



Dave Yost • Auditor of State



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To the residents, elected officials, administration, and other stakeholders of the East Knox Local School District,

At the request of the Ohio Department of Education, the Auditor of State's Ohio Performance Team conducted a performance audit of the District to provide an independent assessment of operations. Functional areas selected for operational review were identified with input from District management and were selected due to strategic and financial importance to the District. Where warranted, and supported by detailed analysis, this performance audit report contains recommendations to enhance the District's overall efficiency and effectiveness. This report has been provided to the District and its contents have been discussed with the appropriate elected officials and District management.

The District has been encouraged to use the management information and recommendations contained in the performance audit report. However, the District is also encouraged to perform its own assessment of operations and develop alternative management strategies independent of the performance audit report. The Auditor of State has developed additional resources to help Ohio governments share ideas and practical approaches to improve accountability, efficiency, and effectiveness.

SkinnyOhio.org: This website, accessible at <http://www.skinnyohio.org/>, is a resource for smarter streamlined government. Included are links to previous performance audit reports, information on leading practice approaches, news on recent shared services examples, the Shared Services Idea Center, and other useful resources such as the Local Government Toolkit. The Shared Services Idea Center is a searchable database that allows users to quickly sort through shared services examples across the State. The Local Government Toolkit provides templates, checklists, sample agreements, and other resources that will help local governments more efficiently develop and implement their own strategies to achieve more accountable, efficient, and effective government.

This performance audit report can be accessed online through the Auditor of State's website at <http://www.ohioauditor.gov> by choosing the "Search" option.

Sincerely,

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

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Executive Summary

Project History

The Ohio Department of Education (ODE) asked the Auditor of State's Ohio Performance Team to conduct a performance audit to improve the efficiency and effectiveness of operations, and address concerns that declining revenues are creating operating deficits that will eventually deplete cash reserves. ODE designated East Knox LSD (EKLSLSD or the District) in Fiscal Caution on September 4, 2012 due to potential deficits listed in its five-year forecast. The May 2013 update of the five-year forecast indicated that the FY 2013-14 ending cash balance deficit could reach \$401,277 and that the District is projected to reach a deficit of \$5.2 million by FY 2016-17. During the course of the audit, the District made additional reductions to help improve its financial position. For FY 2013-14, the Elementary Building will be closed, 1 principal position will be eliminated, 2.5 FTE general education teachers will not be replaced, and 1 FTE reading recovery position will not be replaced.

Objectives

Objectives are what the audit is intended to accomplish and can be thought of as questions about the program that the auditors seek to answer based on evidence obtained and assessed against criteria. AOS developed objectives designed to identify efficiencies that could be gained from the operational areas of the District.

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

The following objectives were identified in consultation with the District:

- What is the District's financial state? Are there areas where the District can maximize cost efficiency? What methods are used to communicate with key stakeholders?
- Does the District have financial policies and procedures that meet recommended practices?
- How do staffing levels at the District compare to the peer district average and State standards?
- How do the District's salary schedules for certificated staff compare to the surrounding district average?
- How do the insurance benefits offered by the District compare with state averages and industry benchmarks?
- Does the District's Worker's Compensation risk rating and mitigation practices meet recommended practices?
- How does the District's contribution to the employee's portion of STRS/SERS compare to State minimums?

- Are there contractual provisions within the certificated employee collective bargaining agreements that are costly to the District?
- Does the District's routing system provide the optimal capacity utilization for pupil transportation services?
- Is the District's approach to purchasing fuel and other supplies, such as parts for buses, effective for the District?
- Do building capacities and enrollment projections suggest that the District should change how it plans to use its buildings?
- Does the District have an energy reduction plan and implement best practices?
- Does the District employ appropriate staff to maintain its facilities and grounds?
- Is the District's Food Service Fund self-sufficient? Are there ways to increase participation and revenue?
- What options does the District have for filling a vacant director position?

Methodology and Benchmarks

Applicable standards require that a performance audit be planned and performed so as to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on audit objectives.

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

AOS conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). AOS believes that the evidence obtained provides a reasonable basis for the findings and conclusions presented in this report based on the audit objectives.

Data was drawn from FY 2010-11, FY 2011-12, and FY 2012-13, where possible. To complete this report, the auditors conducted interviews with District personnel, and reviewed and assessed information from EKLSLSD, peer school districts, and other relevant sources. The performance audit process involved significant information sharing with EKLSLSD, including preliminary drafts of findings and proposed recommendations related to the identified audit areas. Furthermore, status meetings were held during the engagement to inform the District of key issues impacting selected areas, and share proposed recommendations for improving or enhancing operations. Throughout the audit process, input from the District was solicited and considered when assessing the selected areas and framing recommendations. Finally, EKLSLSD provided verbal and written comments in response to various recommendations, which were taken into consideration during the reporting process. Where warranted, AOS modified the report based on the District's comments.

AOS used ten school districts as peers for benchmarking purposes: Ada Exempted Village (Hardin); Cardington-Lincoln Local (Morrow); Crestview Local (Richland); Danville Local (Knox); Genoa Area Local (Ottawa); Hicksville Exempted Village (Defiance); Liberty Center Local (Henry); Mount Gilead Exempted Village (Morrow); Mount Vernon City (Knox); and North Fork Local (Licking). These districts were selected based upon demographic and operational data as well as input from the District. External organizations and sources were also used to provide comparative information and benchmarks. They include the Government Finance Officers Association (GFOA), the State Employment Relations Board (SERB), the Ohio Department of Administrative Services (DAS), the Ohio Department of Education (ODE), the American Schools and Universities (AS&U), Panell Martin, and the National Center for Education Statistics (NCES).

Noteworthy Accomplishments

Noteworthy accomplishments acknowledge significant accomplishments or exemplary practices. The following summarizes the noteworthy accomplishments identified during the course of the audit.

