

# Hilliard Board of Education Audit and Accountability Committee

December 14, 2009

# Agenda

- Introduction – Mike Stoner
- Assessment of 2007 & 2008 State Auditor's Reports and Management Letters – Terri A. Berchak
- Benchmarking Analysis – Nathan Painter
- Assessment of Five-Year Forecast – Nathan VanLaningham



**ASSESSMENT OF 2007 &  
2008 STATE AUDITOR'S  
REPORTS AND  
MANAGEMENT LETTERS**

# 2007 Audit Report

- One Finding – Financial Reporting
- Issue related to difference between Uniform School Accounting System cash basis entries and Comprehensive Annual Financial Report (CAFR) reporting under Generally Accepted Accounting Principles (GAAP).
- State Auditor’s recommended additional procedures to provide assurance over completeness and accuracy of financial information in the CAFR.
- Revised procedures provided by Treasurer appear to address the issue noted in the audit.

# Management Letters

- Opportunities for improvement noted by State Auditor included:
  - Balance of federal funds
  - Review of Federal Excluded Parties List prior to contract award
  - Expenditures exceeding appropriations
  - Amended official certificate from the Budget Commission
  - Student Activity funds
  - Food Service

# Management Letters (cont.)

- Policies and Procedures (P&P) provided by Treasurer appear to address the opportunities for improvement with two exceptions:
  - Student Activity Funds
    - P&P did not have an independent review of funds collected, deposited, and reconciled.
  - Food Service
    - P&P did not have accountability at the cashier level.

# Conclusion

- It appears from the information provided to the Committee that the District is appropriately taking action to correct any deficiencies noted by the State Auditor's office and implementing, where practical, the suggestions for improvement in the current processes noted by the Auditor.



# **BENCHMARKING ANALYSIS OF COSTS**

# Benchmarking Costs

- Costs per ADM (average daily membership) compared to Peer Group as defined by State of Ohio
  - Hilliard \$10,296 vs. Peer Group \$9,698 (6.2% higher) (FY 2008 data)
- State Peer Group selects districts which have common attributes such as ADM, poverty count, % of households with college degree, professional occupations, population, median income, etc.
- Also compared to individual local districts which are included in the State Peer Group

# Local Comparisons

- Subset of Peer Group
- All from Columbus metro area and most have achieved similar Report Card
- Local Comparison districts:
  - Dublin, Gahanna, Pickerington, Westerville, Worthington
  - All are Excellent w/ Distinction except Gahanna (Effective) and Westerville (Excellent)

