work 7.5 hours per day, while cooks and cashiers are staffed in 6.50, 5.00, and 3.25 hour shifts. **Table 5-1** shows the District's food service staffing by building.

**Table 5-1: Marion CSD Staffing by Building[1]**

| School | Enrollment | Head Cooks | Cooks/ Cashiers | | | | |
|---|---|---|---|---|---|---|---|
| | | 7.50 Hours | 6.50 Hours | 5.00 Hours | 3.50 Hours | 3.25 Hours | 2.00 Hours |
| Harding High | 1,300 | 1 | 4 | 4 | 3 | 0 | 0 |
| Grant Middle | 1,300 | 1 | 4 | 4 | 2 | 0 | 0 |
| Garfield Elementary | 450 | 1 | 2 | 1 | 0 | 0 | 0 |
| Harrison Elementary | 300 | 1 | 1 | 0 | 0 | 1 | 0 |
| Hayes Elementary | 300 | 1 | 1 | 0 | 0 | 1 | 0 |
| Lincoln Elementary | 200 | 1 | 0 | 1 | 0 | 0 | 1 |
| McKinley Elementary | 450 | 1 | 3 | 0 | 0 | 0 | 0 |
| Taft Elementary | 450 | 1 | 3 | 0 | 0 | 0 | 0 |
| Washington Elementary | 450 | 1 | 2 | 1 | 0 | 0 | 0 |
| **Totals** | **5,200** | **9** | **20** | **11** | **5** | **2** | **1** |

**Source:** Brenda Sprinkle, Marion CSD Food Services Director
[1]Estimated operations for the 2004-05 school year

## *Financial Condition*

Food services are organized within the District as an enterprise operation. The operation is intended to function in a manner similar to a private sector business, relying on charges for services to support the costs of operation. **Table 5-2** shows the District's revenues, expenditures, and other financing activity within the Food Service Fund from FY 2001-02 through FY 2003-04.

### Table 5-2: Food Service Fund FY 2001-02 through FY 2003-04

| | FY 2001-02 | | FY 2002-03 | | FY 2003-04 | |
|---|---|---|---|---|---|---|
| | **$ Total** | **% of Total** | **$ Total** | **% of Total** | **$ Total** | **% of Total** |
| Student Charges | $743,473 | 45% | $722,680 | 38% | $756,958 | 47% |
| Miscellaneous | $10,527 | 1% | $1,734 | 0% | $1,002 | 0% |
| State Grants-in-Aid | $40,710 | 2% | $65,997 | 3% | $48,054 | 3% |
| Federal Grants-in-Aid | $874,974 | 53% | $1,131,033 | 58% | $813,132 | 50% |
| Refund of Prior Years Expenditures | $700 | 0% | $0 | 0% | $0 | 0% |
| **Total Revenue** | **$1,670,383** | **100%** | **$1,921,443** | **100%** | **$1,619,146** | **100%** |
| Salaries | $732,973 | 37% | $763,751 | 40% | $764,825 | 39% |
| Retirement and Insurance | $465,581 | 23% | $432,548 | 23% | $491,984 | 25% |
| Purchased Services | $118,466 | 6% | $147,995 | 8% | $153,565 | 8% |
| Supplies and Materials | $670,199 | 33% | $569,253 | 30% | $560,033 | 28% |
| Capital Outlay | $15,360 | 1% | $3,402 | 0% | $6,320 | 0% |
| Other Objects | $0 | 0% | $0 | 0% | $0 | 0% |
| Refund of Prior Years Receipts | $0 | 0% | $0 | 0% | $1,338 | 0% |
| **Total Expenditures** | **$2,002,579** | **100%** | **$1,916,950** | **100%** | **$1,978,065** | **100%** |
| **Revenues Over (Under) Expenses** | **($332,195)** | **-** | **$4,493** | **-** | **($358,920)** | **-** |
| Net Transfers/Advances | $325,506 | - | $120,913 | - | ($131,281) | - |
| **Beginning Fund Balance** | **$25,848** | **-** | **$19,158** | **-** | **$144,565** | **-** |
| **Ending Fund Balance** | **$19,158** | **-** | **$144,565** | **-** | **($345,636)** | **-** |

**Source:** 4502 reports

**Table 5-2** shows that the Food Service Fund experienced significant deficits in FY 2001-02 and FY 2003-04. The fund avoided a deficit in FY 2002-03 after a substantial increase in revenues from the federal school lunch program. This increase was a result of the District receiving its May and June 2002 federal and state lunch program payments after the close of the fiscal year (June 30). These deficits would have resulted in the Food Service Fund having negative ending balances but the District chose to make interfund transfers from the General Fund (See **R5.6**). However, due to the District's present financial condition, the General Fund can no longer be relied upon to subsidize food service operations.

**Table 5-3** compares the Districts FY 2003-04 Food Service Fund revenues and expenditures on a per pupil basis to the peers in order to identify areas where the District may be generating insufficient revenues or incurring excessive expenses.

**Table 5-3: Peer Comparison of FY 2003-04 Food Service Fund**

| | Marion CSD | Findlay CSD | Massillon CSD | Newark CSD | Peer Average |
|---|---|---|---|---|---|
| **Total District Students** | **5,200** | **7,101** | **4,566** | **8,541** | **6,736** |
| | **$ Per Pupil** | **$ Per Pupil** | **$ Per Pupil** | **$ Per Pupil** | **$ Per Pupil** |
| **Revenues** | | | | | |
| Operating | $146 | $131 | $123 | $130 | $129 |
| Non-operating | $166 | $94 | $170 | $116 | $121 |
| **Total Revenue** | **$311** | **$225** | **$293** | **$246** | **$249** |
| **Expenditures** | | | | | |
| Salaries | $147 | $96 | $113 | $84 | $95 |
| Fringe Benefits | $95 | $32 | $43 | $33 | $35 |
| Purchased Services | $30 | $6 | $15 | $7 | $8 |
| Supplies and Materials | $108 | $73 | $104 | $107 | $95 |
| Capital Outlay | $1 | $4 | $5 | $2 | $3 |
| Other Expenditures | $0 | $8 | $0 | $0 | $3 |
| Non-operating expenses | $0 | $0 | $0 | $0 | $0 |
| **Total Expenditures** | **$380** | **$219** | **$281** | **$234** | **$239** |

**Source:** FY 2003-04 4502 Reports

The District is receiving revenues which are substantially higher than the peer average. As shown in **Table 5-3**, the Districts operating and non-operating revenues per pupil exceeded the peer average by 13.2 percent and 37.2 percent respectively. Based on this information, the current financial condition of the Food Service Fund is a direct result of higher expenditures per pupil. Object categories in which the District significantly exceeded the peer average include personal services, fringe benefits, and purchased services.