- **Worker's Compensation:** The District is group rated and has not had any days-lost incidents in the recent past. As a result, it has a low premium. Group ratings are recommended by the Bureau of Worker's Compensation (BWC) because they distribute risk across a larger group. During the course of this audit, the District researched and participated in programs through BWC designed to reduce its rates. Specifically, the District is using the Going Green discount, which provides a 1% discount for reporting and paying online. It is also participating in the Lapse Free discount for an additional 1% discount by not missing any premium payments. By participating in programs designed to lower workers compensation premiums, the District is taking proactive steps to control premium rates while reducing the risk of losing its group rating.
- **Health Insurance Premiums:** The District is fully-insured and uses a broker to shop annually for its insurance provider. The broker uses comparative shopping to find the insurance provider that meets the District's needs while offering the best rate. In 2012, the District used this process to save approximately \$79,000 on its insurance premiums in FY 2013 compared to FY 2012. As of July 1, 2013, the District will change to a consortium, Ohio Mid-Eastern Regional Education Services Agency (OME-RESA), for its insurance coverage, in order to avoid a steep premium increase for FY 2013-14.

Issue for Further Study

Auditing standards require the disclosure of significant issues identified during an audit that were not reviewed in depth. These issues may not be directly related to the audit objectives or may require resources in excess of the amount merited by the scope of the audit. The following presents issues worthy of further study.

- **Sharing Services for Administration Duties:** During the course of the audit, the Food Service Director resigned. As a temporary solution, the District authorized more hours for

a member of the kitchen staff to order food and complete paperwork. The District expressed interest in partnering with another district to share the services of a Food Service Director and a Transportation Director. Given the recent levy failure and the Elementary Principal resignation, the District may find it would be mutually beneficial to share additional administrator positions. The District is encouraged to explore all possible shared service opportunities by using the Educational Service Center or neighboring districts.

Financial Implications

The performance audit identifies potential cost savings of approximately \$434,000 annually, representing 4.1 percent of the proposed FY 2013-14 total expenditures forecasted by the District. The following table summarizes those performance audit recommendations that contain financial implications.

Summary of Performance Audit Financial Implications

Recommendation	Impact
R1 Reduce general education staffing	\$195,600
R2 Close the East Knox Elementary School Building	\$156,000
R3 Eliminate paid lunch breaks	\$39,300
R4 Reduce severance payout	\$28,000
R5 Implement a food service chargeback policy	\$10,600
R6 Eliminate compensation for the Local Professional Development Committee	\$4,500
Total Cost Savings from Performance Audit Recommendations:	\$434,000

Source: AOS recommendations

Management Implications

In addition to financial implications, the performance audit report also includes management recommendations that may not have a direct financial effect but could improve administration.

- **Financial Systems:** Establish an audit committee.
- **Human Resources:** Monitor special education staffing to ensure compliance.
- **Food Service:** Promote and advertise Food Service operations.

Background

Financial Systems

EKLSD was placed in Fiscal Caution on September 4th, 2012 due to projected deficits in its unreserved funds from FY 2013-14 through FY 2016-17. The deficit is projected to reach \$3 million in FY 2014-15 and grow to \$5.2 million by FY 2016-17. Since FY 2009-10, the District has made significant reductions in order to improve its financial standing. In total, the District reduced 23 FTE positions negotiated benefit changes and salary freezes that occurred in 2009 and 2010 due to decreasing revenues. These measures saved approximately \$1.3 million.

Issues further contributing to the District’s financial problems include: declining property values, failing to pass all six ballot issues since 2010, declining state funding in recent years and the losing enrollment to nearby schools. On May 7th, 2013, the District’s most recent combined income and property tax levy attempt failed.

Table 1 shows the District’s expenditure history from FY 2008-2009 through FY 2011-2012.

Table 1: Historical Expenditures

	FY 2008-09	FY 2009-10	% Change	FY 2010-11	% Change	FY 2011-12	% Change	Average % Change
FTE Students	1,314	1,259	(4.2%)	1,225	(2.7%)	1,148	(6.2%)	(4.4%)
Administrative	\$1,365,544	\$1,297,996	(4.9%)	\$1,331,343	2.6%	\$1,426,806	7.2%	1.6%
Building Operations	\$2,507,158	\$2,575,518	2.7%	\$2,395,229	(7.0%)	\$2,261,235	(5.6%)	(3.3%)
Staff Support	\$57,746	\$25,440	(55.9%)	\$322,326	1167.0%	\$346,020	7.4%	372.8%
Pupil Support	\$1,055,235	\$1,175,344	11.4%	\$1,070,532	(8.9%)	\$978,269	(8.6%)	(2.1%)
Instructional	\$6,080,735	\$6,099,914	0.3%	\$5,506,228	10.8%	\$5,426,343	(1.5%)	3.2%
Total Expenditures	\$11,066,417	\$11,174,213	1.0%	\$10,625,658	(4.9%)	\$10,438,673	(1.8%)	(1.9%)

Source: ODE expenditure reports FY 2008-09, FY 2009-10, FY 2010-11, and FY 2011-12.

Note: FTE students reflect the number of students used by ODE to calculate expenditures per pupil.

As shown in **Table 1**, expenditures declined by 1.9 percent from FY 2008-09 to FY 2011-12. Also during this time, the District’s enrollment declined by 4.4 percent, which had an adverse effect on state funding. The Staff Support line item had a significant increase from FY 2009-10 to FY 2010-11 as a result of the District receiving a grant which was coded to Staff Support. The District also began coding special education services from the Educational Service Center to Staff Support instead of the Instructional category. The Administrative line item also increased to changes in how grant and ESC charges were recorded.

Table 2 shows EKLSD’s Expenditure Per Pupil (EPP) compared to the peer average for FY 2011-12.

Table 2: EPP Peer Comparison

	EKLSD EPP	Peer Average EPP	EPP Difference	% Difference
FTE Students	1,148	1,423	(274)	(19.3%)
Administrative	\$1,242	\$1,162	\$80	6.9%
Building Operations	\$1,969	\$1,781	\$188	10.6%
Staff Support	\$301	\$281	\$20	7.0%
Pupil Support	\$852	\$818	\$33	4.1%
Instructional	\$4,725	\$5,242	(\$517)	(9.9%)
Total Expenditure Per Pupil (EPP)	\$9,089	\$9,285	(\$196)	(2.1%)

Source: ODE expenditure reports for EKLSD and peer districts for FY 2011-12.

