

OHIO AUDITOR OF STATE
KEITH FABER



Madison
Local School District

Performance Audit

May 2022

OHIO AUDITOR OF STATE
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To the Madison Local School District community,

The Auditor of State's Office recently completed a performance audit for the Madison Local School District (the District). The District was selected for a performance audit based on its projected financial condition. This review was conducted by the Ohio Performance Team and provides an independent assessment of operations within select functional areas. The performance audit has been provided at no cost to the District through state funds set aside to provide analyses for districts that meet certain criteria, including conditions that would lead to fiscal distress.

This performance audit report contains recommendations, supported by detailed analysis, to enhance the District's overall economy, efficiency, and/or 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 recommendations contained in the report and to perform its own assessment of operations and develop alternative management strategies independent of the performance audit report.

This data-driven analysis of operations provides the District valuable information which can be used to make important financial decisions. Additional resources related to performance audits are available on the Ohio Auditor of State's website.

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

Sincerely,

Keith Faber
Auditor of State
Columbus, Ohio

May 26, 2022

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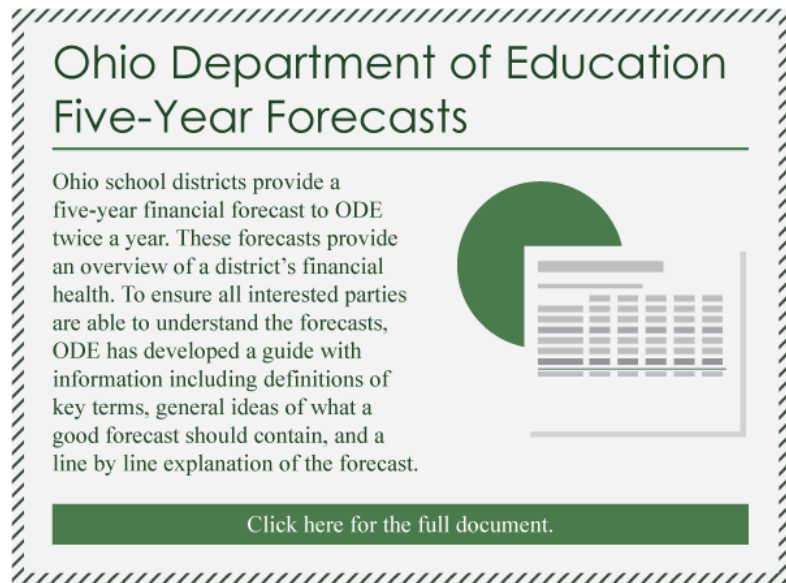
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Introduction

The public expects and deserves government entities to be good stewards of taxpayer dollars. School officials have a responsibility to maximize program outcomes and success while minimizing costs. Transparent management of taxpayer dollars promotes a good relationship with the constituents served by a school district. School districts in Ohio are required to submit budget forecasts to the Ohio Department of Education (ODE) annually in the fall, with updates to the forecast submitted in the spring.¹ These documents provide three years of historical financial data, as well as the projected revenues and expenses for a five-year period.



The graphic features a title 'Ohio Department of Education Five-Year Forecasts' in green. Below the title is a text block explaining that Ohio school districts provide a five-year financial forecast to ODE twice a year. It mentions that ODE has developed a guide with information including definitions of key terms, general ideas of what a good forecast should contain, and a line by line explanation of the forecast. To the right of the text is a circular graphic with a green segment and a table-like structure. At the bottom of the graphic is a green button with the text 'Click here for the full document.'

The Ohio Auditor of State’s Office Ohio Performance Team (OPT) routinely reviews the submitted forecasts in order to identify districts which may benefit from a performance audit. These audits are designed to assist school districts that are struggling financially. We use data-driven analyses to produce and support recommendations that identify opportunities for improved operations, effectiveness, increased transparency and reductions in cost. While we have the authority to initiate a performance audit for school districts facing financial distress, any school district can request, and benefit from, an audit.²



NOTE TO REPORT USERS

Due to the COVID-19 pandemic, districts received federal funds from the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The aid was provided through Elementary and Secondary School Emergency Relief (ESSER) funding. Nearly \$500 million was allocated to traditional public schools and community schools throughout Ohio. Districts are allowed to use this funding on a variety of expenditures, and may, for a short time, impact the five-year forecasts.

¹ Ohio Rev. Code § 5705.391 and Ohio Admin. Code 3301-92-04.

² Performance audits are conducted using Generally Accepted Government Auditing Standards guidelines, see **Appendix A** for more details.

Madison Local School District

Madison Local School District (MLSD or the District) is located in Lake County and, as of FY 2021, had 2,734 students enrolled. The District spans approximately 45 square miles and has a median income of \$36,152. Of the total enrolled students, 14.4 percent were students with disabilities. In May 2021, the District placed a 6.99 mill operating levy on the ballot for current expenses. That levy attempt failed.



Financial Condition

The Ohio Auditor of State monitors the fiscal health of school districts and at times may declare a state of fiscal caution, watch or emergency.³ These declarations are based on specific criteria and are designed to identify situations where the solvency of a district is threatened and provide appropriate assistance to resolve financial issues. Due to the District’s financial condition, MLSD is required to submit a precaution plan to ODE prior to May 31, 2022. MLSD has had two previous performance audits which were released in February 2012 and October 2016. These performance audits were also in response to the District’s financial condition.

In May 2021, MLSD released its semi-annual five-year forecast, which showed progressively declining year-end fund balances throughout the forecast period. That forecast showed deficit spending projected in FY 2022 through FY 2025, and negative fund balances beginning in FY 2023 and continuing throughout the remainder of the forecast period. Due to the declining financial condition, and in consultation with ODE, in October, 2021, we chose to conduct a performance audit for the District.

³ ORC § 3316.03.

Financial Condition Overview (May 2021)

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Total Revenue	\$28,107,545	\$28,067,491	\$27,774,810	\$27,482,401	\$27,538,900
Total Expenditures	\$27,640,925	\$29,378,387	\$30,748,079	\$31,614,110	\$32,520,529
Results of Operations	\$466,620	(\$1,310,896)	(\$2,973,269)	(\$4,131,709)	(\$4,981,629)
Beginning Cash Balance	\$1,910,941	\$2,377,561	\$1,066,665	(\$1,906,604)	(\$6,038,313)
Ending Cash Balance	\$2,377,561	\$1,066,665	(\$1,906,604)	(\$6,038,313)	(\$11,019,942)
Encumbrances	\$900,000	\$900,000	\$900,000	\$900,000	\$900,000
Cumulative Balance of Replacement/Renewal Levies	\$0	\$0	\$348,635	\$1,045,905	\$1,743,175
Cumulative Balance of New Levies	\$0	\$0	\$0	\$0	\$0
Ending Fund Balance	\$1,477,561	\$166,665	(\$2,457,969)	(\$5,892,408)	(\$10,176,767)

Source: ODE

The District's most recent five-year forecast was released in November 2021 and shows a similar financial condition. The District continues to project deficit spending throughout the forecast period. The following table is a high level summary of the November 2021 five-year forecast.

Financial Condition Overview (November 2021)

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Total Revenue	\$27,394,166	\$27,525,700	\$27,582,884	\$27,291,710	\$27,000,817
Total Expenditures	\$27,783,000	\$29,254,199	\$30,020,074	\$30,809,944	\$31,643,702
Results of Operations	(\$388,834)	(\$1,728,499)	(\$2,437,190)	(\$3,518,234)	(\$4,642,885)
Beginning Cash Balance	\$3,269,834	\$2,881,000	\$1,152,501	(\$1,284,689)	(\$4,802,923)
Ending Cash Balance	\$2,881,000	\$1,152,501	(\$1,284,689)	(\$4,802,923)	(\$9,445,808)
Encumbrances	\$900,000	\$900,000	\$900,000	\$900,000	\$900,000
Cumulative Balance of Replacement/Renewal Levies	\$0	\$0	\$0	\$348,635	\$1,045,905
Cumulative Balance of New Levies	\$0	\$0	\$0	\$0	\$0
Ending Fund Balance	\$1,981,000	\$252,501	(\$2,184,689)	(\$5,354,288)	(\$9,299,903)

Source: ODE

Subsequent to this performance audit, Madison LSD updated its five-year forecast and submitted to ODE on April 21, 2022

School Funding

Historically, school funding in Ohio has been a partnership between the state and local districts. Local districts can raise funds through property and income taxes and the state provides funding primarily through a foundation formula, which is intended to ensure a basic level of education funding for all students. Districts may also receive some funding from other sources, such as federal grants. In FY 2021, of the approximately \$25.3 billion in reported revenue for public education in Ohio, nearly 84 percent, or \$21.2 billion, came from state and local sources.

State Funding

On June 30, 2021 House Bill 110 of the 134th General Assembly (the biennial budget bill) was signed by the Governor. This bill included changes to the state foundation funding formula, commonly referred to as the Fair School Funding Plan, which replaced the previous state funding allocation model. This new model establishes and implements a cost methodology using student-teacher ratios, minimum staffing levels, local property values, and district-level income data. Further, the legislation includes guarantees to ensure no school district receives less funding than it did in FY 2021.

The new model is planned to be phased-in over several years, which will impact the amount of state funding received under the new formula over the period of the phase-in. During the phase-in period, the amount of state funding received in any given year may be less than what would have been received if the formula were fully funded. ODE transitioned to the new funding model in January of 2022.

Local Funding

Local revenue can be raised through a combination of property and income taxes. While property taxes are assessed on both residential and business properties within a district, income tax is assessed only on residents⁴ – that is, individuals who work in a district but do not reside there would not be assessed an income tax on wages. Approximately one third of Ohio school districts currently have an income tax.

Property Tax

Property taxes levied in Ohio are subject to restrictions in the Ohio Constitution⁵ and the Ohio Revised Code (ORC).⁶ These restrictions limit the amount of tax that can be levied without voter approval to 10 mills⁷ or 1 percent of property value. While the Constitutional limitation is based on fair market value, the ORC sets a more restrictive limit based on taxable value which is

⁴ See <https://tax.ohio.gov/wps/portal/gov/tax/individual/school-district-income-tax>

⁵ Ohio Const. Art. XII, Section 2.

⁶ Ohio Rev. Code § 5705.02.

⁷ A mill is defined as one-tenth of one percent or \$1 for every \$1,000 of taxable value.

defined as 35 percent of fair market value. These taxes are split between the various taxing districts that operate where a property is located.

The 10 mills allowed by the Constitution are typically referred to as inside, or un-voted mills. Inside mills for school districts range from three mills in some districts to nearly seven mills in some other. On average, school districts have approximately 4.7 inside mills, and the remainder of property tax revenue would come from voted, or outside millage.

School districts can obtain additional property tax revenue through voter approved bonds and levies. These taxes can have a variety of purposes that are defined in the authorizing language which are generally divided into three broad categories: general operations, permanent improvement, and construction.

Levies may be defined as either a fixed-rate or a fixed-sum. A fixed-rate levy identifies an amount of mills that will be assessed in order to raise revenues. If new construction occurs within the district, the rate would apply and the district would realize additional revenues. Current expense levies, used for general operations, and permanent improvement levies are typically fixed-rate. A fixed-sum levy identifies an amount that will be generated from the levy. While there may be an estimated millage rate, the actual rate will vary based on assessed property values. If new construction occurs within the district, there would be no new revenues for a fixed-sum levy. Emergency levies⁸ for general operations, and bond levies for the financing of new buildings, are typically fixed-sum levies.