The District has made several operational changes that should considerably reduce these expenditures, beginning in FY 2004-05. The completion of new building construction resulted in a reduction from 14 to 9 in the number of kitchens the District services. As a result, the District was able to reduce the amount of labor hours used by eliminating some positions and reducing the hours of others. **Table 5-4** compares FY 2003-04 and FY 2004-05 staffing levels.

**Table 5-4: Marion CSD Staffing Changes**

| | FY 2003-04 | | FY 2004-05 | | Net Change | |
|---|---|---|---|---|---|---|
| | **Positions** | **Labor Hours** | **Positions** | **Labor Hours** | **Positions** | **Labor Hours** |
| 7.5 Hour | 14.00 | 105.00 | 9.00 | 67.50 | (5.00) | (37.50) |
| 6.5 Hour | 26.00 | 169.00 | 20.00 | 130.00 | (6.00) | (39.00) |
| 5.0 Hour | 8.00 | 40.00 | 11.00 | 55.00 | 3.00 | 15.00 |
| 3.5 Hour | 6.00 | 21.00 | 5.00 | 17.50 | (1.00) | (3.50) |
| 3.25 Hour | 3.00 | 9.75 | 2.00 | 6.50 | (1.00) | (3.25) |
| 2.0 Hour | 0.00 | 0.00 | 1.00 | 2.00 | 1.00 | 2.00 |
| **Totals** | **57.00** | **344.75** | **48.00** | **278.50** | **(9.00)** | **(66.25)** |

**Source:** Brenda Sprinkle, Marion CSD Food Service Director

As shown in **Table 5-4**, the District has reduced its food service staff by 9 positions. These changes are estimated to reduce the District's daily labor usage by approximately 19 percent. However, it should be noted that a 19 percent reduction in expenditures per student would still result in spending levels which are higher than the peers (See **R5.3** and **R5.4**).

In addition to reducing expenditures, the District has also taken steps to increase revenues for FY 2004-05. The District increased lunch prices by $0.25 to $0.50 for students and $0.75 for staff. **Table 5-5** compares FY 2004-05 lunch prices to the peers.

**Table 5-5: Peer Comparison of Lunch Prices**

| | Marion CSD FY 2003-04 | Marion CSD FY 2004-05 | Findlay CSD | Massillon CSD | Newark CSD | Peer Average |
|---|---|---|---|---|---|---|
| Elementary Breakfast | $0.75 | $1.00 | $0.90 | $0.70 | $0.85 | $0.82 |
| Elementary Lunch | $1.75 | $2.00 | $1.85 | $1.50[1] | $1.75 | $1.70 |
| Middle/High Breakfast | $0.75 | $1.00 | $0.90 | $0.75 | $0.85 | $0.83 |
| Middle School Lunch | $2.00 | $2.50 | $2.00 | $1.75 | $1.85 | $1.87 |
| High School Lunch | $2.00 | $2.50 | $2.00 | $1.75 | $1.85 | $1.87 |
| Staff Lunch | $2.25 | $3.00 | $2.30 | $2.25[2] | $2.00[2] | $2.18 |
| Additional Milk | $0.40 | $0.50 | $0.35 | $0.35 | $0.40 | $0.37 |

**Source:** 4502 reports
[1]Does not include pre-kindergarten students
[2]Does not include milk

As shown in **Table 5-5**, Marion CSD's FY 2004-05 lunch prices are higher than each of the peers and the peer average at every level. The food service director estimates that this increase will generate an additional $78,200 in FY 2004-05 if the District can maintain FY 2003-04 participation levels.

These tables (and corresponding explanations) illustrate that Marion CSD is generating adequate revenues and has made substantial efforts to reduce expenditures. Despite the District's efforts, it is possible that the operational deficits which have become commonplace will not be eliminated without additional cost saving measures. This problem is compounded by challenging economic conditions surrounding the District's General Fund. Due to forecasted deficits, the District can no longer afford to use the General Fund to subsidize food service operations. The following recommendations will provide alternatives for the District to consider should the actions which have already been taken not eliminate the Food Service Fund deficit.

## *Assessments Not Yielding Recommendations*

In addition to the analysis presented in this report, assessments were conducted on several areas which did not warrant changes and did not yield any recommendations. These areas include the following:

- **Information Systems:** The District tracks food service data electronically through a software application which was developed in-house by its information technology (IT) department. This program collects data and produce reports which should eliminate the accounting and reporting problems which were identified in the District's last two financial audits.

# Noteworthy Accomplishments

During the course of this performance audit, the following noteworthy accomplishments or best practices were noted within Marion CSD:

- **The Districts has been aggressive in trying to identify all students who are eligible for free and reduced lunches through the National School Lunch Program. The District's efforts to ensure that all free and reduced-lunch eligible students are properly accounted for have resulted in over 43 percent of the Districts students receiving some level of financial assistance.**

  The National School Lunch Program (NSLP) is a federally assisted meal program which provides low-cost or free lunches to children from eligible households. Under the guidelines of this program, students are classified as paid, reduced price, or free. The District is reimbursed different amounts for students in each group based on their level of need. Therefore, it is essential that qualifying students are identified and recorded properly.

  The District has made noteworthy efforts to ensure that these students are recorded properly. The District has consolidated paperwork so parents with more than one child only have to fill out one set of forms. In addition, the District has recognized that a stigma exists with older students in regards to qualifying for free or reduced status that in some cases may lead to them not participating in the program. To minimize the impact of this stigma, the District has implemented a PIN number system at the high school whereby students can pay for their lunch in a discrete manner. Finally, the District has begun to implement Direct Certification as a means of qualifying students for the free and reduced programs. Under direct certification, the District does not need to require students or parents to complete paperwork, instead the District can use information from the state welfare agency as the basis for certifying students' eligibility for free meals. Direct certification was used to some extent by the District in FY 2004-05 but will be fully incorporated into operations in FY 2005-06.