As shown in **Table 2**, the District's EPP was below the peer average by 2.1 percent. Areas where the District is spending more than the peers include administrative, building operations, staff support, and pupil support. Implementing **R2** will address the high building operations expenditures. Additionally, the District reduced 1 FTE administrator, which will save the District approximately \$75,000 in FY 2013-14.

Human Resources

EKLSD divides its human resource functions between the Superintendent, Treasurer, and Assistant Treasurer. The Superintendent is responsible for hiring employees, the Treasurer handles benefits administration and EMIS staff coding, while the Assistant Treasurer processes payroll.

Staffing

Table 3 compares EKLSD's full time equivalent (FTE) staffing levels with the peer averages for FY 2011-12.

Table 3: Staffing Comparison

	EKLSD			Peer Average Staff/1,000 Students	Difference /1,000 Students
	FTE Staff	% of Total Staff	FTE/1,000 Students		
Administrative	6.0	4.8%	5.5	7.8	(2.2)
Office/Clerical	7.0	5.6%	6.4	7.8	(1.3)
General Education Teachers	51.8	41.1%	47.6	49.0	(1.4)
All Other Teachers	12.7	10.1%	11.7	12.9	(1.2)
Education Service Personnel (ESP)	3.7	3.0%	3.4	7.4	(4.0)
Educational Support	3.0	2.4%	2.8	2.7	0.1
Other Certificated	2.3	1.8%	2.1	0.6	1.4
Non-Certificated Classroom Support	8.0	6.4%	7.4	3.4	4.0
Sub-Total	94.5	75.0%	86.9	91.5	(4.6)
Operations	29.5	23.5%	27.2	27.7	(0.6)
All Other Staff	1.9	1.5%	1.7	3.6	(1.9)
Total Staff	125.9	100.00%	115.7	122.8	(7.1)

Source: EKLSD and peer EMIS data for FY 2011-12

Note: see the appendix for a description of the position codes used in this table

As shown in **Table 3**, the District's staffing levels are lower than the peers in all but three categories. Since FY 2009-10, The District eliminated 23 FTE positions, which resulted in overall staffing that is 7.1 FTEs below the peers on a per 1000 student basis. The areas where the District has more staff per 1,000 students compared to the peers include Other Certificated and Non-Certificated Classroom Support. Other Certificated includes competitive grant funded positions that do not fit well in other classifications. EKLSD relies on aides to provide classroom support, due in part to the staffing reductions made elsewhere, which contributes to the higher staffing in that area. In addition, the use of aides in the classroom is largely dictated by students' Individual Education Plans for special education. The District employed 12.37 general education teachers above state minimum requirements in FY 2012 (see **R1**). During the course of the audit, the District reduced 1 FTE administrator, 2.5 FTE general teaching positions, and 1 FTE reading recovery position.

Salaries

Table 4 compares the District's average salaries with the peer averages for FY 2011-2012. Beginning wage rates, years of service, negotiated salary schedules, and education or skill level attained are variables that affect average salaries.

Table 4: Salary Comparison

	EKLSD	Peer District Average	% Difference
Administrative	\$77,842	\$69,011	12.8%
Office/Clerical	\$31,759	\$29,050	9.3%
General Education Teachers	\$46,843	\$52,300	(10.4%)
All Other Teachers	\$50,956	\$49,514	2.9%
Education Service Personnel (ESP)	\$45,392	\$54,066	(16.0%)
Educational Support	\$50,661	\$49,328	2.7%
Other Certificated	\$31,408	\$25,917	21.2%
Non-Certificated Classroom Support	\$17,290	\$10,959	57.8%
Operations	\$23,278	\$19,267	20.8%
All Other Staff	\$60,638	\$28,387	113.6%
Total Staff	\$40,467	\$42,326	(4.4%)

Source: EKLSD and peer EMIS data for FY 2011-12

Note: see the appendix for a description of the position codes used in this table

Table 4 shows EKLSD paying an average salary of \$40,467 while the peers pay an average salary of \$42,326, a difference of 4.4 percent. A regional comparison of salaries was also conducted using Crestview LSD, Danville LSD, Cardington Lincoln LSD, Mount Vernon CSD, and North Fork LSD as peers. This comparison showed that EKLSD's general education teachers were paid approximately 1 percent less than the regional peers in total salary throughout a 30 year career. Because the District was below the regional peer average for total salaries and compensation, no further analysis was conducted. It should be noted that in a prior collective bargaining agreement, EKLSD agreed to 3.5 percent annual salary increases for its teachers. These increases greatly impacted the District's financial standing. However, the current contract includes a total salary freeze that provides no step or base salary increases. This will help the District maintain and improve its financial situation. Also, by reducing 1 FTE administrator, the District expects to save approximately \$75,000 for FY 2013-14.

Negotiated Agreements

EKLSD has one collective bargaining agreement (CBA) in place with the East Knox Education Association (EKEA), which represents the certificated staff. There is no collective bargaining unit for the classified staff. The EKEA includes all certificated staff except the Treasurer, Superintendent, principals, assistant principals, special education coordinator, substitute teachers, educational assistants (teaching aides), tutors working less than 6 hours a day, those with only supplemental contracts, the Athletic Director, and Dean of Students.

Employee Benefits

EKLSD is fully-insured and employs a broker to shop for health insurance coverage each year. The District offers medical, dental, and vision insurance for all unionized employees and classified staff who work at least 30 hours a week in their primary positions. The only plan offered is a PPO that became the sole plan offered in 2006. Employees pay 15 percent of the

premium for single and family medical coverage and family dental and vision coverage. Employees enrolled in the single dental and vision plan pay 7.5 percent of the premium cost. Employees choosing to forgo insurance coverage are eligible to receive a payment of \$2,500 in lieu of coverage. The District also provides all staff a \$40,000 term life insurance policy. The District largely meets industry benchmarks for health benefits and no further analysis will be conducted. As of July 1, 2013, the District will change to a consortium, Ohio Mid-Eastern Regional Education Services Agency (OME-RESA), for its insurance coverage, in order to avoid a steep premium increase for FY 2013-14.