Ohio has historically had laws which limit the impact rising property values can have on property taxes. The most recent version of these limitations was enacted in 1976 and requires that the amount collected on fixed-rate millage is frozen at the dollar value collected in its first year.⁹ In subsequent years, with exceptions such as new construction, a district would not receive additional revenue from a levy as property values increased.¹⁰ Instead, the outside mills are subject to reduction factors¹¹ which lower the effective millage rate in order to maintain the preceding year's level of revenue from the same properties.¹²

However, under state law, in order to receive state foundation funding, a district must collect a minimum of 20 mills in property taxes for general purposes, or current expenses.¹³ In order to

⁸ Authorized by ORC §5705.194.

⁹ Am.Sub.H.B. No. 920, 136 Ohio Laws, Part II, 3182, 3194.

¹⁰ If property value decreased due to reappraisal, it is possible that a district would receive less revenue than originally intended.

¹¹ ORC § 319.301.

¹² We are providing this information for historical purposes only. The law which regulates collection of on outside millage has been amended since enacted in 1976. The District should consult with the most current version of the law for a clear understanding of how this process works today.

¹³ The term 'current expense' refers to revenue generated from levies that are not restricted in their use. It does not include bonds or levies that generate revenues for restricted funds, such as Permanent Improvement levies.

prevent a district from failing to meet this minimum threshold, reduction factors stop being applied once a district reaches an effective rate of 20-mills colloquially known as the 20-mill floor. Practically speaking, this means that if a district's effective tax rate is reduced to 20 mills for current expenses, the amount of revenue generated from levies will increase with property values unless a new operating levy is approved by voters. It is important to note, as discussed below, not all levies count toward the 20-mill floor.

Ultimately, the mixture of property taxes approved by voters can have a wide-ranging impact on both the revenues collected by a district and the amount of tax that individual property owners are required to pay on an annual basis.

Income Tax

A school district income tax is an alternative method of raising local revenue. Like property taxes, an income tax must be approved by voters and may be for either general use or specific purposes, such as bond repayment. Once approved, a tax becomes effective on January 1st of the following year. Unlike municipal income taxes which are generally levied on wages earned in the municipality by both residents and nonresidents, school district income taxes are levied on wages earned by residents of the district, regardless of where the resident may work. Businesses operating within the school district are not required to pay the income tax.

A school board, when determining that an income tax is necessary for additional revenue, must submit a resolution to the Ohio Tax Commissioner identifying the amount of revenue to be raised and the tax base to be used for calculations. A school district income tax can be assessed on either a traditional tax base or an earned income tax base. The traditional tax base uses the same income base as Ohio's income tax and the earned income tax base is only earned income from an employer or self-employment. Under the earned income tax base, income such as capital gains or pension payments is not taxable, though this type of income may be taxed under the traditional tax base. Once this information is received, the Tax Commissioner identifies the income tax rate and equivalent property tax millage for the district.

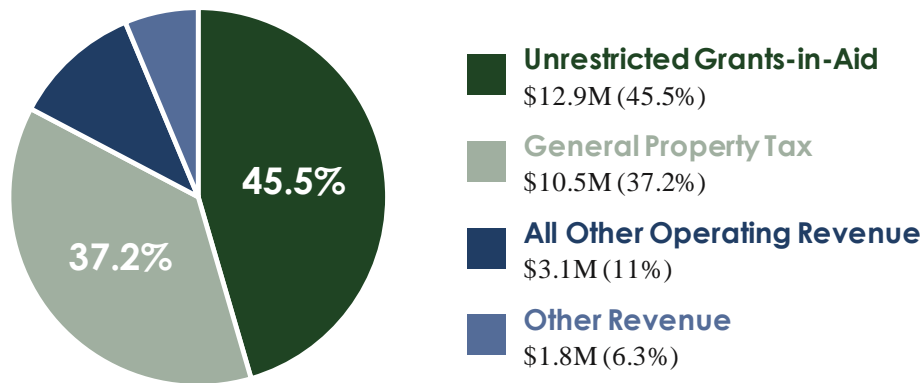
The Ohio Department of Taxation collects income tax through employer withholding, individual quarterly estimated payments, and annual returns. Employers are required to withhold the tax and submit payments to the state under the same rules and guidelines as are currently used for state income taxes. Districts receive quarterly payments from the Department of Taxation and each payment is for the amount collected during the prior quarter. A district receives the total amount of revenue collected less a 1.5 percent fee retained by the state for administration purposes. The amount of revenue collected via income tax each year will vary based on the earnings of the district's residents.

MLSD Revenues

In FY 2021, the District’s total general fund revenue was approximately \$28.3 million. The District’s primary sources of revenue are general property taxes and state foundation funding. The remaining revenue is comprised of a variety of sources as seen below.

FY 2021 Total General Fund Revenue Composition

Total: \$28.3M



Source: ODE

Note: Other Revenue includes Property Tax Allocation; All Other Financing Source; Advances-In; and Restricted Grants-in-Aid.

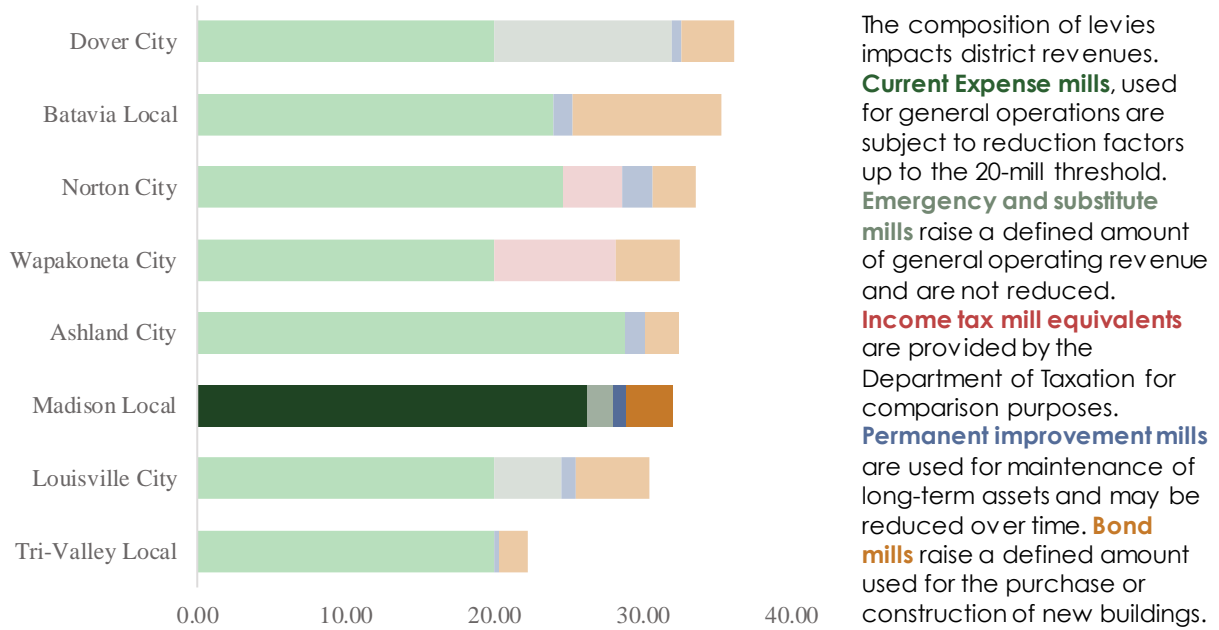
In 2020, MLSD collected revenues on 32.02 mills of property tax for residential properties.¹⁴ This included 4.85 inside mills and 21.42 outside mills for current expenses. In addition to the 26.27 mills collected for current expenses, the District collects additional property tax revenue that does not count toward the 20-mill floor. In 2020, this additional millage totaled 5.75 mills and was comprised of emergency and substitute levies totaling 1.75 mills, a permanent improvement levy of 0.89 mills, and a bond levy of 3.11 mills.

Because the total millage rate can be rolled back as a result of reduction factors, we compared the total effective millage for MLSD to that of its primary peers. This comparison is found in the chart on the following page. The green portion of the bar represents the current expense millage rate, where three of the peers are on the 20-mill floor. The grey portion represents emergency and substitute revenue which is not subject to reduction factors. The blue represents permanent improvement funds, and the orange represents bond funding. While MLSD does not yet have a

¹⁴ Residential and agricultural property is considered Class 1 real estate. Commercial Property is considered Class 2 real estate and subject to a different set of reduction factors. The effective millage rate for Class 2 property in 2020 was 33.91.

school district income tax, two peers do have revenue from income taxes. This revenue is converted to an estimated millage equivalent by the Department of Taxation and represented in pink.

2020 Millage and Millage Equivalents | Primary Peers



Source: Ohio Department of Taxation

Overall, the District’s effective millage rate of 32.02 is one of the lowest compared to primary peers. It is important to understand that the revenue generated from bond and emergency levies will remain the same regardless of changes to property values as they are voted as a fixed-sum levy. The current expense millage and permanent improvement millage also stay the same, until the 20-mill floor is hit for current expense taxes. At that point, a district on the floor would see additional revenues from increases in value to existing properties. The District relies heavily on current expense mills, and is not presently at the 20-mill floor. This means that if property values increase within the District, it will not see additional revenues based on that growth. By comparison, Wapakoneta City School District has a similar overall millage and millage equivalent rate, but is at the 20-mill floor and would receive additional property tax revenue if values increased. Additionally, Wapakoneta City School District receives revenue from an income tax; income tax revenue would increase if the tax base increased.

Local Tax Effort

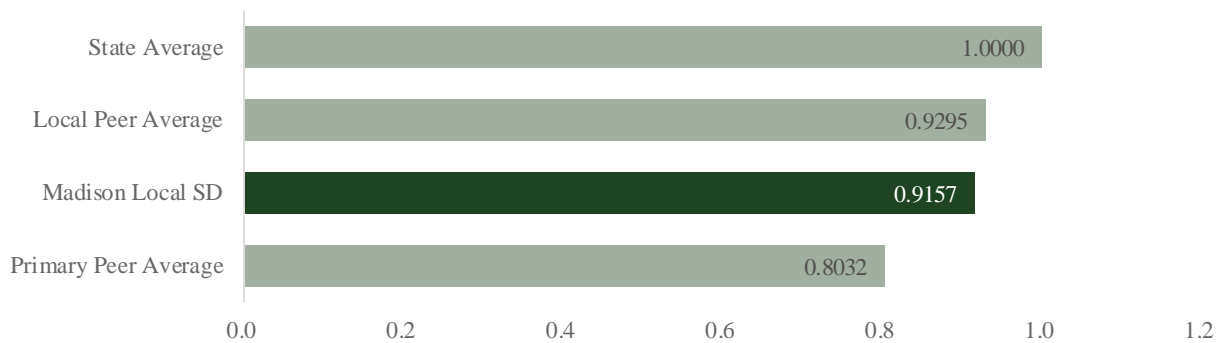
ODE uses the Local Tax Effort Index as a measure of taxpayer support for the district in which they reside. This index, one of a number of possible measures for evaluating local effort, was

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initially developed by the Division of Tax Analysis within the Ohio Department of Taxation and is calculated in the context of the residents’ abilities to pay by determining the relative position of each school district in the state in terms of the portion of residents’ income devoted to supporting public education. This index uses median income data and provides context to better understand a community’s tax burden, not only compared to other districts, but also as a function of the residents’ ability to pay.