- **Marion CSD has made considerable internal efforts to improve food service information systems. The District has replaced its management software with a new program which was created internally. This has resulted in the District implementing the software in its buildings ahead of schedule and significantly below the original estimated costs.**

In FY 2003-04 the District contracted Horizons, Inc. to install and maintain a food service information system. The District used this program for one year at Harding High School before it was determined there would be problems integrating the system with its enrollment database. Rather than incurring costs to upgrade the program, the District took the initiative to develop its own program. The system is designed to track all of the same data tracked in the Horizons program and is compatible with the District's enrollment system. The program is supported 100 percent in-house, further reducing costs. Finally, the implementation of this system has lead to an expedited implementation schedule by which each of the District's buildings will be using the software almost one year ahead of schedule.

# Recommendations

**R5.1 Marion CSD should improve coordination between food service operations and general building operations. Building management should consult with the director of food service on operational issues such as building schedules. In addition, staff in the various buildings should coordinate with one another to ensure that processes and practices which maximize efficiency and minimize costs are being uniformly applied throughout the District.**

During the course of this performance audit, an absence of coordination between the food service department and building administrators was observed. The food service operation was notably impacted by this. Several resulting operational problems are noted below.

- Updated enrollment for Lincoln Elementary was not communicated to the food service director prior to the beginning of the school year. The Director planned staffing for 200 students while actual enrollment was approximately 240.
- New serving procedures were not properly communicated to lunchroom staff at Hayes Elementary. As a result, lunchroom staff misinformed students, thereby creating delays in serving time and forcing immediate changes in planned serving procedures.
- Building principals at elementary schools with similar capacity offer different numbers and lengths of lunch periods. This has resulted in three buildings operating with lower levels of efficiency.

The problems noted above have not only caused administrative problems for the District, but have also resulted in the District incurring unnecessary expenditures. In the case of Lincoln elementary, not communicating up-to-date enrollment in a timely manner resulted in the District incurring the cost of a two hour per day substitute for an extended period of time.

A more costly result of poor communication is the inconsistent levels of efficiency which currently exist in the District's elementary schools. **Table 5-6** illustrates the operating characteristics of the elementary schools in Marion CSD.

**Table 5-6: Comparison of Elementary School Operations**

| | Estimated Lunches per Day | Lines per Lunch Period | Lunch Periods | Minutes per Period | Serving Minutes | Lines Per Day | Lunches per Line |
|---|---|---|---|---|---|---|---|
| Garfield | 340 | 2 | 3 | 30 | 90 | 6 | 57 |
| McKinley | 340 | 1 | 3 | 30 | 90 | 3 | 113 |
| Taft | 340 | 2 | 3 | 20 | 60 | 6 | 57 |
| Washington | 340 | 1 | 4 | 15 | 60 | 4 | 85 |
| Harrison | 225 | 1 | 2 | 30 | 60 | 2 | 113 |
| Hayes | 225 | 1 | 2 | 30 | 60 | 2 | 113 |
| Lincoln | 150 | 1 | 2 | 30 | 60 | 2 | 75 |

**Source:** Brenda Sprinkle, Marion CSD Food Services Director

As shown in **Table 5-6,** the elementary schools serving a similar number of lunches per day employ different operating structures. For example, both Garfield and McKinley elementary schools operate three lunch periods per day of 30 minutes each. However, Garfield makes a second line available resulting in 50 percent fewer students per line each day. Garfield and McKinley are identical buildings; therefore this is an indicator that Garfield is currently less efficient than McKinley during times of peak demand. Considering that the buildings are staffed the same, the difference in serving minutes per day also indicates a difference in the amount of time employees use to perform tasks such as clean-up and pre-preparation of the next day's meals (for further analysis of staffing see **R5.3**).

Building principals are ultimately responsible for setting building operating schedules. The inefficiencies noted above have resulted from building principals making or approving changes to building operations without input from the food service director. Changes in operations are made on a subjective basis with the ultimate goal of getting students through lines as quickly as possible, while leaving sufficient time for them to eat their meals. However, principals make changes based on their own observations and do not consider the impact on factors such as cost and operational efficiency. In addition, waiting time in lines was not formally studied and communicated to the food service director.

Prior to the realignment and consolidation of schools, principals were typically responsible for coordinating smaller buildings with smaller student populations. Therefore it was more efficient that each building had an operating schedule which fit its needs as the impact of subjective decision making was less noticeable. However, since the District has consolidated schools and kitchen operations must now serve larger populations, the District could reduce costs and increase efficiency by applying a uniform method of operations to buildings of similar size. By improving communications between the food service department and building operational staff, and using operational standards for decision-making purposes, the District could identify the most efficient and least costly processes and practices and apply them uniformly (see **R5.3**). This would allow the District to benchmark building performance internally and better identify process bottlenecks and inefficiencies, resulting in solutions which meet service goals at the lowest cost possible.

**R5.2 The food service director should develop and use an expanded set of performance measures. These performance measures should be used in conjunction with a set of established benchmarks and goals to better monitor the effectiveness of food service operations.**

Currently, the food service department does not use a sufficient number of performance measures to track and evaluate the food service program. The District bases its operations on only one measurement— meals served per labor hour. While the District does collect other operating information to fulfill state reporting requirements, this information is not aggregated into a report of general performance, nor is it considered when making operational decisions.

According to the Government Finance Officers Association (GFOA), *Best Practices in Public Budgeting*, governments should develop and use performance measures for functions, programs, and activities. Ideally, these performance measures should be used in conjunction with a set of established benchmarks or best practices to assess how efficiently and effectively functions, programs, and activities are provided, and to determine whether program goals are being met.

Some examples of performance measures which could apply to food services are as follows:

- Cost per meal,
- Inventory turnover,
- Students per lunch period,
- Students served per line,
- Students per serving minute,
- Average wait time per line,
- Labor hours allocated to serving, and
- Labor hours allocated to clean-up.

According to the food service director, the District bases its operations on the meals per labor hour measurement because the District has a known benchmark by which to judge their performance. The food service director indicated that a ratio of meals per labor hour between 16 and 20 has been identified by ODE as a best practice. For FY 2004-05, the food service director proposed staffing elementary schools to serve 16-17 meals per labor hour and middle/high schools at 25 meals per labor hour.

Limiting operational decisions to one established benchmark does not ensure that the District is achieving maximum levels of efficiency. The District's use of meals served per labor hour neglects other important aspects of the program's performance and assumes all buildings have similar resources and operating conditions. Factors such as available time, building layout, and lunchroom capacity are ignored in the meals per labor hour comparison. **R5.3** further examines the District's efficiency and shows that the District could feasibly serve more than 16-20 meals per labor hour and maintain service levels in some buildings. By instituting additional performance measures the District can ensure that it's most efficient practices are applied in all buildings.