Facilities

The District owns and operates three instructional facilities. East Knox Middle School was built in 2007 along with a new bus garage. The District also operates East Knox High School (built in 1938 with modifications in 1974 and 1994, including the addition of the Board Office) and the East Knox Elementary (built in 1939), which includes a modular unit. The District also maintains a field house, a small garage, and two small outbuildings at the Elementary. An old bus garage stores track equipment and maintenance tractors. The Middle School has four small outbuildings for athletic equipment and concessions. The District maintains a vocational agriculture school building that houses a metal work and woodshop for industrial technology educational programs. Maintenance utilizes this building for projects related to the upkeep of the District.

All custodians, maintenance and grounds personnel report to the Director of Grounds and Maintenance. All custodial and maintenance workers have full-time positions and work eight hour days. The Director of Grounds and Maintenance is also responsible for purchasing related to the Maintenance and Operations (M&O) Department with proper authorization.

Table 5 compares the District's custodial, maintenance and grounds expenditures per square foot with the average expenditures per square foot of its peers.

Table 5: Expenditures per Square Foot Comparison

	EKLSD	Peer Average	Difference	Percent Difference
Square Feet Maintained	228,446	249,368	(20,922)	(8.4%)
Salaries and Wages	\$1.37	\$1.64	(\$0.27)	(16.2%)
Employee Benefits	\$0.62	\$0.63	(\$0.01)	(1.0%)
Utilities	\$1.47	\$1.43	\$0.04	2.8%
Electric	\$0.89	\$0.91	(\$0.01)	(1.6%)
Gas	\$0.53	\$0.42	\$0.12	27.8%
Sub-Total Energy	\$1.42	\$1.32	\$0.10	7.6%
Water & Sewer	\$0.05	\$0.11	(\$0.06)	(54.9%)
Purchased Services (Excluding Utilities)	\$0.34	\$0.56	(\$0.22)	(39.9%)
Supplies and Materials	\$0.18	\$0.37	(\$0.19)	(50.9%)
Capital Outlay	\$0.13	\$0.26	(\$0.13)	(48.8%)
Other Objects	\$0.01	\$0.22	(\$0.21)	(96.5%)
Total Expenditures per Square Foot	\$4.13	\$5.11	(\$0.98)	(19.1%)

Source: ODE FY 2011-12

As shown in **Table 5**, the District's total costs per square foot are 19.1 percent below the peer average; with the only area that exceeds the peer average being gas. Given the age and condition of the elementary building, controlling gas expenditures may not be possible. However, it should be noted that the District is significantly below the peer average in the areas of water/sewer, purchased services, supplies and materials, and capital outlay.

As shown in **Table 6**, the District M&O staffing was below the NCES Level 3 Cleaning Standards and the AS&U average standards for all areas.

Table 6: M&O Key Statistics

Maintenance/Grounds Staffing Analysis	
Total Maintenance FTEs	2.0
Square Footage Maintained	228,446
Square Feet Maintained per Maintenance FTE	114,223
AS&U Benchmark (Sq ft/FTE)	94,952
Calculated FTE Maintenance Need	2.4
Maintenance FTE Difference from Benchmark	(0.4)
Acreage Maintained	37
Total Grounds FTEs	.5
Acres per FTE Groundskeeper	74
AS&U Benchmark (Acres/FTE)	40
Calculated FTE Grounds keeping Need	1
Grounds FTE Difference from Benchmark	(0.5)
Custodian Staffing Analysis	
Total FTE Custodian Staffing	6.0
Square Footage Cleaned	215,026
Square Footage per FTE	35,838
NCES Benchmark (Sq ft/FTE)	29,500
Calculated FTE Custodian Need	7.3
Custodial FTE Difference from Benchmark	(1.3)
Total Staffing Difference from Benchmarks	(2.2)

Source: NCES, AS&U, District staffing and square footage data.

As shown in **Table 6**, EKLS D has fewer staff than recommended by the benchmarks to maintain and clean the buildings and grounds in the District. Due to District’s financial condition, it reduced two custodians in FY 2010-11.

Transportation

The Principal of East Knox Middle School acts as the director of the District's transportation operations. The District also employs a transportation dispatcher, who performs all of the department's day-to-day functions (including handling and processing T-1 reports, scheduling buses for extracurricular activities, responding to transportation related phone calls, etc.), while also driving a middle school/high school bus route.

Table 7 compares EKLS D's transportation operating data to the peer averages for FY 2011-2012.

Table 7: Transportation Key Statistics Comparison

	EKLSD	Peer Average	% Difference vs. Peers
Key Statistics			
Square Miles	107	82.10	30.3%
ODE Enrollment	1,208	1,487	(18.8%)
Total Students Transported (All Types)	766	750	2.2%
Total Yellow Bus Riders (Type I)	761	734.8	3.6%
Active Buses	12	13.6	(11.8%)
Annual Routine Miles	273,420	174,150	57.0%
Annual Non-routine Miles	12,250	23,638.9	(48.2%)
Operating Ratios			
Daily Miles per Rider	2.0	1.3	60%
Riders per Square Mile	7.1	9.6	(26.1%)
Enrollment per Square Mile	11.3	18.6	(39.3%)
Public Riders as % of Enrollment	63.0%	50.5%	24.7%
Regular Riders per Regular Bus	63.4	55.8	13.6%
Yellow Bus Riders per Active Bus	63.4	53	19.7%
Routine Miles per Active Bus	22,785	11,792	93.2%

Source: EKLSD and peer district T-form data FY 2011-12

It should be noted that during FY 2012-13, EKLSD provided Type I¹ pupil transportation services to 724 riders, which is a decrease of 5 percent from FY 2011-12. **Table 7** illustrates that the District's yellow bus riders per active bus was 63 for FY 2011-2012, while the peer average was 53. While above the peer average, the number does not take into consideration the District's bus capacity utilization rate, which was 58 percent for FY 2011-12. Additionally, the District's bus fleet drives approximately 273,420 miles per year, compared to the peer average of 174,150 due to the size of the District and the configuration of instructional facilities (See **R2**).