On this sliding scale, a value of 1.0 indicates the state average, a baseline against which all districts in the state are weighed. If a district has a local tax effort below 1.0, residents provide a smaller portion of their available income to public education whereas a value above 1.0 indicates the community pays a larger portion of their available income to public education compared to the state average. The index is updated annually by ODE as part of its District Profile Reports, also known as the Cupp Report, to reflect changes in local conditions from year to year.

FY 2021 Local Tax Effort Comparison



Source: ODE

The District’s local tax effort was compared to the local peers, primary peers, and the state average. The District has a local tax effort of 0.9157, which is lower than the state average. Out of 612 school districts, this is the 346th highest local tax effort in the state, which is approximately the 43rd percentile of all districts. By comparison, the local peer average of 0.9295 would rank approximately 366th out of all 612 districts, or the 40th percentile. MLSD’s local tax effort could change as a result of the passage of any additional tax initiatives.

Revenue per Pupil

Revenue per pupil, broken down by type of funding, is another way to compare funding sources between Ohio school districts. Because our audit focuses on the projected deficit in the five year forecast, we reviewed only the forecasted fund revenues for this purpose.¹⁵ In FY 2021, the District received \$10,873 per pupil, with 37 percent, or approximately \$4,048, coming from local

¹⁵ Forecasted funds include the District’s General Fund and funds received from emergency levies.

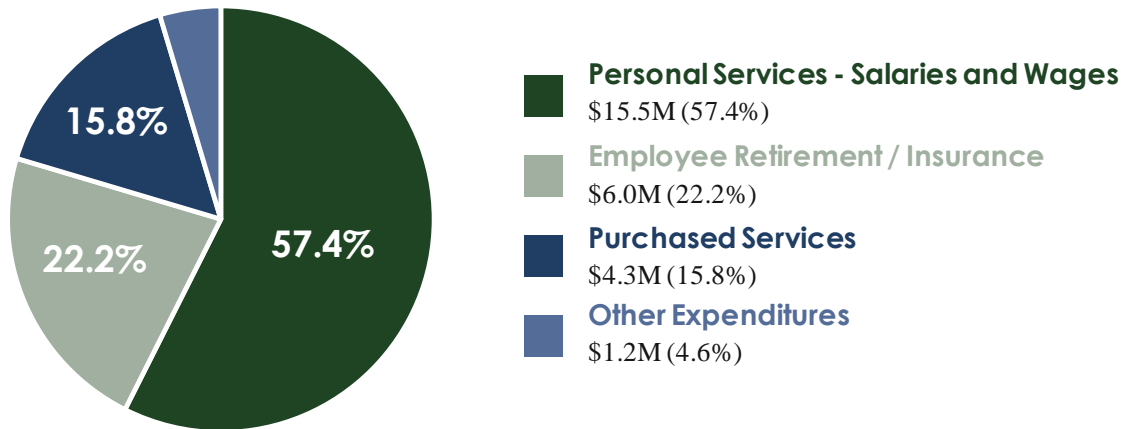
taxes.¹⁶ In FY 2021, the primary peer average was \$11,195 per pupil, with 41 percent, or \$4,626, coming from local taxes.¹⁷ The District's local revenue was lower than the primary peer average in FY 2021.

Expenditures

In FY 2021, the District's total expenditures were \$27.0 million. The largest source of expenditures was human resources, which includes salaries, wages, and benefits, followed by purchased services. The chart that follows provides additional detail regarding District expenditures.

FY 2021 Total General Fund Expenditure Composition

Total: \$27.0M



Source: ODE

Note: Other Expenditures includes Supplies and Materials; Operating Transfers-Out; Other Objects; and Advances-Out.

Expenditures per Pupil

In FY 2021, MLSD spent \$10,351, or 2.4 percent less, per pupil when compared to the primary peer average of \$10,608 per pupil.¹⁸ The District spent more than the primary peer average on employee salaries and wages, employee benefits, and other uses of funds. The District spent less

¹⁶ The Cupp Report, issued by ODE, provides information on all revenues received by a district. Because of this, the percentage of revenues from local revenues in the Cupp report may vary from the amount in our report due to the inclusion of additional revenues. This is particularly true when reviewing FY 2021 data as districts received federal funding for COVID-19 relief through ESSER grants.

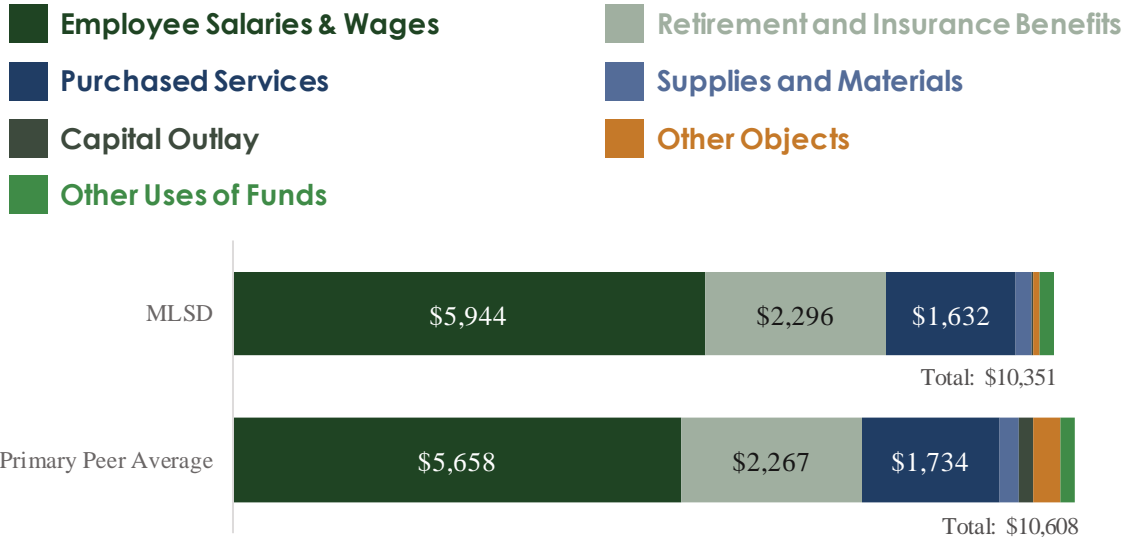
¹⁷ Batavia Local School District was not included in this peer analysis.

¹⁸ Batavia Local School District was not included in this peer analysis.

than the primary peer average on purchased services, supplies and materials, capital outlay, and other objects.¹⁹

The chart that follows provides a graphic comparison of expenditures per pupil for MLSD and the primary peer average.

FY 2021 Total Expenditures Per Pupil



Source: MLSD and Peers

Results of the Audit

Based on an initial analysis of the District’s data as compared to its peer groups, the following scope areas were included for detailed review and further analyses: Financial Management, Human Resources, Facilities, and Transportation. We identified five recommendations which would result in reduced expenses or an improvement in the District’s operational management based on industry standards and peer averages. These five recommendations are referred to as **Tier I** recommendations in the audit. The table below provides a summary of the **Tier I** recommendations identified in this report.

¹⁹ The category of “Other Objects” includes things such as interest on loans and other debt service payments dues and fees, and insurance. “Other Uses of Funds” mainly consists of transfers, contingencies, and payments to refunded bond escrow agent.

Summary of Tier I Recommendations

Recommendations	Savings
R.1 Develop Formal Strategic and Capital Plans	
Eliminate Administrative Support Positions above the Peer Average	\$342,000
Eliminate 2.0 FTE Building Office Administrators	\$221,000
Eliminate 2.0 FTE Central Office Support Staff	\$111,000
Eliminate 1.0 FTE Messenger	\$10,000
R.3 Eliminate Direct Student Education and Support Positions above the Peer Average	\$468,000
Eliminate 4.5 FTE General Education Teachers	\$305,000
Eliminate 1.0 FTE K-8 Art, Music, & PE Teachers	\$59,000
Eliminate 10.0 FTE Monitors	\$104,000
R.4 Renegotiate Collective Bargaining Agreement Provisions	
R.5 Develop a Formal Bus Replacement Plan	
Total Cost Savings from Performance Audit Tier I Recommendations	\$810,000

Note: These estimated savings reflect the average annual savings that could be achieved in FY 2023 through the remainder of the forecast period.

Note: Numbers in this table are rounded down to the nearest \$1,000 to provide conservative estimates and for readability purposes.

The impact of this audit's **Tier I** recommendations on the November 2021 five-year financial forecast is shown in the following table.

Results of the Tier I Audit Recommendations

	FY 2023	FY 2024	FY 2025	FY 2026
Original Ending Fund Balance	\$252,501	(\$2,184,689)	(\$5,354,288)	(\$9,299,903)
Cumulative Balance of Tier I Recommendations	\$773,398	\$1,574,733	\$2,402,041	\$3,256,037
Revised Ending Fund Balance with Tier I Recommendations	\$1,025,899	(\$609,956)	(\$2,952,247)	(\$6,043,866)

Source: MLSD

Note: Due to the timing of the release of this performance audit some recommendations may not be fully implemented until FY 2024 which would impact the revised ending fund balance. This is due to the District finalizing staffing contracts and CBAs in May/June of 2022.

The District's current financial condition is such that implementation of these **Tier I** recommendations would not resolve the projected deficit fund balance in the most recent five-year forecast. Because of this, we identified additional recommendations that the District can

consider that go beyond alignment with peer averages and industry standards. In the audit, **Tier II** recommendations are those that have potential for increased savings but do not include additional personnel reductions. **Tier III** recommendations are additional personnel reductions identified on a case-by-case basis in areas where the District was staffed in-line with, or lower than, the respective peer averages. The potential cost savings associated with **Tier II** and **Tier III** recommendations are seen in the table below. These estimated savings reflect the average annual savings that could be achieved in FY 2023 through the remainder of the forecast period.

Additional Recommendations

Recommendations		Savings
Tier II	Eliminate General Fund Subsidy of Extracurricular Activities	\$487,000
Tier II	Eliminate Medical Plan 2 and Decrease Vision Costs	\$885,000
Tier II	Eliminate Administrator Retirement Pick-Up	\$29,000
Tier III	Eliminate up to 23.5 FTEs General Education Teachers	\$2,349,000

Note: These estimated savings reflect the average annual savings that could be achieved in FY 2023 through the remainder of the forecast period, aside from the administrative retirement pick-up estimated savings which reflects the average annual savings that could be achieved in FY 2025 through the remainder of the forecast period. Additionally, insurance plans run January to December, therefore this savings could not be realized until halfway through FY 2023.

Note: Numbers in this table are rounded down to the nearest \$1,000 to provide conservative estimates and for readability purposes.

When considering implementation of either **Tier II** or **Tier III** recommendations, the District must consider the impact on overall operations. The recommendations identified in **Tier II** could require contract negotiations and may not be implemented immediately. Reducing the number of general education teachers in the District is something that officials are able to do without negotiations. However, doing so may result in MLSD operating at levels that would likely impact the level of services provided to the community. MLSD officials may wish to consider implementing any of these additional recommendations, or some combination of them, based on the current financial condition of the District.

Tier I Recommendations

Financial Management

Any organization needs to consider both short-term needs and long-term goals when developing policies and procedures related to financial management. This requires strategic planning in order to identify the best use of available resources. School districts, in particular, must have sound planning processes in place so that they can effectively and transparently provide services to their residents. We reviewed MLSD’s financial management policies in order to determine if there were areas for improved management.