**R5.3 Marion CSD should develop an operations plan for elementary school kitchens which will ensure they operate with similar degrees of efficiency. This plan should be developed in conjunction with the operational and philosophical changes recommended in R5.1 and R5.2.**

**In addition, this plan should consider one of the following options with the goal of reducing labor usage. Option 1 includes improving processes and procedures to achieve a lunches per line ratio comparable to the District's most efficient buildings, reducing up to 39 labor hours per day. Option 2 consists of centralizing kitchen operations to reduce labor usage by up to 35.25 hours per day.**

Marion CSD's food service department uses significantly more labor than the peers. **Table 5-7** compares labor usage to the peers.

**Table 5-7: Peer Comparison of Labor Usage**

| | Marion CSD | Findlay CSD | Massillon CSD | Newark CSD | Peer Average |
|---|---|---|---|---|---|
| **Number of Students** | 5,200 | 7,101 | 4,566 | 8,541 | 6,736 |
| **Food Service Positions**[1] | 46 | 51 | 36 | 85 | 57 |
| **Labor Hours per Day** | 278.5 | 247 | 182 | 233 | 221 |
| **Hours per Position** | 6.1 | 4.8 | 5.1 | 2.7 | 3.8 |

**Source:** Brenda Sprinkle, Marion CSD Food Service Director
[1]Does not include director or clerical positions

As shown in **Table 5-7**, Marion CSD uses approximately 57.5 more labor hours per day than the peer average and serves about two-thirds the number of students. Considering the fact that Marion CSD also employs fewer positions than the peers, the higher labor usage is a function of employees working longer shifts. **Table 5-7** further supports this assertion by showing that the average position at Marion CSD works a 6.1 hour shift, compared to the peer average of 3.8 hours. As shown in **Table 5-1**, 40 of Marion CSD's 46 food service employees (87 percent) work daily shifts of 5 hours or more.

The nature of food service operations is such that significantly more staff is needed during serving times than is needed for tasks such as preparation and clean up. The peers' use of shorter shifts exemplifies this concept. All staff members are physically present to serve meals and some shifts end immediately after serving is complete. Therefore, these staff members are not present for clean-up of preparation activities. Therefore, if the District was to reduce its labor usage to levels more comparable to the peers it should attempt to do so without reducing the current number of staff. To do this, the District will have to reduce the hours per day of positions on hand.

The following outlines several options the District may consider in order to reduce labor hours to levels more comparable to the peers. However, reducing the hours of current staff is an activity which should be done within the parameters of the Districts current negotiated agreement for classified staff. If the agreement does not permit the reduction of hours from current positions, the District should seek to either renegotiate this issue or change the status of positions as attrition occurs. Should the District opt to pursue reduction through attrition, it District should consider that there is no guarantee that changes will be made in a timely manner. Delays to this reduction in labor hours will only prolong the time it takes to make the Food Service Fund self-sufficient and improve the Districts overall financial condition.

### *Option 1*

**The District should consider reducing the hours of elementary school cooks working 6.5 hours per day at Garfield, McKinley, Taft, and Washington elementary schools. Reducing these positions to 3.25 hours per day would reduce labor usage by 39 hours per day, putting the District in line with the peer average.**

As shown in **Table 5-6** the District elementary schools are currently operating at different levels of efficiency with respect to the number of lunches served per line. These differences exist because the District employs several different operating structures. **Table 5-8** examines how these operating structures impact labor usage in terms of serving and non-serving activities.

## Table 5-8: Comparison of Serving and Non-Serving Labor Usage

| Building | Total Labor Hours | Daily Serving Time (Hours) | Total Positions | Labor Usage-Serving Activities[1] | Labor Usage – Non-Serving Activities |
|---|---|---|---|---|---|
| Garfield | 25.5 | 1.5 | 4 | 7 | 20 |
| McKinley | 27 | 1.5 | 4 | 7 | 20 |
| Taft | 27 | 1.0 | 4 | 5 | 22 |
| Washington | 25.5 | 1.0 | 4 | 5 | 22 |
| Harrison | 17.25 | 1.0 | 3 | 4 | 13.25 |
| Hayes | 17.25 | 1.0 | 3 | 4 | 13.25 |
| Lincoln | 14.5 | 1.0 | 3 | 3 | 9.5 |

**Source:** Brenda Sprinkle, Marion CSD Food Services Director
[1]Adjusted to include 1.0 hours per day for the breakfast program

**Table 5-8** shows that the District is using substantially more labor hours on non-serving activities at Garfield, McKinley, Taft, and Washington elementary schools. Therefore, if the District were to reduce labor hours used on non-serving activities these four buildings would be the principal candidates for reductions. However, the District should review the operations in other buildings as well to determine which combination of buildings could most easily absorb reductions in labor hours.

Currently, each of the four previously mentioned buildings is staffed with one head cook (7.5 hours per day) and 3 cooks/cashiers (6.5 hours per day). Based on this information changing the status of 6.5 hour employees to 3.25 hours at all four buildings would reduce labor usage by 39 hours per day. As shown in **Table 5-7**, reducing Marion CSD's daily labor usage by 39 hours would result in the District using 223 labor hours per day, only two hours more than the peer average.

It should be noted that under this scenario the District will need to implement significant operational and procedural changes, potentially creating delays during serving times. To avoid delays, the District should consider options to reduce workload during serving times. For example, the food service director indicated that at one time, the District attempted to have teachers collect lunch money from elementary students when taking daily attendance. This action was abandoned after a short period, primarily due to lack of support from staff. The District may want to reconsider this option in an effort to avoid potential serving delays as kitchen duties and procedures are redesigned. However, prior to making such a change, the District should review its negotiated agreements to ensure that it is permissible.

*Financial Implication:* In FY 2003-04, the average salary of a 6.5 hour per day elementary school cashier/cook was $10.05 per hour. These positions also worked 189 days per year. Based on this information, this recommendation could reduce salary costs by approximately $6,200 per employee. Assuming that retirement contributions equal approximately 13 percent of salaries the District would also reduce fringe benefits costs by a minimum of $800 per employee. Cumulatively, the District could save approximately $84,000 in salaries and benefits by pursuing option 1.