Food Service

The Food Service Department at EKLSD consists of nine employees, three building managers and six cooks, working a total of 58 labor hours per day. All of the District's food service employees assist in the preparation and serving of the District's meals. However, the three building managers share the operation's administrative duties, such as meal planning, federal and state reporting, and purchasing that would normally be completed by a Food Service Director. Each building is also assigned a five hour cook and a seven hour cook in addition to the building manager.

The Food Service Department staff prepares and serves breakfast and lunch in each of the three instructional facilities. The District utilizes cooperatives and consortiums to ensure that it is receiving the best price for its food. Further, local meat and produce vendors are also used to ensure that food is fresh and cost effective.

¹ Type I services pertain to those provided on District-owned yellow buses.

Financial Data

The Food Service Fund is an enterprise fund, meaning it is intended to be financially self-sufficient by relying on charges and reimbursements to cover the costs of operation. **Table 8** presents EKLSD's Food Service Fund revenue, expenditures, and other financial activities for FY 2009-10 through FY 2011-12.

Table 8: Food Service Fund

	FY 2009-10	FY 2010-11	% Change	FY 2011-12	% Change	3 Year Change
Beginning Fund Balance	\$41,351	\$32,820	(20.6%)	\$24,180	(26.3%)	(41.5%)
Total Revenue	\$500,948	\$506,960	1.2%	\$486,329	(4.1%)	(2.9%)
Total Expenditures	\$509,479	\$515,601	1.2%	\$469,006	(9.0%)	(7.9%)
Revenues Over (Under) Expenses	(\$8,531)	(\$8,641)	1.3%	\$17,323	(300.5%)	(303.1%)
Ending Fund Balance	\$32,820	\$24,180	(26.3%)	\$41,502	71.6%	26.5%

Source: District Financial reports for FY 2009-10, FY 2010-11, and FY 2011-12.

Table 8 indicates that the Food Service Fund has incurred operating deficits in FY 2009-10 and FY 2010-11. However, due to a fund balance in FY 2009-10 of \$41,351, the fund was able to absorb the deficits without requiring transfers from the General Fund. Further, while revenues and expenditures both declined over the three year period, the Food Service Fund improved from an operating deficit of \$8,531 in FY 2009-10 to an operating surplus of \$17,323 in FY 2011-12.

EKLSD achieved a 67 percent participation rate, compared to a 73 percent rate for the peers. However, the District could potentially increase its participation rate with further marketing and promotion of its food service program (See **Rec 9**).

Recommendations

R1 Reduce general education staffing

Due to its financial situation, the District should reduce its general education staffing to meet state minimum standards to save on personnel costs while increasing its student to teacher ratio to state recommended standards. Before making the reductions, the District should review the potential impact it would have on the quality of education.

During the course of the audit, the District reduced 2.5 FTEs in general education staffing for FY 2013-14.

Financial implication: Bringing regular education staff levels to within 20% of state minimum standards requires a reduction of 4.5 FTEs. Using the starting salary step for a teacher with a bachelor's degree (\$30,399 in FY 2012) and the 43 percent benefits to salary ratio at the District, a reduction of 4.5 FTEs would save the District approximately \$195,600 in salaries and benefits. Bringing staffing levels all the way down to state minimum standards, a reduction of 12 FTEs, would save the District approximately \$521,600 in salaries and benefits.

In FY 2011-12, East Knox LSD employed 51.8 general education FTEs, for a regular student to teacher ratio of 19:1. Staffing levels were lower than the peer average by 13.6 FTEs and the District had a higher student to teacher ratio than the peer average. However, due to the worsening financial situation, the District should consider reducing staffing levels in this area to 20 percent above the minimum ratios established by the Ohio Administrative Code. OAC §3301-35-05 mandates at least one FTE classroom teacher for every 25 regular education students on a District-wide basis. Declining enrollment at East Knox LSD has led to a lower student to teacher ratio that has brought it well above the standards stated in OAC. While carefully monitoring enrollment projections, the District may be able to bring its student to teacher ratio closer to the OAC guidelines. If the financial condition continues to decline, further reductions may need to be considered. However, further reductions could adversely affect student achievement.

R2 Close the East Knox Elementary School Building

Financial implication: By closing East Knox Elementary, the District could save approximately \$156,000 annually on building utilities, maintenance, and repair costs (assuming the building is not sold). If the building is sold, the District could save approximately \$213,500. It should be noted that the building closure does not result in any staffing reductions.

During the course of the audit, the Board decided to close the Elementary Building for FY 2013-14. The Auditor of State (AOS) calculated the building capacities using a standard methodology often employed by educational planners, with a goal of 85 percent utilization for each building. As shown in **Table 9**, AOS determined the facilities are being utilized at 64.2 percent of their current capacity. Furthermore, District enrollment is projected to decline over the next five years.

Table 9: Building Capacity and Utilization for FY 2011-12

All Schools	Functional Capacity	Head Count	Utilization
East Knox Elementary	502	435	86.7%
East Knox Middle School	625	349	55.8%
East Knox High School	677	374	55.2%
Total Elementary / Intermediate	1,804	1,158	64.2%
All Schools (Rooms Repurposed)	Functional Capacity	Head Count	Utilization
East Knox Elementary	602	435	72.3%
East Knox Middle School	700	349	49.9%
East Knox High School	827	374	45.2%
Total Middle / High	2,129	1,158	54.4%

Source: ODE enrollment data FY 2011-12, AOS

During walking tours of District buildings, rooms that could be used for teaching were noted. With two to three current non-teaching rooms repurposed in each building, the District utilization decreases to 54.4 percent, which allows for building consolidation. Closing the East Knox Elementary facility would bring all students and staff to the main campus in Howard, Ohio. There are several possible scenarios for reconfiguring grade levels. One possibility is shown in **Table 10**. By moving grades pre-k through grade 6 to the middle school facility and grades 7-12 to the high school building, the utilization rate would increase to 79 percent and 64 percent respectively.