Recommendation 1: Develop Formal Strategic and Capital Plans

Impact

Developing long-term strategic and capital plans along with capital planning policies that are linked to annual budgets could provide the District with necessary guidance on overall spending and program allocations based on plan-related goals and objectives. The development of these plans could also assist the District in making more efficient and effective long-term decisions.

Methodology

We interviewed District officials to confirm that the District has an outdated strategic plan,²⁰ and does not have a capital plan or policy. We also reviewed MLSD’s current strategic and capital planning practices and compared them to the Government Finance Officers’ Association (GFOA) best practices to identify opportunities for improvement. In reviewing the practices, we discovered the strategic plan is qualitative.

Analysis

The Government Finance Officers’ Association (GFOA) provides guidance to governmental entities in the development and maintenance of effective long-term planning. *Establishment of Strategic Plans* (GFOA, 2005) defines strategic planning as a “comprehensive and systemic management tool designed to help organizations assess the current environment, anticipate and respond appropriately to changes in the environment, envision the future, increase effectiveness,

²⁰ The District is currently in the process of developing an updated strategic plan.

and develop commitment to the organization’s mission, and achieve consensus on strategies and objectives for achieving that mission.”

Key steps in the strategic planning process include:

- Initiating the strategic planning process;
- Preparing a mission statement;
- Assessing and identifying environmental factors and critical issues;
- Agreeing upon and developing strategies for a small number of broad goals;
- Creating an action plan, including measurable objectives and performance measures;
- Obtaining approval of the plan; and,
- Implementing, monitoring, and reassessing the plan.

Long-Term Financial Planning (GFOA, 2008) specifies that long-term financial planning should encompass the following elements:

- Planning at least five to 10 years into the future;
- Considering all appropriated funds;
- Updating long-term planning activities as needed in order to provide direction to the budget process;
- Analyzing the financial environment, revenue and expenditure forecasts, debt position and affordability analysis, strategies for achieving and maintaining financial balance, and a plan for monitoring mechanisms, such as a scorecard of key indicators of financial health; and,
- Informing the public and elected officials about the long-term financial prospects of the government and strategies for financial balance.

Multi-Year Capital Planning (GFOA, 2006) recommends that public entities create and implement a multi-year capital plan as a component of their comprehensive strategic plan. An adequate capital plan should:

- Identify and prioritize expected needs based on the entity’s strategic plan;
- Establish project scopes and costs;
- Detail estimated amounts of funding from various sources; and,
- Project future operating and maintenance costs.

Finally, *Capital Planning Policies* (GFOA, 2006) recommends public entities should develop and adopt capital planning policies which are sensitive to unique organizational characteristics such as the services that they provide and how they are structured. A capital planning policy describe and have the following:

- Organizational approach to capital planning;

- Clear definition of capital planning project;
- Establishment of review committee along with identification of members;
- Role of internal and external stakeholders;
- Decision making process;
- Assessment of government fiscal capacity along with process for funding;
- Procedure for accumulation of capital reserves for new and replacement purchases;
- Policy linking funding strategies with asset lifecycle;
- Requirement for development of capital plan;
- Mandate that capital plan includes significant maintenance projects; and,
- Provisions for monitoring and oversight.

MLSD's annual budget is not linked to formal planning goals, objectives, or performance measures. MLSD is at risk of not fully evaluating the relationship between its spending decisions and program outcomes.

Conclusion

The District should concurrently develop a strategic plan and a capital plan along with a capital planning policy. By not having formal strategic and capital plans linked to the budget, MLSD is not able to effectively address all financial, programmatic, and operational needs of the District. Therefore, it should concurrently develop such plans in order to improve program and funding decisions.

Human Resources

Human resource (HR) expenditures are significant to both the operational and financial conditions within school districts. OPT reviewed MLSD’s staffing levels, salaries, and CBA provisions and compared them to peer districts. Title I and Special Education staffing were excluded from our analyses due to various legal and contractual requirements within these programs.

Recommendation 2: Eliminate Administrative and Administrative Support Positions above the Peer Average

Impact

By reducing administrative and administrative support staff to be in line with the primary peer average, the District could save an average of approximately \$342,000 annually. The value of the savings for all staffing recommendations were based on the lowest tenured employee salaries and inflated for contractual wage increases and increases in the costs of benefits. Benefits include medical, prescription drug, dental, vision, and life insurance, Medicare, and retirement.

Background

The District employs individuals in administrative and administrative support positions who are responsible for activities related to the daily operations of the District. While these positions provide support to students and educators within MLSD, the District may be able to reduce some positions based on peer comparisons.

Methodology

Staffing levels for the District were compared to primary peer averages.²¹ In order to make data-driven decisions, the data was normalized on a per-1,000 student and per building basis and compared to the primary peer average.

Areas where MLSD has staffing levels above the primary peer average and could reduce administrative and administrative support staff include:

- Central office support
- Building office administrators
- Messenger

²¹ A Full-Time Equivalent (FTE) was used to identify staffing levels, based on ODE reporting guidelines.

Analysis

Central Office Support Staff

MLSD employs 6.6 FTE central office support staff, which is 2.0 FTEs above the primary peer average. This category of positions consists of bookkeeping and central office clerical staff. Eliminating 2.0 FTEs central office support staff positions could save an average of approximately \$111,000 in each year of implementation and bring the District's baseline staffing ratio to a level consistent with the primary peer average.

Building Office Administrators

MLSD employs 9.0 FTE building office administrators, which is 2.0 FTEs above the primary peer average. This category of positions includes Assistant Principals, Principals, and Dean of Students. Eliminating 2.0 FTE building office administrators could save an average of approximately \$221,000 in each year of implementation and bring the District's baseline staffing ratio to a level consistent with the primary peer average.

Messenger

MLSD employs a 1.0 FTE messenger. Eliminating a 1.0 FTE messenger could save an average of approximately \$10,000 annually and bring the District's baseline staffing ratio to a level consistent with the primary peer average.

Conclusion

MLSD should eliminate 2.0 FTE central office support positions, 2.0 FTE building office administrator positions, and the 1.0 FTE messenger position. Eliminating these positions could save an average of approximately \$342,000 in each year of implementation and bring the District's baseline staffing ratio more in line with the primary peer average. These estimated savings reflect the average annual savings that could be achieved in FY 2023 through the remainder of the forecast period.

Recommendation 3: Eliminate Direct Student Education and Support Positions above the Peer Average

Impact

By reducing direct education and student support staff to be in line with the primary peer average, the District could save an average of approximately \$468,000 annually.

Background

Direct education and support positions perform functions that assist students directly in some manner. These positions may include a variety of professionals including teachers, educational support specialists, and counselors. We found that based on peer comparisons, MLSD could eliminate staffing positions in several categories.

Methodology

Staffing levels for the District were identified and compared to primary peer averages. Full-time Equivalents (FTEs) were used to identify staffing levels, based on ODE reporting guidelines. In order to make data-driven decisions, the data was normalized on a per 1,000 student basis and compared to the peer average.²²

Areas where MLSD has staffing levels above the primary peer average and could reduce direct student education and support staff include:

- General Education Teachers
- K-8 Art, Music, & PE Teachers
- Monitors

²² Calculated FTE's per 1,000 students by analyzing the FTE's for general education, gifted and talented, career-technical program/career pathways, and LEP Instructional program in total rather than on a line-by-line basis. This is because they act as a general education teacher in the sense that students are being educated by those teachers in the same way they are being educated by general education teachers and is why they were looked at in total.

Analysis

General Education Teachers²³

MLSD employs 112.0 FTE general education teachers, which is 4.55 FTEs above the primary peer average.

Eliminating 4.5 FTE general education teacher positions could save an average of approximately \$305,000 annually and bring the District's baseline staffing ratio to a level consistent with the primary peer average.

K-8 Art, Music & Physical Education Teachers

MLSD employs 4.0 FTE K-8 art teachers, 3.5 FTE K-8 music teachers, and 4.0 FTE K-8 physical education teachers. The District is 1.23 FTEs above the primary peer average for art, music, and physical education.

Eliminating 1.0 FTE K-8 art, music, and physical education teacher positions could save an average of approximately \$59,000 annually. These reductions would bring the District's baseline staffing ratio to a level consistent with the primary peer average.

Monitors

MLSD employs 10.0 FTE monitors who cover duties such as monitoring the playground, lunchroom, and study hall areas. In comparison, two of the peers use already existing positions such as teachers and educational assistants to handle monitoring duties. Eliminating 10.0 FTE monitoring positions could save approximately \$104,000 annually.

Conclusion

By eliminating the direct student education and support positions described above, the District could save approximately \$468,000 annually and bring its baseline staffing ratio to a level consistent with the primary peer average. These estimated savings reflect the average annual savings that could be achieved in FY 2023 through the remainder of the forecast period.

²³ CBA states that the teacher-student ratio be in accordance with the requirements of the ORC and state minimum standards. It asserts although circumstances may prohibit the achievement of optimum class sizes, the Board shall maintain a District average teacher-student ratio of no more than 1:25.

Recommendation 4: Renegotiate Collective Bargaining Agreement Provisions

History

In October of 2016, OPT released a performance audit of MLSD,²⁴ which contained a recommendation to renegotiate collective bargaining agreement provisions. Four specific provisions exceeded the ORC/OAC which included: vacation accrual, paid holidays, sick leave accumulation and severance payout, and class size limits.

Impact

While the financial implication for this recommendation was not updated, the District's classified and certificated collective bargaining agreements (CBA) contain provisions which are more generous or costly than required in the ORC and OAC. Aligning the overly generous provisions with statutory minimums would result in cost savings and additional productive work hours.

Background

MLSD maintains two collective bargaining agreements (CBAs):

- Madison Education Association, representing certificated staff, effective through August 31, 2022
- Ohio Association of Public School Employees (OAPSE), representing bus assistants, bus drivers, bus mechanics, nutrition services, custodians, data processors, educational assistants, library assistants, maintenance, secretaries, and special education assistants, effective through June 30, 2022

Methodology

The District's CBAs were obtained from the State Employment Relations Board (SERB). MLSD's CBAs were then analyzed and compared to applicable ORC and OAC requirements in order to highlight any overly generous provisions or potential opportunities to reduce costs or increase operational efficiency.

Analysis

- **Vacation Accrual:** Under the classified OAPSE CBA, employees are entitled to annual vacation accrual whereby they can earn 580 vacation days over the course of a 30-year career. This exceeds the statutory minimum of 460 days established for full-time

²⁴ See **Appendix A** for a full list of prior audit objectives and recommendations

employees under ORC § 3319.084. Providing employees with more vacation days could increase substitute and overtime costs. Direct savings from reducing the vacation schedule could not be quantified; however, this would serve to increase the number of available work hours, at no additional cost to the District.

- **Paid Holidays:** Under the classified CBA, 12-month employees are entitled to twelve paid holidays and all other regular employees are entitled to eight paid holidays. This exceeds the statutory minimum of eight paid holidays for 11-month and 12-month employees and six paid holidays for 9-month and 10-month employees under ORC § 3319.087.²⁵ Direct savings from reducing the number of holidays could not be quantified; however, a reduction would increase the number of available work hours at no additional cost to the District.
- **Sick Leave Accumulation and Severance Payout:** ORC §124.39 requires that public employees must be paid one-quarter of accrued sick leave at retirement, based on a maximum accrual of 120 days. Based on this requirement, employees are eligible for up to 30 days of severance pay. However, public entities may choose to provide severance pay in excess of ORC requirements.