*Option 2*

**The District should centralize food preparation. In conjunction with this reconfiguration, the District should reduce elementary school cooks from 6.5 hours per day to a maximum of 3.25 hours per day. To accommodate the needs of a central kitchen, two cook positions should be created (or reassigned) at the high school, each working a maximum of 2.0 hours per day. Also, the District should create two delivery positions at up to 4.0 hours per day and purchase a two vehicles adequately equipped for food delivery.**

**Table 5-7** shows that the peers with the lowest hours per position are Findlay and Newark. Both of these Districts have minimized food service labor hours through the use of a central kitchen configuration. Under this configuration, food for several buildings is prepared at the high school and then transported to satellite kitchens throughout the District. Findlay prepares one of the two daily entrees for 11 elementary and local parochial schools at its high school. These entrees are then transported to each building via two modified pick-up trucks.  To carry out this activity, Findlay CSD has two cooks at the high school working 2.0 hours per day and two delivery personnel working 4.0 hours per day.

Considering that Findlay provides lunches to approximately 1,900 more students, it is assumed that Marion CSD could centralize kitchens using a similar operating model. Based on this model, the District will significantly decrease the workload at the elementary schools, allowing elementary school cooks (excluding head cooks) to be reduced to 3.25 hours per day. This will reduce the District’s labor usage by a total of 47.25 hours based on the current staffing of fourteen 6.5 hour per day cooks and one 5.0 hour per day cook.

Part of the cost savings from the reductions noted above would be absorbed by the new operational requirements of a central kitchen configuration. The District would need to establish two 2.0 hour cook positions at the high school and two 4.0 hour food delivery positions. Ideally, these positions would be filled by current staff, but should this not be possible the District could expect to add an additional 12 labor hours, thereby reducing the net reduction in staffing to 35.25 labor hours.

District would also incur the cost of obtaining two delivery vehicles. Based on vendor, inquiry, these vehicles could be obtained at a price ranging from $38,000 to $40,000 each.

*Financial Implication:* In FY 2003-04 elementary school cooks worked 189 days at an average salary of $10.05 per hour. Based on this information and the assumptions that the District will not use existing staff to fill new operational needs and retirement contributions will continue to equal 13 percent of salaries, the following financial implications are projected:

- Reducing fourteen positions from 6.5 to 3.25 hours will result in a salary savings of $86,400 and a benefit savings of approximately $11,200.
- Reducing one 5.0 hour position to 3.25 hours will result in a savings of approximately $3,300 in salaries and another $400 in benefits.
- Introducing two 2.0 hour cook positions at the high school will result in expenditures for salaries totaling approximately $7,600 and benefits totaling approximately $1,000.
- Creating two 4.0 hour delivery positions will result in salary expenditures totaling approximately $15,200 and benefits totaling approximately $2,000
- The purchase of two vehicles properly equipped for food delivery should cost the District approximately $80,000.

Cumulatively, the District could reduce salary and benefit expenditures by approximately $75,700 (net). However, the District would not realize the bulk of these savings until the second year as approximately $80,000 would be used to purchase vehicles in the first year.

**R5.4 In conjunction with R4.2 in the facilities section, should the District choose to close two elementary school buildings, food service staff should be reduced by 2.0 head cook positions, and 5.0 cook positions. The impact of these reductions should be considered prior to making the reductions recommended in R5.3.**

As detailed in the facilities section, Marion CSD is experiencing a declining enrollment trend. To balance this trend the District consolidated several school buildings as part of its recent building project. This project decreased the number of schools in operation by 6. However, even with this reduction in buildings the District has found itself in a position where several buildings are not operating at an optimal capacity.

**R4.2** in the **facilities section** recommends that the District consider addressing this capacity issue by closing additional buildings. Should the District pursue this option, additional staffing reductions could be made within food service operations. Assuming the District chose to close the buildings with the smallest capacities (Lincoln elementary and either Harrison or Hayes elementary), the District could reduce the following positions:

- 2 head cooks,
- 2 6.5 hour per day cooks,

- 1 5.0 hour per day cooks, and
- 2 3.25 hour per day cooks.

Cumulatively, reducing these positions would reduce the Districts labor usage in the food services department by 39.5 hours per day. As shown in **Table 5-7**, the District is using approximately 41 labor hours per day more than the peers. Therefore, should the District opt to close buildings as recommended in **R4.2** and reduce staff accordingly, the District would be comparable to the peers.

Considering that the decision to close buildings is of greater magnitude than decisions concerning departmental staffing, the District should decide whether or not to pursue **R4.2** prior to implementing the options presented in **R5.3**. This will result in the District avoiding unnecessary reductions in staff and ensuring that staffing properly meets current needs. Most importantly, this will provide a foundation for long-term plan that will help to insure the solvency of the Food Service Fund.

*Financial Implication:* In FY 2003-04 elementary school cooks worked 189 days. Based on this information and the assumption that retirement contributions will continue to equal 13 percent of salaries, the following financial implications are projected:

- Eliminating two head cooks at an average salary of $10.55 per hour will result in a salary savings of approximately $29,900 and a benefit savings of approximately $3,900.
- Eliminating one 6.5 hour position at an average salary of $9.82 will result in a savings of approximately $12,100 in salaries and another $1,600 in benefits.
- Eliminating one 5.0 hour position at an average salary of $9.82 will result in a savings of approximately $9,300 and benefits totaling approximately $1,200.
- Eliminating one 3.25 hour position at an average salary of $9.14 will result in a savings of approximately $5,600 and benefits totaling approximately $700.

Cumulatively, by closing schools, the District could reduce food service salary and benefit expenditures by approximately $64,300 (net).

**R5.5 Marion CSD should review the use of LaRue Food Bank for food storage and delivery. By improving the use of existing storage facilities and delivery capabilities, the District can minimize or discontinue services from LaRue Food Bank.**

The District currently uses LaRue Food Bank for the storage and delivery of commodity food items to be used at its Districts elementary schools. LaRue charges the District $0.06 per pound for every item coming into and going out of its facility, and $1.00 per case for delivery service.

The food service director indicated that the District uses LaRue in order to minimize order frequency and limit the number of delivery locations. This is necessary because most of the items stored at LaRue come from the United States Department of Agriculture (USDA) Commodity Food Program which charges a fee of $60 per delivery. The director feels that the District does not have adequate storage to meet its needs without LaRue's services. The director feels that the District does not have large enough internal storage facilities or sufficient staff to execute deliveries should it discontinue use of LaRue services.