Table 10: Building Capacity Achieved by Closing Elementary Facility

	Functional Capacity	Headcount FY 2011-12	Utilization Rate
Middle School (pre-k-6)	850	672	79.1%
High School (7-12)	827	533	64.4%

Source: AOS capacity/utilization analysis, ODE enrollment data for FY 2011-12.

According to demographic data gathered by District officials, 70 percent of the student population is located near the main campus. As the buildings are currently configured, the District transports a larger percentage of students 15 miles from the main campus to the elementary building, which greatly affects the efficiency of the District's transportation operation. Because the District is rural with a low population density, students ride the bus for 60 minutes, or more in some cases, one way. By focusing on increasing the utilization of all buildings, the District has an opportunity to reconfigure grades to provide substantial savings through building closure and from increasing transportation efficiency. With changes to class scheduling, a reconfiguration of grades within the campus facilities and a master facilities plan based on enrollment, the District could successfully close the Elementary facility.

R3 Eliminate paid lunch breaks

The District should amend the classified handbook to eliminate paid lunch breaks for its classified staff. The District could increase shifts by an extra half hour to allow the classified staff a lunch break that is not paid.

Financial implication: Eliminating paid lunches could increase productivity and save the District approximately \$39,300. The potential cost savings is based on the classified staff who work 7-8 hour shifts. By using each qualifying staff person's hourly rate, AOS divided it in half to get the costs of a paid 30 minute lunch break. This cost was multiplied by each person's number of days worked per year.

The classified staff is not represented by a collective bargaining unit. However, there is a classified staff handbook that is developed by the administration to govern the classified staff. Changes to the handbook do not require negotiations similar to collective bargaining. The majority of the handbook falls in line with best practices and guidelines established by the Ohio Revised Code. However, the handbook states that classified staff members are entitled to a paid lunch break of one-half hour. The inclusion of a paid lunch reduces productivity while adding an unnecessary cost to the District.

Neither federal nor state law requires employers to provide a paid lunch break. While it is common practice to provide a lunch break for employees working 7 or more hours in a shift, there is no mandate for it to be a paid break. Employers can add an extra unpaid half hour to an employee's shift to cover this lunch break. Increasing the shifts for classified employees by an unpaid one-half hour would cover the lunch break and result in a full shift of productivity from the classified staff.

R4 Reduce severance payout

During future negotiations, the District should reduce the severance payout of unused sick leave to the ORC minimums for certificated staff.

Financial implication: If the District had paid employee sick leave severance at ORC minimums in FY 2011-12, it could have saved approximately \$28,000. It is expected that by lowering the payouts to ORC minimums, a similar result could be realized in future years.

Certificated employees who retire from East Knox LSD are compensated for their unused sick leave in the form of severance pay. Employees receive 1/4 of their unused sick days paid out at their last rate of pay, with an additional 1/4 day added for each year of service up to 35 years, for a potential maximum of 61.25 days. In FY 2011-12, the District paid \$69,502 in severance to retiring employees. However, the maximum payout offered is higher than the minimum required by ORC, resulting in higher costs for the District. ORC §124.39 states that public employees are entitled to receive 1/4 of accumulated sick days up to 120 days at the ending rate of pay, if the employee retires with at least 10 years of service, which translates to a maximum pay out of 30 sick days. The District offers a sick leave severance payout that is 31.25 days more generous than the amount required by the ORC. By allowing a higher severance payout at retirement, the District is adding additional personnel costs to its financial obligations. While it is impossible to accurately predict how much the current provision will cost the District in each future year, reducing the payout to ORC minimums will result in a significant cost avoidance compared to past years.

R5 Implement a food service chargeback policy

The District should implement a chargeback policy to ensure that utilities and other related costs are appropriately billed to the food service fund. Further, billing relevant costs to the food service fund will allow the fund to become fully self-sufficient, and less dependent on the general fund. In order to maintain solvency in the food service fund, the District should initially implement a phased approach to charging back costs.

Financial implication: By charging the food service fund for a portion of the utilities and other related costs, the District could reduce expenditures by approximately \$31,700 in the General Fund for the three cafeterias. However, due to the food service operation recently achieving solvency with a positive fund balance of \$17,323, implementing this policy should be phased in, one cafeteria at a time. By phasing in charging the costs back, the District would save approximately \$10,600 in the first year. If the full amount was charged back to the Food Service, the fund would be running a deficit.

According to the District, the food service fund is not billed for its portion of utility and refuse costs. **Table 11** shows the food service costs for utilities and refuse for FY 2011-12 based on the square footage of food service areas.

Table 11: Food Service Utility Chargeback

Building	Total Square Footage	Food Service Square Footage	% of Food Service Space	Total Utility Charges	Food Service Fund Charges
East Knox Elementary	53,100	6,500	12.2%	\$81,954	\$10,032
East Knox High School	81,850	6,500	7.9%	\$140,376	\$11,148
East Knox Middle School	78,540	6,800	8.7%	\$121,844	\$10,549
Total	213,490¹	19,800	9.6%	\$344,173	\$31,729

Source: EKLSD square footage data and financial reports for FY 2011-12.

Note: ¹Total square footage for the buildings differs from total used in facilities because we excluded modular and other spaces that are not specific to food service.

As shown in **Table 11**, the District expended \$344,173 for utilities and refuse service during FY 2011-12. Further, the food service operation utilizes 19,800 square feet, or 9.6 percent, of the District's 213,490 total square footage. Therefore, allocating utility and refuse costs based upon square footage suggests that the District could have billed its food service fund approximately \$31,729 for utility and refuse services during FY 2011-12.