According to the District’s CBAs, certificated and classified employees may accumulate 340 and 360 days of sick leave, respectively, and receive up to 68 days in paid severance, which is more than double the ORC requirement. Excessive sick leave accrual increases the likelihood of severance payouts that are larger than required by state law and puts the District at risk for increased liabilities.

- **Class Size Limits:** The certificated CBA includes a provision that limits class sizes for kindergarten through twelfth grade. The certificated CBA states, “...the Board shall maintain a District average teacher-student ratio of not more than 1:25.” In addition to a district-wide ratio of 1:25, there are class size limits by grade, K-2 has a maximum of 25 students, grades 3-5 has a maximum of 26 students, and grades 6-12 have a maximum of 28 students.²⁶ Teachers can volunteer to be assigned two students in excess of the maximum by grade and will receive a stipend of \$400 for each excess student. Including class size limits in the CBA can limit management’s ability to staff in accordance with its financial condition.

²⁵ An updated iteration of ORC §3319.087 will come into effect on June 10, 2022. The current statutory state minimums identified for paid holidays are based off of the upcoming version of the statute.

²⁶ Class limits exclude band, chorus, and study hall.

Conclusion

The District has many CBA provisions which exceed state minimum requirements. The District should consider renegotiating the provision discussed above in order to increase management control over District operations and to limit potential liabilities.

Transportation

Transportation of students is a critical function for school districts. Ensuring that busing services are provided in a safe and efficient manner is important for both the well-being of students and the fiscal health of the school district. We examined MLSD’s reporting policies and procedures as well as bus routing, preventative maintenance, and bus replacement practices in comparison to industry standards and best practices to determine whether there were any areas for improvement.

Recommendation 5: Develop a Formal Bus Replacement Plan

Impact

Adopting a formal bus replacement plan will assist the District in planning for large purchases, will reduce the risk of incurring large maintenance expenses for buses that have exceeded their expected life-span, and will help avoid the need to replace a major portion of the fleet at the same time.

Background

MLSD has been contracting with Community Bus Services (CBS) for transportation services since FY 2008.²⁷ CBS provides bus drivers while the Board is responsible for providing the school buses.

As of FY 2022, MLSD had 31 assigned buses and 4 spares. The average age of an assigned, or active, bus was 9.52 years and the average mileage was 115,166.

Methodology

OPT interviewed District officials regarding MLSD’s bus fleet and replacement planning. The mileage and model years of MLSD’s bus fleet were confirmed with the District. Finally, the current state of the bus fleet was compared to industry benchmarks.

Analysis

The National Association of State Directors of Pupil Transportation Services (NASDPTS) suggests a bus replacement cycle of 12 to 15 years, or when buses reach 250,000 miles. MLSD

²⁷ The reason the District has been contracting with CBS since FY 2008 is due to increased difficulties in hiring/retaining drivers and inflated staffing costs. It is evident that CBS is very flexible with the client.

has 16 active buses that meet or exceed the NASDPTS replacement criteria of 12 to 15 years or 250,000 miles. The District does not have a formal data-driven bus replacement plan. Furthermore, the District has limited funds available to purchase new buses.²⁸ The lack of a formal bus replacement plan may contribute to the number of replacement-eligible buses in the fleet.

Conclusion

MLSD should develop a formal, data driven bus replacement plan that considers the full cost of bus operation, including fuel, parts, labor, and vehicle depreciation, in addition to safety and emissions. Doing so would allow the District to communicate progress in meeting its schedule of replacement and any risks posed by the current state of the fleet.

²⁸ District employs a highly competent mechanic who handles the bus maintenance in-house and rarely outsources the work. The District advised they have bought a few used buses in the past to make ends meet.

Tier II and Tier III Recommendations

As discussed in detail throughout the preceding sections of this report, MLSD could gain efficiencies by aligning its operations with the peer averages and industry standards and implementing the aforementioned baseline, or Tier I, recommendations. However, the recommendations identified previously in this report would not resolve the projected deficit in the most recent five-year forecast. The following recommendations are additional actions that District leadership can consider when addressing the current fiscal situation.

Implementing the following Tier II and Tier III actions could have a significant impact on the District's operations and instructional activities. However, without additional revenue, the District will likely need to consider the following recommendations in order to remain fiscally solvent.

Tier II Recommendations

Eliminate the General Fund Subsidy for Extracurricular Activities

In FY 2021, MLSD spent \$773,248 on student extracurricular activities, which included the salaries and benefits of directors and coaches, supplies and materials, transportation services, and other miscellaneous expenditures. A portion of these expenditures were offset by generating revenue of \$215,282 for admissions and other extracurricular activity sources. The remaining expenditures relating to student activities are subsidized by the general fund money.

The District's general fund subsidy for extracurricular activities of \$187.31 per pupil was lower than the local peer average of \$244.21 per pupil. However, if further savings are needed, MLSD could consider fully eliminating the entire General Fund subsidy of approximately \$487,953 by considering implementation of one or more of the following options:

- Implement pay-to-participate fees for extracurricular activities
- Increase admissions and sales
- Increase booster club funding
- Reduce the supplemental salary schedule
- Eliminate programs

Eliminate Insurance Plan 2 and Decrease Vision Costs

MLSD offers three health insurance plans, two preferred Provider Organization (PPO) and one Consumer-Driven HealthCare Plan (CDHP) through the Lake County Schools Council which is a consortium. Each plan offers coverage for medical, dental, vision, and prescription insurance.

While the District’s total costs for insurance are below the peer averages identified in the State Employment Relations Board (SERB), MLSD could see additional savings if Medical Plan 2 was eliminated as an option and instead those employees utilized Plan 1. Doing so would result in an estimated savings of \$872,000 annually. Additionally, the District’s costs for single and family vision premiums is higher than the SERB average. Bringing District costs for vision premiums in line with the SERB regional average would result in an estimated savings of \$12,000 annually.

Eliminate Administrator Pension Pick-Up

The District should consider eliminating retirement pick-up for central office administrators. While some local peer districts also provide retirement pick-up for central office administrators, annual savings can be realized by eliminating this particular benefit.

MLSD provides employee pension program benefits that are not required by law. Ohio school districts and their employees are required to contribute payments into one of two retirement plans: the State Teachers Retirement System (STRS) and the School Employees Retirement System (SERS). Ohio law mandates the contribution percentages to be made by employers and employees.²⁹ As a form of alternative compensation for three central office administrators in FY 2022, WLSL goes beyond the SERS and STRS requirements by paying the entire employee share of retirement, which is considered retirement “pick-up.”

In reference to FY 2022 payroll data, eliminating the retirement pick-up provision could save the District approximately \$29,000 annually. These estimated savings reflect the average annual savings that could be achieved in FY 2023 through the remainder of the forecast period.

Tier III Recommendations

If the District is unable to return to fiscal solvency through the implementation of other recommendations within this report, it could consider making additional changes to reduce expenditures. One potential option could be the reduction of general education teachers.

²⁹ Employers are required to contribute 14 percent of each employee’s annual salary to the appropriate retirement fund. Employee members of SERS are responsible for contributing an additional 10 percent, while employee members of STRS contribute an additional 14 percent.

Eliminate up to 23.5 FTE Classroom Teachers

Though previous recommendations (See **Recommendation 2** and **Recommendation 3**) addressed the District's staffing levels relative to the primary peer average, the District could make additional staffing reductions in order to regain fiscal solvency.

State law requires that for every 25 students, districts employ at least one classroom teacher, for a student to teacher ratio of 25 to 1.³⁰ In FY 2022, the District had a student to teacher ratio of 19.01 to 1.

MLSD could eliminate up to 23.5 FTE classroom teachers³¹ and remain in compliance with state minimum staffing requirements. If this level of reduction becomes necessary, the District should work with ODE to ensure compliance with the state minimum requirement in OAC 3301-35-05 before reducing classroom teaching levels.

This reduction would represent the elimination of 20.4 percent of the District's classroom teachers and would save the District an average of approximately \$2,349,000 annually. While this option would provide additional savings each year, it would drastically change service levels within the District. These estimated savings reflect the average annual savings that could be achieved in FY 2023 through the remainder of the forecast period.

³⁰ The student number used in this ratio represents the regular student population – a formula driven number that reflects students enrolled and educated within the district, excluding categories two through six of special education students. Classroom teachers include K-12 general education teachers as well as art, music, physical education, English language instructional program, and gifted and talented teachers. Preschool teachers, special education teachers and career-technical teachers are excluded from the ratio (*Source, ODE*).

³¹ The 23.5 FTE classroom teacher reduction is the difference of the 29.0 FTE state minimum overage minus the 5.5 FTE Tier I reductions.

Client Response Letter

Audit standards and AOS policy allow clients to provide a written response to an audit. The letter on the following page is the District's official statement in regards to this performance audit. Throughout the audit process, staff met with District officials to ensure substantial agreement on the factual information presented in the report. When the District disagreed with information contained in the report, and provided supporting documentation, revisions were made to the audit report.



Madison Local School District

1956 Red Bird Road - Madison, Ohio 44057 - Telephone 440.428.2166 - Fax 440.428.9379
Mrs. Angela M. Smith, Superintendent

www.madisonschools.net

Mr. Keith Faber
Auditor of State
88 East Broad Street, 5th Floor
Columbus, OH 43215

Dear Auditor Faber:

On behalf of the Madison Board of Education and our administrative team, we would like to thank your office and your Performance Audit Team led by Amanda Curran for its effort in reviewing our district's operations and providing suggestions as to how we can streamline costs.

We appreciate the time your office has put into the audit report, and the team's feedback throughout this process. This is our third performance audit since 2011. Our team works closely to manage costs. In the last 11 years, we have reduced staff, participated in consortium services, and examined expenditures in terms of student impact. From the start of this process in the fall of 2021 our five year forecast has shifted to where the deficit projected in FY2024 has gone from \$2,184,689 to \$881,297. This is due in part to the American Recovery Plan funds as well the ESSER funds referenced in your report. The other significant change was the implementation of the new school funding formula that was part of the FY22 state budget.

We appreciate that the legislature passed the Fair School Funding plan in the last biennium budget. It is our hope that in the next biennium budget, they continue to increase the funding until the plan is fully funded. If the plan were to be fully funded, this would help our district to be solvent, and not have to continue to make drastic reductions that impact our students. We also stress that the legislature needs to find a way to increase their share of the ever-increasing special education costs. This would include our hope that the state will fully fund catastrophic costs which would in turn reduce the amount of reductions we would have to make overall in the district. For FY20 our district submitted \$959,000 in catastrophic costs and was reimbursed \$258,000 for a difference of \$701,000.

Going forward, we will continue to review the recommendations outlined in your report as we make financial decisions for the district. However, as in any district, the more reductions that are made, the greater the impact is on the classroom. Our district has reduced program elements and adjusted fee structures to the point of limiting opportunities for our students. We have used our ESSER funding to help balance the budget as well as help to keep our doors open during the pandemic. We have used the American Recovery Plan funds to reduce class size at our elementary buildings this year, and to maintain staff that was previously going to be reduced due to our projected deficit. We have also purchased much needed English Language Arts curriculum resources K-12. Our administrative team and fiscal office work very closely to monitor and control costs. Our staff for the past two years has had no base pay increase. We continue to work diligently to be good stewards of our taxpayers' money.

Thank you again for the opportunity to participate in the Performance Audit. Our district will continue to analyze the information gained through the audit process for the continued financial improvement of our district as well as being fiscally responsible to our community.