A sample of the District's invoices revealed that it pays between $900 and $1,700 per month for LaRue's services during the school year and a flat fee of $1,500 for storage during the summer months. Assuming the District could maintain an average cost of approximately $1,300 per month, the LaRue facility would cost approximately $13,200 per year. Based on the District's current facility configuration of seven elementary schools, the District could place orders bi-weekly from the USDA program at a cost of approximately $7,600 per year.

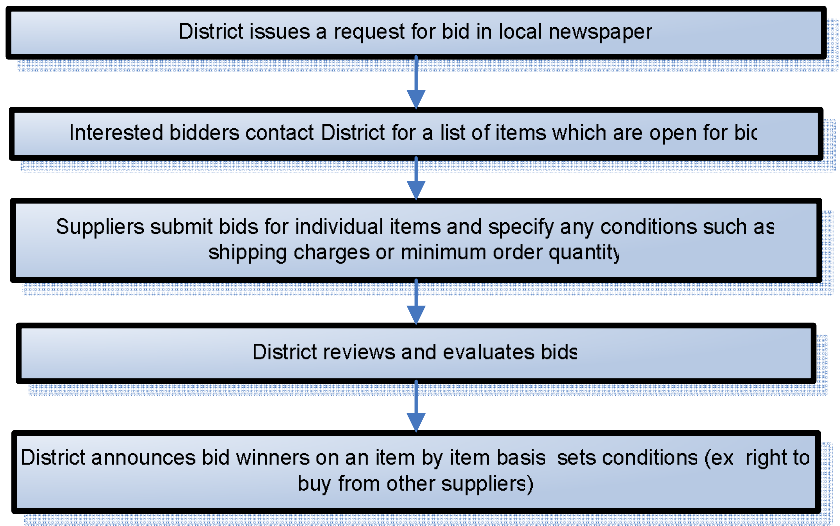
Prior to FY 2004-05 the District operated 14 buildings, each with very limited storage capabilities. Under this configuration the District used the LaRue storage facility to support 10 buildings. However, the recent building project has reduced the number of buildings supported by LaRue. LaRue now supports seven buildings, and storage facilities have been expanded at four of these buildings. The District has also expanded storage facilities Harding High School and Grant Middle School, two buildings which have never been supported by LaRue.

*Financial Implication:* Assuming the District has sufficient storage to support ordering a maximum of two times per month, and the services of LaRue continue to average approximately $13,200 per year, the District can save approximately $5,600 per year by discontinuing use of LaRue.

**R5.6 Marion CSD should attempt to reduce the cost of food purchases by improving its purchasing and logistics practices. The District's purchasing function should include best practices such as bid solicitation, blanket ordering, and cooperative purchasing.**

Marion CSD makes food purchases from several sources. The District purchases commodity items through the United States Department of Agriculture (USDA) Commodity Food Program and the United States Department of Defense (USDoD) Fresh Fruits and Vegetable Program. For purchases which cannot be made through these programs, the District selects suppliers though an open bid process. This process is shown in **Chart 5-1** below.

**Chart 5-1: Marion CSD Supplier Selection Process**




The District awards contracts for specific items on an annual basis. The District does set standards for service and attempts to limit costs by considering factors such as shipping charges and frequency of use when making its final decisions. However, this process has yielded several outcomes which do not ensure that the District is obtaining the best price possible. Some examples are detailed below:

- **Insufficient number of suppliers:** As shown in **Chart 5-1**, the District only advertises its bid proposal in the local newspaper and does not attempt to solicit bids from vendors who may not have access to this resource. As a result, the food service director indicated that the District typically receives no more than three bidders for the food service contract.

- **Increased order frequency:** Prior to FY 2004-05 the District operated several small buildings with limited storage facilities. This resulted in orders being placed for each building on a weekly basis. However, it should be noted that beginning in FY 2004-05, the District will have more storage space and will be ordering for fewer buildings. The food service director is attempting to limit orders to one per month.

- **Unnecessary shipping charges:** Due to the high frequency of ordering mentioned above, the District was sometimes not able to meet the minimum order amount required by the supplier with the lowest cost. This resulted in the District incurring shipping charges or paying a premium price from another supplier for some items.

- **Storage and delivery charges:** As mentioned in **R5.5**, the District has been using LaRue food bank for storage and delivery of some food items. This appears to be a result of failing to maximize the use of internal storage and delivery capabilities.

*Purchasing & Supply Management* (Leenders and Fearon, 2002), identifies several practices which if incorporated, could improve the District's food purchasing process. These practices include the following:

- **Bid solicitation:** The District bid process should generate a large enough group of qualified suppliers to facilitate adequate competition in the bidding process. The District could facilitate competition by soliciting additional bidders, using requests for quotations, requests for proposals, or invitations to bid.

- **Blanket ordering:** Items used repetitively over a period of months can be purchased in this manner. Blanket orders specify the quantity and frequency that an item will be delivered to a specific location over a designated period of time. Blanket orders can reduce order frequency and reduce the amount of time the District must store purchased items.

- **Cooperative purchasing:** The District does not participate in any consortia with other school Districts. While the food service director feels that the District's prices are in-line with those of consortia, joining a consortium will increase competition in the bidding process and ensure that the District is using all available pricing leverage in the purchasing process.

Effective management controls require public entities to seek the best price for goods and services. By implementing best practices such as bid solicitation, blanket ordering, and cooperative purchasing, the District can potentially reduce costs in several ways. Bid solicitation will ensure that the District has an adequate number of suppliers, thereby facilitating direct price competition. Blanket ordering can potentially reduce the District's indirect procurement costs associated with storage and delivery. Finally, cooperative purchasing will ensure that the District is taking advantage of opportunities to exercise available leverage in the pricing process.

**R5.7 Marion CSD should implement procedures to make the lunchroom (food service) enterprise fund self-supporting. Considering the District's fiscal emergency status, the General Fund cannot afford to subsidize the operations of this fund. The District should evaluate the recommendations presented in this section to determine the impact of the projected cost savings. Marion CSD should review the impact of previously enacted cost-saving measures and consider implementing these recommendations accordingly.**

During the past three years the District has transferred approximately $315,100 from the General Fund to the Food Service Fund. Transfers totaled approximately $97,100 and $218,000 in FY 2001-02 and FY 2002-03, respectively. The District did not make a transfer in FY 2003-04 and as a result, the fund ended the year with a negative balance of approximately $345,600. According to the treasurer, no transfer was made in order to highlight this fund as an area of concern during the FY 2004-05 budgeting process.