According to *Measuring the Cost of Government Services* (GFOA, 2002), governments should calculate the full cost of the different services they provide. The full cost of a service encompasses all direct and indirect costs related to that service. Direct costs include the salaries, wages, and benefits of employees while they are working on the delivery of the service, as well as the materials and supplies, and other associated operating costs such as utilities, rent, training and travel. Indirect costs include shared administrative expenses, which should be apportioned by some systematic and rational allocation methodology. By billing relevant costs to the food service fund, it will allow the fund to become fully self-sufficient, and less dependent on the

General Fund. In order to maintain solvency in the food service fund, the District should initially implement a phased approach to charging back costs.

R6 Eliminate compensation for the Local Professional Development Committee

In future certificated contract negotiations, EKLSLSD should eliminate compensation for members of the Local Professional Development Committee (LPDC). Compensation for committee members is not required by the ORC and represents an additional cost to the District.

Financial implication: The six members of the LPDC are paid \$750 a year for their service. As a result, EKLSLSD paid an additional \$4,500 annually to LPDC members. Negotiating to eliminate this provision in future CBAs could save the District approximately \$4,500 a year.

The District has a LPDC as required by ORC §3319.22. The LPDC consists of six members, four of which are teachers selected by the East Knox Education Association (EKEA) and two of which are administrators selected by the superintendent. The LPDC approves all continuing education unit (CEU) programs, course work for all certificated/licensed employees, any other activities that may provide CEU's, and establishes criteria for said programs. Members are paid \$750 per year for their service on the LPDC.

ORC §3319.22 does not require members to be compensated for their service. While several peer school districts compensate members, it is not required by law and represents an additional cost. Due to the District's fiscal condition, all discretionary areas of spending must be considered for reductions.

R7 Monitor special education staffing ratios

The District should monitor its special education staffing ratios to ensure compliance with the Ohio Administrative Code. Currently the District is staffed at levels that places it 0.13 FTEs above the minimum staffing requirements set forth by the OAC. In order to ensure compliance with the OAC, the District should conduct enrollment projections and other preventive measures that would allow it to plan for any future influx of students requiring special education services. Also, the District should continue to use the Knox County Educational Service Center for services and pursue any additional sources of funding that will help it meet staffing needs.

In FY 2011-12, EKLSLSD educated 138 special education students, with a staff of 9.7 FTE employees. OAC §3301-51-09 sets standards for special education staffing that all districts must follow. The student/teacher ratios are based on the age of the student as well as the disability. Failure to provide services at these ratios leaves the District vulnerable to additional liability risks. Currently, the District meets OAC requirements; however, it is close to falling below the required staffing if additional special education students enter the District. Recent budget reductions at the District have led to a drastic decline in staff in all areas, with the special education department losing three FTEs. It currently does not have the means to hire more staff to alleviate potential future understaffing in special education. By focusing on the staffing ratios and conducting enrollment projections, the District can better plan for changes in the special

education student population and ensure that it does not go below the minimum staffing requirements stated in the OAC. Doing so will help to prevent the possibility of lawsuits, saving the District time and money related to mounting a legal defense.

R8 Actively promote and advertise the food service program

The District should actively promote and advertise its food service program by using strategies such as meal theme days and prizes for participation. Doing so will increase interest and participation from students and staff. Further, utilizing appropriate marketing and promotional techniques such as distributing newsletters, menus, and nutritional information will also encourage good nutritional habits. The District should also solicit student, parent, and stakeholder feedback in order to assist in meal planning. Implementing these techniques will aid in increasing the District’s participation rate, in turn increasing revenue to the food service fund.

According to the Treasurer and Food Service Manager, the District does not currently have a way of soliciting feedback from students, parents, and other stakeholders concerning its food service. Further, the District does not actively market its food service operation by offering prizes for participation or specialty theme days, although it does have a variety of menu choices. During FY 2011-12, the District had a 67 percent participation rate (133,535 total meals served) compared to the peer average of 73 percent (137,104 meals served).

Table 12 compares the District’s food service statistics for the past three years.

Table 12: EKLSD Food Service Statistics

	FY 2009-10	FY 2010-11	FY 2011-12	3 Year % Change
Total Meals Served	146,823	145,189	133,535	(9.1%)
Average Daily Participation	849	832	763	(10.1%)
ODE Student Enrollment	1,296	1,289	1,208	(6.8%)

Source: ODE

As shown in **Table 12**, the District’s total meals served, average daily participation, and student charges (revenue) have declined from FY 2009-10 to FY 2011-12. During this same period, the District’s enrollment has declined 6.8 percent from 1,296 pupils to 1,208 pupils. In order to maintain a stable revenue stream considering the District’s slightly declining enrollment, the District must reduce costs or increase its participation rate, thereby increasing revenue.

According to *Best Practices Could Help School Districts Reduce Their Food Service Program Costs* (OPPAGA, 2009), school districts can implement a number of different programs to improve quality and participation, while decreasing costs. For example, districts should actively promote their food service program by organizing promotional campaigns. These campaigns can employ strategies such as distributing newsletters, menus, and nutritional information. Some districts have also used special events where participating students win small prizes while learning about the importance of good nutrition, and theme days such as Fajita Cookouts, pasta bars, and Grandparents Day. *Recipes for Practical Research in Child Nutrition Programs*

(NFSMI, 1998) recommend schools routinely solicit customer feedback from students in order to improve the quality of food and improve participation. Specifically, surveys should be designed for the population targeted and the objective to be accomplished.

Properly marketing and developing its food service program through activities and campaigns will provide the District with the opportunity to increase participation, lower costs per meal, and gather feedback regarding its operations from key stakeholders. Further, the District will be able to stabilize or increase revenues from student charges, which will allow the food service program to remain profitable as well as absorb all costs related to its operations (See **Rec 6**).

R9 Establish an audit committee

The District should establish an audit committee to increase external oversight for financial activities. The committee should be comprised of community members who have financial experience and interest in the District's financial condition.