Sincerely,

Angela M. Smith
Superintendent

L. Greg Slemons
Interim Treasurer

Shawn S. Douglas
Board of Education President

Appendix A: Purpose, Methodology, Scope, and Objectives of the Audit

Performance Audit Purpose and Overview

Performance audits provide objective analysis to assist management and those charged with governance and oversight 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.

Generally Accepted Government Auditing Standards (GAGAS) 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. 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.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

MLSD has had two previous performance audits which were released in October 2016 and February 2012. These performance audits were also in response to the District’s financial condition. The table below identifies the October 2016 audit objectives and recommendations and includes the implementation status of the prior recommendations.

Prior Audit Scope and Objectives (October 2016)

Prior Objective	Prior Recommendation	Implementation Status
Open Enrollment		
Are the District’s open enrollment policies financially beneficial?	Establish formal open enrollment capacity limits.	No Recommendation: Open Enrollment practices were reviewed as part of the staffing objective.
Financial Management		
Are strategic planning and budgeting practices consistent with leading practices?	Improve strategic planning and budgeting practices.	See R.1.

Is financial communication consistent with leading practices?	N/A	N/A
Are purchasing practices comparable to leading practices?	N/A	N/A.
Are extracurricular activities revenues and expenditures balanced?	Eliminate General Fund subsidy of extracurricular activities.	See Tier II .
Human Resources		
Are staffing levels comparable to peers and OAC/State minimums, where applicable, and are they appropriate based on the District's financial condition?	- Reduce 2.0 FTE administrative positions. - Reduce 2.5 FTE office/clerical positions. Reduce 1.5 FTE ESP teacher positions.	Partially implemented, see R.2 and R.3.
Are salaries comparable to regional peers and are they appropriate based on the District's financial condition?	N/A	N/A
Are collective bargaining agreement provisions consistent with leading practices and are they appropriate based on the District's financial condition?	Renegotiate collective bargaining agreement provisions.	See R.4 .
Are insurance benefits consistent with leading practices??	Reduce employer cost of health insurance.	N/A, insurance was reviewed and was lower than peer averages. See Tier II for additional savings.
Are supplemental contracts comparable to surrounding peers?	N/A	N/A
Facilities		
Is energy usage for the operation of District facilities efficient compared to the peers and/or industry benchmarks?	Implement an energy management program.	N/A
Transportation		
Are T-Form procedures consistent with leading practices?	Enhance internal control measures for T-Form reporting.	N/A, practices were reviewed as part of the fleet size objective.

Is the transportation program appropriately sized and cost-effective?	N/A	N/A
Is the transportation contract being sufficiently monitored?	N/A	N/A
Is fuel purchased efficiently compared to available options?	Procure fuel using the DAS cooperative purchasing program.	N/A
Food Service		
Is meal pricing in-line with the peers?	N/A	N/A

Audit Scope and Objectives

In order to provide the District with appropriate, data driven, recommendations, the following questions were assessed within each of the agreed upon scope areas:

Audit Scope, Objectives, and Recommendations

Objective	Recommendation
Financial Management	
Are the District's budgeting and forecasting practices consistent with leading practices and is the five-year forecast reasonable and supported?	No Recommendation: We reviewed the District's forecasting practices and found them to be in line with industry standards.
Are the District's strategic and capital planning practices consistent with leading practices?	R.1
Is the District's General Fund subsidy of extracurricular activities appropriate in comparison to local peers and the District's financial condition?	Tier II Recommendation: The District is in line with the local peers on a per pupil basis, but this represents an area for potential savings.
Human Resources	
Are the District's staffing levels appropriate in comparison to primary peers, state minimum standards, demand for services, and the District's financial condition?	R.2, R.3, Tier III
Are the District's salaries and wages appropriate in comparison to local peers and the District's financial condition?	Tier II Recommendation: The District could eliminate pension pick-up for additional savings

Are the District’s insurance costs appropriate in comparison to other governmental entities within the local market and the District’s financial condition?	Tier II Recommendation: Employer costs for insurance are lower than peer averages. See Tier II for additional savings.
Facilities	
Is the District’s building utilization appropriate in comparison to leading practices, industry standards, and the District’s financial condition	No Recommendation: Buildings are being utilized in line with benchmarks.
Are the District’s facilities staffing levels appropriate in comparison to leading practices, industry standards, and the District’s financial condition?	No Recommendation: The District’s facilities staffing is lower than the industry standard.
Transportation	
Are the District’s fleet replacement practices consistent with leading practices and industry standards and appropriate based on the District’s financial condition?	R.5

Although assessment of internal controls was not specifically an objective of this performance audit, internal controls were considered and evaluated when applicable to scope areas and objectives. The following internal control components and underlying principles were relevant to our audit objectives³²:

- Control environment
 - We considered the District control of its EMIS system.
- Risk Assessment
 - We considered the District’s activities to assess fraud risks.
- Information and Communication
 - We considered the District’s use of quality information in relation to transportation data.
- Control Activities
 - We considered the District’s compliance with applicable laws and contracts.

Internal control deficiencies were not identified during the course of this audit.

³² We relied upon standards for internal controls obtained from *Standards for Internal Control in the Federal Government* (2014), the U.S. Government Accountability Office, report GAO-14-704G

Audit Methodology

To complete this performance audit, auditors gathered data, conducted interviews with numerous individuals associated with the areas of District operations included in the audit scope, and reviewed and assessed available information. Assessments were performed using criteria from a number of sources, including:

- Peer Districts;
- Industry Standards;
- Leading Practices;
- Statutes; and,
- Policies and Procedures.

In consultation with the District, three sets of peer groups were selected for comparisons contained in this report. A “Primary Peers” set was selected for general, District-wide comparisons. This peer set was selected from a pool of demographically similar districts with relatively lower per pupil spending and similar academic performance. A “Local Peers” set was selected for a comparison of compensation, benefits, and collective bargaining agreements, where applicable. This peer set was selected specifically to provide context for local labor market conditions. Finally, a “Transportation Peers” set was selected for operational comparisons related to the bus fleet. This peer set was selected from a pool that most closely reflected the geographic, rider density, and other factors affecting transportation operations in MLSD. The lists below show the Ohio school districts included in these peer groups.

Peer Group Districts

Primary Peers

- Ashland City School District, Ashland County
- Batavia Local School District, Clermont County
- Dover City School District, Tuscarawas County
- Louisville City School District, Stark County
- Norton City School District, Summit County
- Tri-Valley Local School District, Muskingum County
- Wapakoneta City SD, Auglaize County

Local Peers (Compensation, Benefits, and Bargaining Agreements)

- Geneva Area City School District, Ashtabula County
- Painesville City School District, Lake County
- Perry Local School District, Lake County

- Riverside Local School District, Lake County

Transportation Peers

- Madison Local School District, Richmond County
- Piqua City School District, Miami County
- Tecumseh Local School District, Clark County
- Tiffin City School District, Seneca County

Where reasonable and appropriate, peer districts were used for comparison. However, in some operational areas industry standards or leading practices were used for primary comparison. District policies and procedures as well as pertinent laws and regulations contained in the Ohio Administrative Code (OAC) and the Ohio Revised Code (ORC) were also assessed. Each recommendation in this report describes the specific methodology and criteria used to reach our conclusions.

Appendix B: Financial Systems

On this sliding scale, a value of 1.0 indicates the state average, a baseline against which all districts in the state are weighed. If a district has a local tax effort below 1.0, residents provide a smaller portion of their available income to public education whereas a value above 1.0 indicates the community pays a larger portion of their available income to public education compared to the state average. The index is updated annually by ODE as part of its District Profile Reports, also known as the Cupp Report, to reflect changes in local conditions from year to year.

2021 Local Tax Effort Comparison | Primary Peers

District	LTE	Rank	Percentile
Dover City	1.0215	279	53.96%
Ashland City	0.9361	333	45.05%
Madison Local	0.9157	346	42.90%
Wapakoneta City	0.8492	402	33.66%
Norton City	0.8251	415	31.52%
Louisville City	0.7773	454	25.08%
Tri-Valley Local	0.7334	494	18.48%
Batavia Local	0.4800	595	1.82%
Peer Average	0.8032	N/A	N/A

Source: ODE

2021 Local Tax Effort Comparison | Local Peers

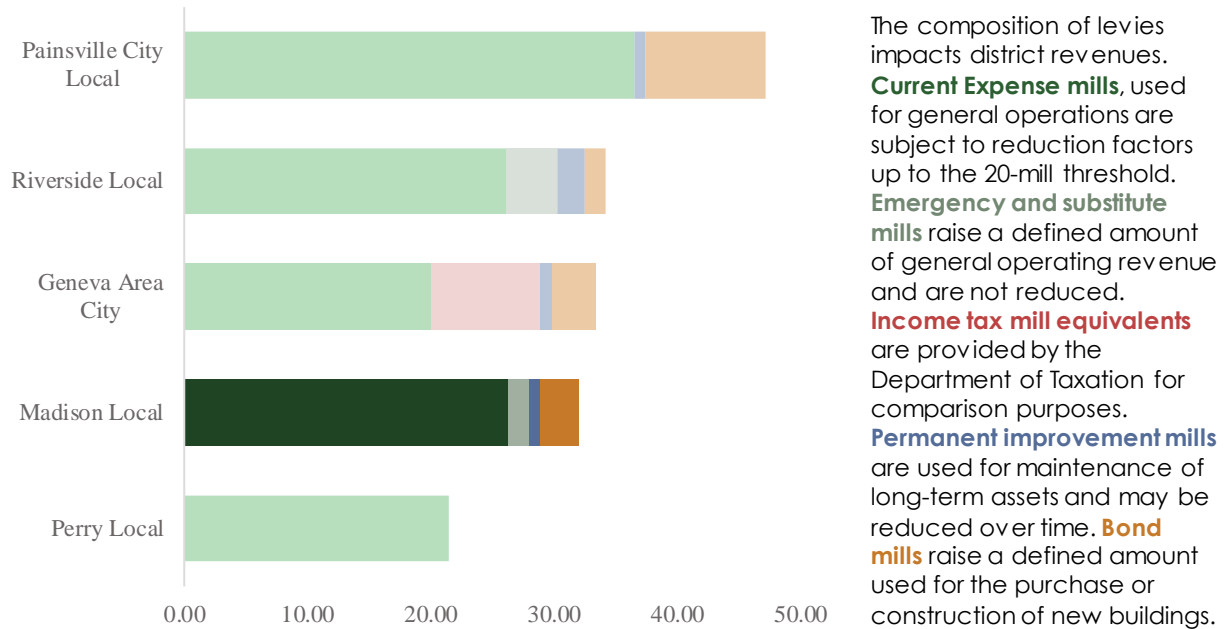
District	LTE	Rank	Percentile
Geneva Area City	1.3210	130	78.55%
Painesville City Local	0.9987	300	50.50%
Madison Local	0.9157	346	42.90%
Riverside Local	0.7447	484	20.13%
Perry Local	0.6536	548	9.57%
Peer Average	0.9295	N/A	N/A

Source: ODE

The following chart provides a comparison of the total amount of millage or millage equivalents that were collected in 2020 by MLSD and local peer districts.

Efficient • Effective • Transparent

2020 Millage and Millage Equivalents | Local Peers



Source: Ohio Department of Taxation

Some districts collect revenue from an income tax on district residents. The Ohio Department of Taxation calculates the estimated amount of millage that would need to be raised in a given year to replicate the revenue generated by an income tax. The table below shows the income tax rate, revenue, and estimated millage equivalents based on 2020 tax revenue.