The District is currently forecasting a General Fund deficit in excess of $2 million in FY 2004-05. In order to eliminate this deficit the District must seek to reduce unnecessary obligations. The Food Service Fund qualifies as an unnecessary general fund obligation considering its status as an enterprise operation.

As shown in **Table 5-2,** Food Service Fund expenditures have exceeded revenues in two of the past three years. While the District has made notable efforts to increase revenues and decrease expenditures, it is not certain that these deficits can be eliminated without additional reductions. Continuing to transfer funds from the General Fund to the Food Service Fund will prolong the District's financial recovery. **R5.1** through **R5.6** outline several options the District could pursue in order to reduce future expenditures and eliminate operating deficits in the Food Service Fund. Several scenarios the District could pursue to eliminate the fund deficit that existed at the end of FY 2003-04 are examined in the **Financial Implications Summary**.

# Financial Implications Summary

The following table represents a summary of estimated food service cost savings. For the purpose of this table, only recommendations with quantifiable impacts are listed.

**Summary of Financial Implications for Food Services**

| | **Scenario A** (Implement R5.3 Option 1) | **Scenario B** (Implement R5.3 Option 2) | **Scenario C** (Implement R5.4) |
|---|---|---|---|
| **R5.3** Reduce labor hours used | $84,000 | $75,700[1] | N/A |
| **R5.4** Reduce staff in conjunction with building Closure | N/A | N/A | $64,300 |
| **R5.5** Eliminate use of LaRue Food Bank | $5,600 | $5,600 | $5,600 |
| **Total** | **$89,600** | **$81,300** | **$69,900** |

[1]Under this scenario, the District would also incur a one-time cost of $80,000

**This page intentionally left blank.**

# Transportation

## Background

Marion City School District (Marion CSD) provided transportation to 2,065 students in FY 2002-03 using District-owned yellow buses. The District provided transportation to both public and non-public school students. The District's transportation policy requires transportation be provided to any student (grade K-8) who resides one mile or more from their assigned school and any high school student who resides one and one-half miles or more from the high school. For FY 2003-04, the District's reported ridership of 2,065 is 39 percent of the District's total student population of 5,301.

**Table 6-1** compares Marion CSD's total riders in FY 2003-04 with those of the peers: Findlay City School District (Findlay CSD), Massillon City School District (Massillon CSD), and Newark City School District (Newark CSD).

**Table 6-1 FY 2002-03 Total Regular and Special Needs Riders**

| | Marion CSD | Findlay CSD | Massillon CSD | Newark CSD | Peer Average |
|---|---|---|---|---|---|
| **Public** | 1,683 | 359 | 2,080 | 3,167 | 1,869 |
| **Non-Public** | 87 | 3,958 | 189 | 386 | 1,511 |
| **Community School** | 0 | 0 | 0 | 0 | 0 |
| **Total Regular Needs Riders** | **1,770** | **4,317** | **2,269** | **3,553** | **3,380** |
| **Total Special Needs Riders** | **295** | **87** | **40** | **246** | **124** |
| **Total Riders** | **2,065** | **4,404** | **2,309** | **3,799** | **3,504** |

**Sources:** Marion and peer T-forms FY 2003-04

### *Organizational Structure and Function*

Marion CSD employs 11.3 full-time equivalent (FTE) employees who perform transportation-related duties. The District's transportation director oversees the transportation department (i.e., bus garage) and has supervisory duties over regular and substitute bus drivers, and a mechanic.

**Table 6-2** compares Marion CSD's transportation staffing levels to the peers for FY 2003-04.

## Table 6-2: District Staffing Levels (FY 2003-04)

| Staffing | Marion CSD | Findlay CSD | Massillon CSD | Newark CSD | Peer Average |
|---|---|---|---|---|---|
| | FTE | FTE | FTE | FTE | FTE |
| **Total** | **11.3** | **28.6** | **16.3** | **31.7** | **25.5** |
| **Total Number of Students Transported** | **2,065** | **4,404** | **2,309** | **3,799** | **3,504** |
| **Students Transported per Total FTE** | **188** | **154** | **142** | **120** | **137** |
| **Square Miles in District** | **9.7** | **37.6** | **12.4** | **27.1** | **25.7** |
| **Square Miles per Total FTE** | **0.9** | **1.3** | **0.8** | **0.9** | **1.0** |

**Source:** Marion's and peers T-1, T-2 and T-11 reports; EMIS reports

**Table 6-2** indicates that Marion CSD maintains fewer FTE staff for transportation than the peers and the peer average. The ratios in the table indicate that Marion CSD has more students transported per total FTE than the peers and exceeds the peer average by approximately 38 percent.

### *Operating Statistics*

Marion CSD maintains a fleet of 19 active and 6 spare buses to provide transportation to its regular and special needs students, both public and non-public. Specifically, 14 active buses are used to transport regular needs students and the remaining 5 are used to transport special needs students. **Table 6-3** summarizes FY 2003-04 basic operating statistics and ratios for Marion CSD and the peers.