Currently, the Treasurer is responsible for many financial aspects of the District. The Treasurer completes the internal audit function, the financial forecast and the budget. The Treasurer receives assistance in entering EMIS data from the Payroll Assistant and receives help entering and developing transportation costs from the Transportation Director.

Enhancing Management Involvement with Internal Control (GFOA 2004) recommends that financial managers, with the assistance of internal auditors or a committee periodically evaluate relevant internal control procedures to satisfy themselves that those procedures: 1.) Are adequately designed to achieve their intended purpose; 2.) Internal controls have actually been implemented; and 3.) Continue to function as designed. Evaluations should also encompass the effectiveness and timeliness of the government's response to indications of potential control weaknesses generated by internal control procedures. In addition, GFOA recommends that upon completion of any evaluation of internal control procedures, financial managers determine what specific actions are necessary to remedy any disclosed weaknesses. A corrective action plan with an appropriate timetable should be adopted. There should be follow-up on the corrective action plan to ensure that it has been fully implemented on a timely basis.

EKLSO is a small district and is not financially able to hire an internal auditor. All fiscal responsibilities fall on one individual in the District and there is little capacity left on other administration officials to monitor the District's finances. The District lacks formal fiscal oversight in the administration of many of its financial duties, creating the potential for higher risk and limiting community involvement in the District's finances. By establishing an audit committee comprised of members who have business and financial experience, it may help improve community relations and communications as well (see **R9**).

Client Response

The letter that follows is the official response of the EKLSO to the performance audit. Throughout the audit process, the District was afforded the opportunity to provide input and feedback on the factual basis for the analyses. When the District disagreed with information contained in the report and provided supporting documentation, revisions were made to the audit report. In addition, the District was also asked to provide comments on the report itself.

EAST KNOX LOCAL SCHOOLS

Board of Education

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28 June 2013

Mr. David Yost
Ohio Auditor of State
88 E. Broad St.
Columbus, OH 43215

Dear Auditor Yost,

On behalf of the East Knox Local School District, we would like to thank the entire Performance Audit team as they worked with our administrative team during the course of this past school year. Lead Auditor, Martha Lowe, is an incredible person to work with and should especially be commended for her professionalism. She is timely in all communications and sensitive to the financial plight of our District.

The results of the audit serve as verification for what the Board and Administration has communicated to our community over the course of the past seven (7) election cycles. As a direct product of shrinking revenues since at least 2007, East Knox staff members have received zero percent (0%) base salary increases these past four years. They have additionally received zero (0) step increases the past two (2) years. These trends aren't expected to improve in the next three (3) years without a significant increase in revenue.

One result of our financial situation is the approximate nineteen percent (19%) turnover of certified staff (teachers) at the end of the 2011-2012 school year either through retirement or resignation. As of this date, the certified staff turnover since February, 2013 has been fourteen (14) teachers which equates to a twenty-one and one half percent (21.5%) additional loss of staff.

The Board and Administration already implemented the two audit recommendations yielding the most significant savings. The Board voted in May to close the elementary building located in Bladensburg after the levy failed (see R2). Those students and grade levels have been consolidated into our now former Middle School located in Howard to form a K-6 building while our seventh (7th) and eighth (8th)-grade students will be housed in our high school building also located on the same campus in Howard.



The Board will realize an approximate savings of \$75,000 in administrative costs with the realignment of administrators in conjunction with the resignation of one of our Building Principals. This represents an approximate reduction of eighty dollars (\$80) per student and brings in line administrative costs shown in Table 2 on page eight. It should be noted that Table 3 also indicates that our District has fewer administrators per 1,000 pupils compared to the peer average.

The other major cost saving measure (see R1 in the audit report) is the reduction of 4.5 FTE of general education staff. As of this date, the Administration implemented a reduction of 3.5 FTE and anticipates an additional 1.0 FTE reduction before the end of July.

The Administration does not anticipate implementing R3, R4, R6 or R7 in the near future especially since R4, R6 and R7 would be a product of negotiations with certified staff which has just concluded resulting in a three-year tentative agreement.

The Treasurer implemented R5 to reflect the actual state of cafeteria operations.

The District will evaluate conditions as outlined in R8 and R9 as noted in the performance audit.

The District likely will not implement R10 at this time considering the extreme likelihood that a Budget and Oversight Commission will be established within the next eight (8) months.

East Knox Local Schools will continue to analyze this information with the goal of providing the best quality education for our students within the financial constraints we are forced with which we are forced to contend.

We again thank your team for their assistance throughout this audit process.

Sincerely,



Stephen M. Larcomb
Superintendent



Jessica M. Busenburg
Treasurer

Appendix

The following descriptions are for the position classifications used in Tables 3 and 4.

Staff Classification	Description of Staff Included in Classification
Administrative	Central office and building level administrators, directors and coordinators, as well as personnel responsible for the planning, management, evaluation, and operation of the District.
Office/Clerical	All 500 position codes except 505 Teacher Aides plus Administrative Assistants (101) and Attendance Officers (901).
Teachers	General Education teaching assignment. It does not include ESP Teachers.
All Other Teachers	Career-Technical Programs/Pathways, Gifted and Talented, Limited English Proficiency teaching assignment, Special Education, Supplemental Service Teachers, Preschool Special Education, Preschool Handicapped Itinerant.
Education Service Personnel	K-8 Art, Music, and P.E. Teachers, Counselors, Librarians, Registered Nurses, Social Workers, and Visiting Teachers per ORC 3317.023(A)(2).
Educational Support	Remedial Specialists and Tutors/Small Group Instructors.
Other Certificated	Curriculum Specialists, Audio-Visual Staff, Permanent Substitutes, Teacher Mentor/Evaluator, and Other Education Professionals.
Non-Certificated Classroom Support	Teaching Aides, Paraprofessional Instructors, and Attendants.
All Other Staff	Psychologists, Therapists, Speech and Language Therapists, Practical Nurses, etc. Library Aides, Computer Support Staff, and all other professional and technical staff.



Dave Yost • Auditor of State

EAST KNOX LOCAL SCHOOL DISTRICT

KNOX COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 11, 2013**