2020 Income Tax Revenue and Millage Equivalents

District	Tax Rate	Income Tax Revenue	Estimated Millage Equivalents
Wapakoneta City	0.75%	\$3,609,457	8.1892
Norton City	0.50%	\$1,449,646	3.9315
Ashland City	0.00%	-	-
Batavia Local	0.00%	-	-
Dover City	0.00%	-	-
Louisville City	0.00%	-	-
Madison Local	0.00%	-	-
Tri-Valley Local	0.00%	-	-

Source: Ohio Department of Taxation

Appendix C: Financial Management

Extracurricular Activity Net Cost Comparison

We analyzed the types of revenues and expenditures associated with extracurricular activities. The analysis included the identification of costs by type and a determination of the amount of expenditures from the General Fund.

Student Extracurricular Activity Net Cost Comparison

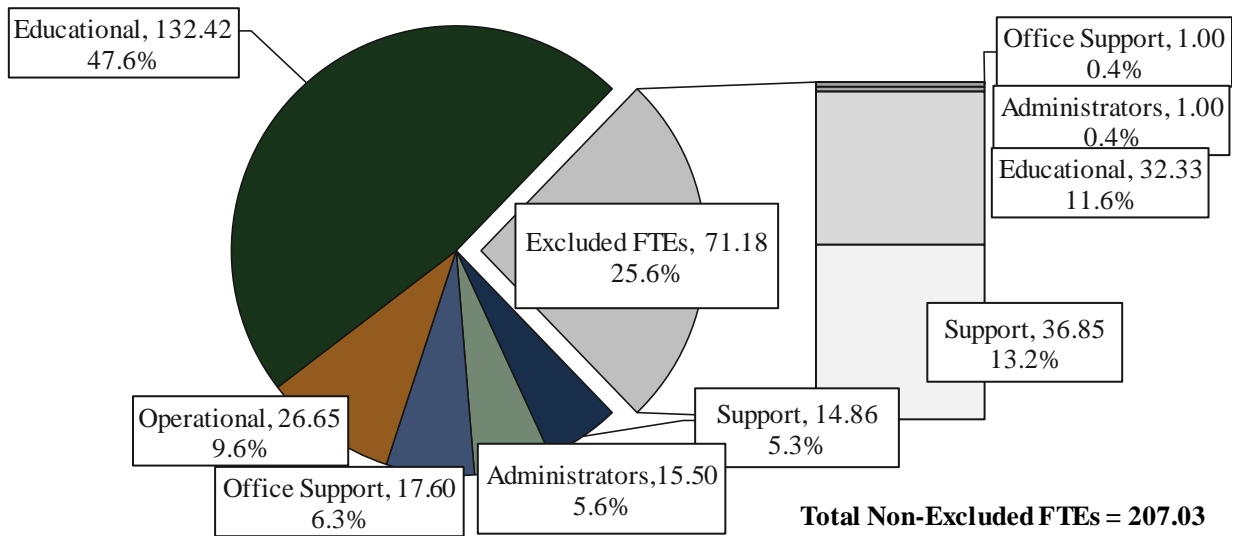
Students Activity Type	MLSD		2,605	Local Peer Avg. 2,581
	Rev.	Exp.	Net Cost	Net Cost
Academic Oriented	\$0	\$47,822	(\$47,822)	(\$159,320)
Occupation Oriented	\$0	\$0	\$0	(\$5,247)
Sport Oriented	\$0	\$665,368	(\$665,368)	(\$599,365)
School & Public Service Co-Curricular	\$0	\$60,058	(\$60,058)	(\$68,188)
Bookstore Sales	\$25	N/A	\$25	\$101
Other Extracurricular	\$86,711	N/A	\$86,711	\$45,795
Non-specified ¹	\$128,545	N/A	\$128,545	\$73,222
Total	\$215,281	\$773,248	(\$557,967)	(\$713,002)
Total General Fund Direct Revenue			\$84,382.14	\$25,536.50
Total General Fund Direct Expenditures			\$572,335.66	\$588,120.86
Total General Fund Transfers			\$0.00	\$67,709.30
Total General Fund Subsidy of Extracurricular Activities			\$487,953.52	\$630,293.66
Total General Fund Subsidy of Extracurricular Activities per Pupil			\$187.31	\$244.21
Total Difference in General Fund Subsidy to Local Peer Average			(\$148,224.50)	
Remaining General Fund Subsidy			\$487,953.52	

Source: MLSD, local peers, and ODE

¹ Non-specified represents revenue that was not coded to a specific activity type, but does reduce the net cost.

Appendix D: Human Resources

FTEs by Category with Excluded FTEs Breakout



Source: MLSD

Staffing Comparison Tables

Staffing was analyzed using Education Management Information System (EMIS) records for MLSD and the primary peer districts. Data reliability testing for the District's EMIS data was performed by comparing the EMIS report to payroll reports corresponding to the time of the report. Variances between EMIS and payroll were discussed with the District, with adjustments made as necessary.

The following tables illustrate the District's FTE staffing compared to the primary peer average. These tables contain the data associated with the analyses conducted in **R.2** and **R.3**. In order to allow for more precise comparison, employees were compared on an FTE per 1,000 student basis, consistent with ODE reporting guidelines. This calculation (shown below) allows for a more accurate comparison between districts by accounting for differences in student enrollment.

Adjusted Difference in FTEs Equation

$$\left[\frac{\text{Client FTE}}{\left(\frac{\text{Client Enrollment}}{1,000} \right)} \right] - \left[\frac{\text{Peer Avg FTE}}{\left(\frac{\text{Peer Avg Enrollment}}{1,000} \right)} \right] * \left(\frac{\text{Client Enrollment}}{1,000} \right)$$

Central Office Central Office Administrator Staff Comparison

Students	Madison Local SD		Primary Peer Avg.	Difference	
Students Educated		2,647	2,655	8	
Students Educated (Thousands)		2.647	2.655	0.008	
Position	FTEs	FTEs per 1,000 Students	FTEs per 1,000 Students	Difference per 1,000 Students	Adjusted Difference in FTEs
Assistant, Deputy/Associate Superintendent	1.00	0.38	0.27	0.11	0.29
Supervisor/Manager	1.00	0.38	0.69	(0.31)	(0.82)
Coordinator	1.00	0.38	0.71	(0.33)	(0.87)
Education Administrative Specialist	1.00	0.38	0.10	0.28	0.74
Director	0.50	0.19	0.96	(0.77)	(2.04)
Other Official/Administrative	0.00	0.00	0.16	(0.16)	(0.42)
Total	4.50	1.71	2.89	(1.18)	(3.12)

Source: MLSD and ODE

Building Administrator Staff Comparison

Students	Madison Local SD		Primary Peer Avg.	Difference	
Students Educated		2,647	2,655	8	
Students Educated (Thousands)		2.647	2.655	0.008	
Buildings		4.0	4.7	(0.7)	
Position	FTEs	FTEs per 1,000 Students	FTEs per 1,000 Students	Difference per 1,000 Students	Adjusted Difference in FTEs
Assistant Principal	5.00	1.89	1.69	0.20	0.53
Principal	4.00	1.51	1.42	0.09	0.24
Total	9.00	3.40	3.11	0.29	0.77
Position	FTEs	FTEs per Building	FTEs per Building	Difference per Building	Adjusted Difference in FTEs
Assistant Principal	5.00	1.25	0.95	0.30	1.20
Principal	4.00	1.00	0.80	0.20	0.80
Total	9.00	2.25	1.75	0.50	2.00

Source: MLSD and ODE

Teaching Staff Comparison

Students	Madison Local SD	Primary Peer Avg.	Difference		
Students Educated	2,647	2,655	8		
Students Educated (Thousands)	2.647	2.655	0.008		
Position	FTEs	FTEs per 1,000 Students	FTEs per 1,000 Students	Difference per 1,000 Students	Adjusted Difference in FTEs
General Education	110.00	41.56	39.69	1.87	4.95
Gifted and Talented	0.00	0.00	0.32	(0.32)	(0.85)
Career-Technical Programs/Career Pathways	1.00	0.38	0.59	(0.21)	(0.56)
LEP Instructional Program	1.00	0.38	0.00	0.38	1.01
Total	112.00	42.32	40.60	1.72	4.55

Source: MLSD and ODE

K-8 Teaching Staff Comparison

Students	Madison Local SD	Primary Peer Avg.	Difference		
Students Educated	1,721	1,855	(134)		
Students Educated (Thousands)	1.721	1.855	(0.134)		
Position	FTEs	FTEs per 1,000 Students	FTEs per 1,000 Students	Difference per 1,000 Students	Adjusted Difference in FTEs
Art Education K-8	4.00	2.32	1.85	0.47	0.82
Music Education K-8	3.50	2.03	2.21	(0.18)	(0.30)
Physical Education K-8	4.00	2.32	1.91	0.41	0.71
Total	11.50	6.68	5.97	0.71	1.23

Source: MLSD and ODE

Non-Teaching Educational Staff Comparison

Students	Madison Local SD		Primary Peer Avg.	Difference	
Students Educated	2,647		2,655	8	
Students Educated (Thousands)	2.647		2.655	0.008	
Position	FTEs	FTEs per 1,000 Students	FTEs per 1,000 Students	Difference per 1,000 Students	Adjusted Difference in FTEs
Curriculum Specialist	0.00	0.00	0.16	(0.16)	(0.42)
Counseling	3.00	1.13	1.31	(0.18)	(0.48)
Remedial Specialist	0.00	0.00	0.73	(0.73)	(1.93)
Tutor/Small Group Instructor	0.00	0.00	0.43	(0.43)	(1.14)
Audio-Visual Staff	0.00	0.00	0.05	(0.05)	(0.13)
Full-time (Permanent) Substitute Teacher	0.00	0.00	0.22	(0.22)	(0.58)
Other Educational	0.00	0.00	0.27	(0.27)	(0.71)

Source: MLSD and ODE

Professional Staff Comparison

Students	Madison Local SD		Primary Peer Avg.	Difference	
Students Educated	2,647		2,655	8	
Students Educated (Thousands)	2.647		2.655	0.008	
Position	FTEs	FTEs per 1,000 Students	FTEs per 1,000 Students	Difference per 1,000 Students	Adjusted Difference in FTEs
Dietitian/Nutritionist	0.00	0.00	0.05	(0.05)	(0.13)
Psychologist	3.00	1.13	0.58	0.55	1.46
Social Work	0.00	0.00	0.16	(0.16)	(0.42)

Source: MLSD and ODE

Note: MLSD has 3.0 FTE psychologists while 3 of the 7 peers contract out for these services. Further analysis showed that MLSD was 0.34 FTEs above the peer average when compared to only peers that also have in-house psychologists.