## Table 6-3: FY 2002-03 Basic Operating Statistics

| | Marion CSD | Findlay CSD | Massillon CSD | Newark CSD | Peer Average |
|---|---|---|---|---|---|
| **Students Transported** | | | | | |
| Regular Needs, Yellow Bus | 1,770 | 4,317 | 2,269 | 3,553 | 3,380 |
| Special Needs | 295 | 87 | 40 | 246 | 124 |
| **Total Students Transported** | **2,065** | **4,404** | **2,309** | **3,799** | **3,504** |
| **Expenditures** | | | | | |
| Regular Needs, Yellow Bus | $393,198 | $1,529,712 | $969,101 | $1,451,837 | $1,316,883 |
| Total Special Needs | $240,945 | $216,325 | $88,256 | $312,658 | $205,746 |
| **Total Expenditures** | **$634,143** | **$1,746,037** | **$1,057,357** | **$1,764,495** | **$1,522,630** |
| **State Reimbursements** | | | | | |
| Regular Needs | $650,340 | $966,806 | $617,486 | $1,026,820 | $870,371 |
| Special Needs | $135,952 | $84,016 | $17,601 | $129,634 | $77,084 |
| **Total State Reimbursements** | **$786,292** | **$1,050,822** | **$635,087** | **$1,156,454** | **$947,454** |
| **Percentage of Reimbursement** | **124%** | **60%** | **60%** | **66%** | **62%** |
| **Miles Traveled** | | | | | |
| Regular Needs, Yellow Bus | 105,064 | 416,160 | 310,680 | 447,840 | 391,560 |
| **Buses** | | | | | |
| Active, Regular Needs | 14 | 35 | 21 | 30 | 29 |
| Active, Special Needs | 5 | 4 | 2 | 11 | 6 |
| Spare | 6 | 11 | 12 | 9 | 11 |
| **Total Buses** | **25** | **50** | **35** | **50** | **45** |
| **Square Miles in District** | 9.7 | 37.6 | 12.4 | 27.1 | 26 |
| **Regular Needs Ratios** | | | | | |
| Cost per Mile, Yellow Bus | $3.74 | $3.68 | $3.12 | $3.24 | $3.35 |
| Cost per Active Bus | $28,086 | $43,706 | $46,148 | $48,395 | $46,083 |
| Cost per Student, Yellow Bus | $222 | $354 | $427 | $409 | $397 |
| Students per Active Bus | 126 | 123 | 108 | 118 | 117 |
| **Special Needs Ratios** | | | | | |
| Cost per Student | $817 | $2,486 | $2,206 | $1,271 | $1,988 |

**Source:** Marion and Peer T-forms for FY 2003
[1] Calculate by multiplying total daily miles by 180 student days

Based on **Table 6-3**, Marion CSD appears to be operating its transportation system in an efficient manner. The District transports fewer students over fewer miles than the peers or the peer average, mostly because of the small geographic size of the District and the large number of students who may walk to school. Regular and special needs transportation expenditures for Marion CSD are approximately 58 percent less than the peer average while its reimbursement from ODE is 124 percent of the expenditures reported. The peer average reimbursement is 62 percent.

Regular needs ratios were generally favorable when compared to the peers and the peer average. The District's cost per bus, cost per student, and students per active bus were all more favorable than the peer average. However, Marion CSD's cost per mile is 12 percent greater than the peer average. The cost per mile ratio for the peer districts appears is lower because they allocate fixed operational costs over more miles than Marion CSD.

During the audit, several aspects of transportation operations were examined, but none yielded recommendations. These are described below:

- *Staffing:* Marion CSD's transportation department is efficiently staffed (see **Table 6-2**). The District transports more students per FTE than the peers and the peer average.

- *Fuel Procurement:* Marion CSD maintains its own above ground tank and places fuel orders with a local vendor. Marion CSD's gasoline and diesel costs per gallon are approximately 7 and 15 percent less than the peer averages, respectively. The District has cut back on field trips to reduce future expenditures.

- *Bus purchases:* Marion CSD receives approximately $16,000 per year in bus purchase assistance and purchases one regular used bus each year. However, the District is not buying a bus in 2004-05. Two new special needs buses were purchased using only grant funds.

- *Maintenance Costs:* The maintenance shop is small and the District employs one mechanic who performs all repairs, including bodywork. Marion CSD carries a small inventory of replacement parts due to the limited space.

## *Conclusion*

Marion CSD operates its transportation system in an effective and efficient manner. The District is one of only a few districts in Ohio that receives more from its ODE reimbursement than it spends. Key operational ratios, such as students per bus, cost per bus, and cost per student are more favorable than the peers and the peer average.

**MARION CITY SCHOOLS**
910 East Church Street
Marion, Ohio 43302-4396
Telephone: (740) 223-4546 • Fax: (740) 223-4400

**Dr. William C. Zwick**
*Superintendent*

March 10, 2005

Betty Montgomery, Auditor of State
88 East Broad Street
P O Box 1140
Columbus, Ohio 43216-1140

Dear Auditor of State Montgomery,

On behalf of the Marion City Schools in Marion, Ohio, I would like to take this opportunity to thank your team of auditors for their sincere cooperation and professionalism shown throughout the entire audit process over the last six months or so.

My entire administrative team was very appreciative of the manner in which accurate data was researched and presented. The amount of information submitted was accurately disseminated to portray our district as it truly is and was during the time of the audit.

The recommendations submitted have given us some insight with regard to our financial situation. We will be taking these recommendations very seriously and discussing them at great lengths in the coming months as we prepare for next year.

Marion's situation is somewhat unique, as we have already reduced many positions throughout the district. Our main effort will be to maintain our educational programs at their current level as we work through this financial crisis. Our entire staff is working hard to raise our test scores to keep us from going into academic emergency.

It is also very interesting to note how Marion City Schools relates to outside peer districts within the State of Ohio. Through this comparison, we are able to discern how other school districts operate. We are pleased that we compare very favorable with our peer group. A close examination of this audit will most likely give us ideas on how to become even more cost effective in our day-to-day operations.

The main concern I have regarding the Performance Audit recommendations is the severe movement towards the state minimum standards regarding staff. The audit reveals that Marion City Schools are at or below peer districts in many staffing areas. The move toward minimum standards would severely reduce our ability to function and educate our students to their fullest potential. I fully realize your auditors feel moving to state minimum standards is the only option left for us because we already operate on such a lean budget. Most enlightening is the fact that our local tax payers contribute substantially less to our general fund that is contributed by the tax payer in our peer communities. For example, tax payers in our district contribute only 26% of our general fund while the tax payers in Findlay contribute 52.5% to their general fund. This highlights our need to communicate to our tax payers that we need their support to overcome this financial challenge.

Unfortunately, our students will be the ones who are penalized when this process comes to pass. Academically, we are a city district trying to do our best to raise test scores without the current community support for increased funding. Please know that we will never stop trying to pass additional levies within our community.

Again, I believe the performance audit team did their best to consider those special areas that were discussed. It is our intent to embrace the recommendations and apply them in the areas that our Board and administration deem feasible, without disrupting the quality of our educational program. I fully realize the longer we go without additional financial assistance from our state and/or community, the more reductions we will likely need to make. It was also deeply appreciated that the audit team does fully understand just how these types of recommendations listed would affect an already academically challenged district.

In closing, I would like to, again, extend my thanks to the State Auditor's Office for their hard work and fairness to our district. I commend them for a job well done.

Educationally yours,

William C. Zwick

William C. Zwick
Superintendent