Technical Staff Comparison

Students	Madison Local SD		Primary Peer Avg.	Difference	
Students Educated	2,647		2,655	8	
Students Educated (Thousands)	2.647		2.655	0.008	
Position	FTEs	FTEs per 1,000 Students	FTEs per 1,000 Students	Difference per 1,000 Students	Adjusted Difference in FTEs
Computer Operating	0.00	0.00	0.22	(0.22)	(0.58)
Computer Programming	0.00	0.00	0.00	0.00	0.00
Other Technical	0.00	0.00	0.11	(0.11)	(0.29)

Source: MLSD and ODE

Central Office Support Staff Comparison

Students	Madison Local SD		Primary Peer Avg.	Difference	
Students Educated	2,647		2,655	8	
Students Educated (Thousands)	2.647		2.655	0.008	
Position	FTEs	FTEs per 1,000 Students	FTEs per 1,000 Students	Difference per 1,000 Students	Adjusted Difference in FTEs
Administrative Assistant	2.00	0.76	0.11	0.65	1.72
Accounting	0.00	0.00	0.27	(0.27)	(0.71)
Bookkeeping	2.60	0.98	0.17	0.81	2.14
Central Office Clerical	2.00	0.76	0.94	(0.18)	(0.48)
Records Managing	0.00	0.00	0.09	(0.09)	(0.24)
Other Office/Clerical	0.00	0.00	0.16	(0.16)	(0.42)
Total	6.60	2.50	1.74	0.76	2.01

Source: MLSD and ODE

Building Office Support Staff Comparison

Students	Madison Local SD		Primary Peer Avg.	Difference	
Students Educated	2,647		2,655	8	
Students Educated (Thousands)	2.647		2.655	0.008	
Buildings	4.0		4.7	(0.7)	
Position	FTEs	FTEs per 1,000 Students	FTEs per 1,000 Students	Difference per 1,000 Students	Adjusted Difference in FTEs
School Building Clerical	9.00	3.40	3.63	(0.23)	(0.61)
Bookkeeping	0.00	0.00	0.03	(0.03)	(0.08)
Total	9.00	3.40	3.66	(0.26)	(0.69)
Position	FTEs	FTEs per Building	FTEs per Building	Difference per Building	Adjusted Difference in FTEs
School Building Clerical	9.00	1.50	2.05	(0.55)	(2.20)
Bookkeeping	0.00	0.00	0.02	(0.02)	(0.08)
Total	9.00	1.50	2.07	(0.57)	(2.28)

Source: MLSD and ODE

Library Staff Comparison

Students	Madison Local SD		Primary Peer Avg.	Difference	
Students Educated	2,647		2,655	8	
Students Educated (Thousands)	2.647		2.655	0.008	
Position	FTEs	FTEs per 1,000 Students	FTEs per 1,000 Students	Difference per 1,000 Students	Adjusted Difference in FTEs
Librarian/Media	0.00	0.00	0.11	(0.11)	(0.29)
Library Aide	2.92	1.10	1.03	0.07	0.19
Total	2.92	1.10	1.14	(0.04)	(0.11)

Source: MLSD and ODE

Nursing Staff Comparison

Students	Madison Local SD		Primary Peer Avg.	Difference	
Students Educated		2,647	2,655	8	
Students Educated (Thousands)		2.647	2.655	0.008	
Position	FTEs	FTEs per 1,000 Students	FTEs per 1,000 Students	Difference per 1,000 Students	Adjusted Difference in FTEs
Registered Nursing	0.00	0.00	0.43	(0.43)	(1.14)
Practical Nursing	0.00	0.00	0.16	(0.16)	(0.42)
Total	0.00	0.00	0.59	(0.59)	(1.56)

Source: MLSD and ODE

Classroom Support Staff Comparison

Students	Madison Local SD		Primary Peer Avg.	Difference	
Students Educated		2,647	2,655	8	
Students Educated (Thousands)		2.647	2.655	0.008	
Position	FTEs	FTEs per 1,000 Students	FTEs per 1,000 Students	Difference per 1,000 Students	Adjusted Difference in FTEs
Instructional Paraprofessional	0.00	0.00	2.93	(2.93)	(7.76)
Teaching Aide	1.86	0.70	0.72	(0.02)	(0.05)
Total	1.86	0.70	3.65	(2.95)	(7.81)

Source: MLSD and ODE

Other Support Staff Comparison

Students	Madison Local SD		Primary Peer Avg.	Difference	
Students Educated		2,647	2,655	8	
Students Educated (Thousands)		2.647	2.655	0.008	
Position	FTEs	FTEs per 1,000 Students	FTEs per 1,000 Students	Difference per 1,000 Students	Adjusted Difference in FTEs
Attendance Officer	0.00	0.00	0.05	(0.05)	(0.13)
Monitoring	10.00	3.78	1.20	2.58	6.83

Source: MLSD and ODE

Other Clerical Staff Comparison

Students	Madison Local SD		Primary Peer Avg.	Difference	
Students Educated	2,647		2,655	8	
Students Educated (Thousands)	2.647		2.655	0.008	
Position	FTEs	FTEs per 1,000 Students	FTEs per 1,000 Students	Difference per 1,000 Students	Adjusted Difference in FTEs
Messenger	1.00	0.38	0.11	0.27	0.71

Source: MLSD and ODE

Extracurricular/Intracurricular Staff Comparison

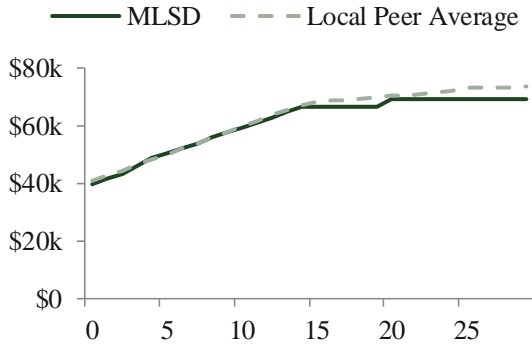
Students	Madison Local SD		Primary Peer Avg.	Difference	
Students Educated	2,647		2,655	8	
Students Educated (Thousands)	2.647		2.655	0.008	
Position	FTEs	FTEs per 1,000 Students	FTEs per 1,000 Students	Difference per 1,000 Students	Adjusted Difference in FTEs
Athletic Trainer	0.00	0.00	0.05	(0.05)	(0.13)

Source: MLSD and ODE

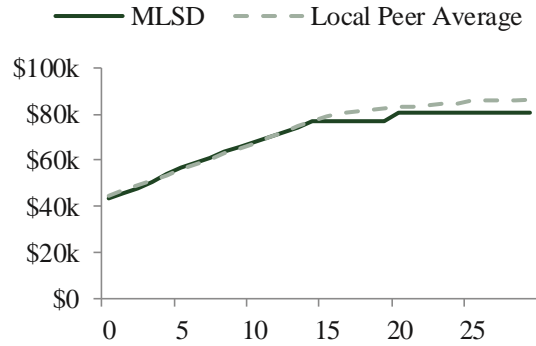
We also looked at annual salaries for all certificated employees and the hourly wage rates for some classified employee position types over the course of a career. The charts which follow show how the annual salaries compare to the peer districts based on the respective salary and wage schedules.

Certificated Career Compensation

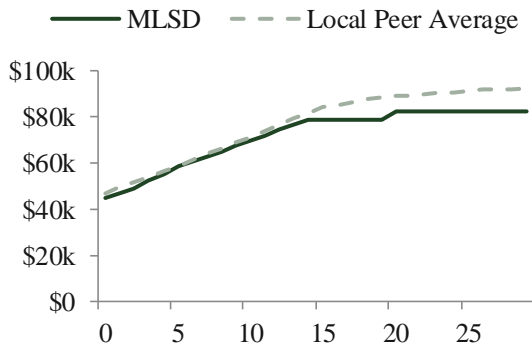
Bachelor's



Master's

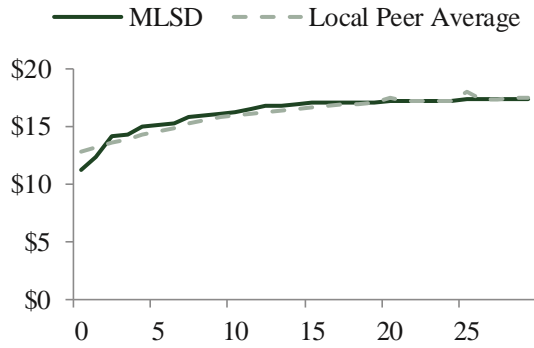


MA+15

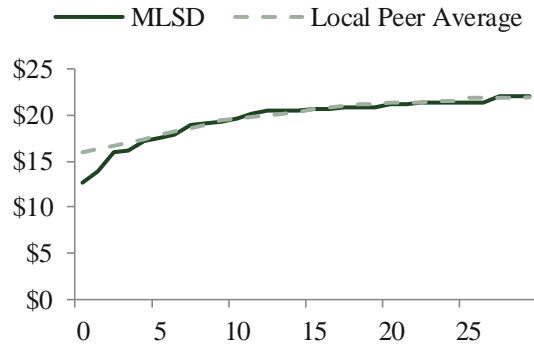


Classified Career Compensation

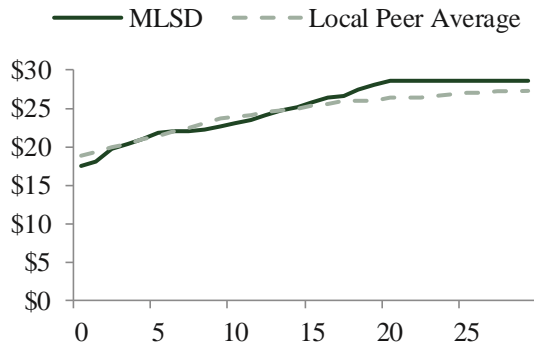
Educational Assistant



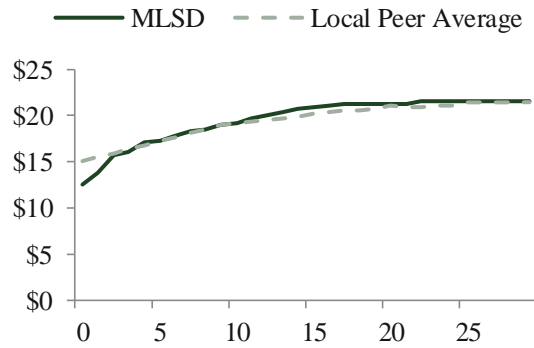
Custodian



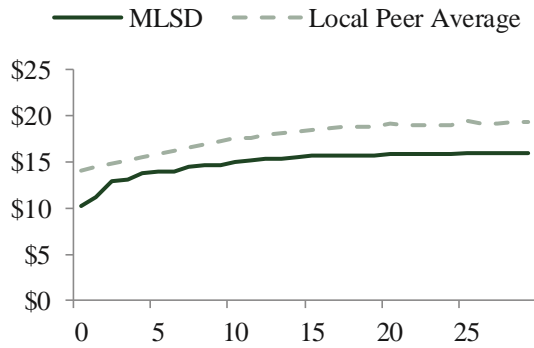
Maintenance



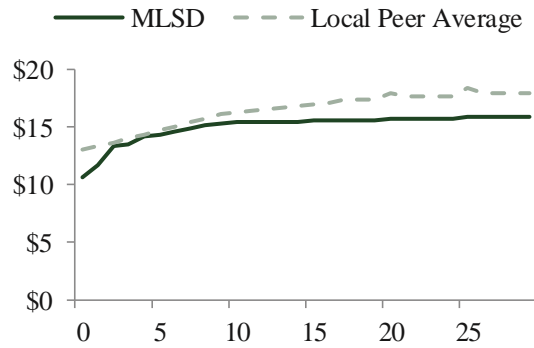
Secretary



Special Needs Ed. Assistant



Cafeteria Helper



OHIO AUDITOR OF STATE KEITH FABER



MADISON LOCAL SCHOOL DISTRICT

LAKE COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 5/26/2022

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

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