# Benchmarking Local Comparisons By Functional Area per ADM (2007-2008)

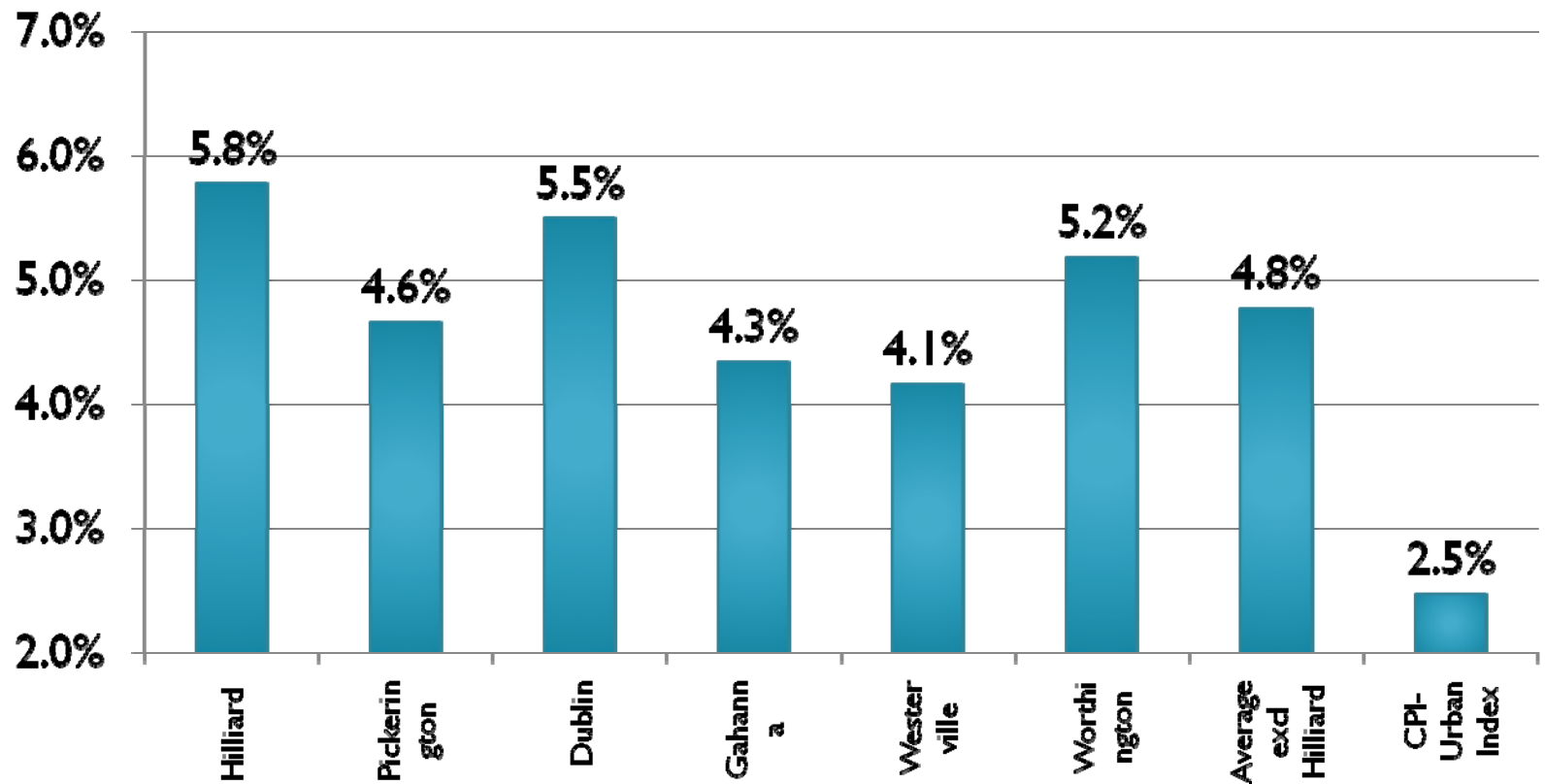
Area	Hilliard	Average	Max	Min	Hilliard Rank <sub>1</sub>
Admin	1,002	1,177	1,564	1,002	6
Instructional	6,685	6,325	7,128	5,368	2
Staff Support	390	314	610	152	2
Building Operations	1,744	1,830	2,018	1,673	4
Pupil Support	1,147	1,169	1,439	879	3
Total	10,968	10,815	12,301	9,299	3

1 – Highest Rank = 1

# Benchmarking Local Comparisons By Object Code per ADM (2007-2008)

	Hilliard	Average	Max	Min	Hilliard Rank
<b>Personnel Services</b>	6,736	6,968	7,905	5,667	4
<b>Benefits</b>	2,296	2,185	2,731	1,951	3
<b>Subtotal Personnel Comp.</b>	9,032	9,153	10,598	7,636	4
<b>Purchased Services</b>	689	1,089	1,329	596	5
<b>Supplies &amp; Materials</b>	315	280	345	249	2
<b>Capital Outlay</b>	14	79	207	14	6
<b>Other Projects</b>	245	212	295	171	2
<b>Total</b>	10,296	10,812	12,078	9,516	4
Note: General fund expenses only					
<b>Personnel compensation %</b>	87.7%	84.4%	90.1%	80.2%	3

# Cost / ADM:CAGR FY 95 - 08



# Teacher Pay vs. Experience 2008-2009

District Name	Average teacher salary	Average Years of teacher experience	Fringe Benefits as % of Expenditures	Average Salary Rank	Teacher Experience Rank
Hilliard	64,703	14	22%	4	3
Dublin	66,885	13	20%	3	5
Pickerington	60,933	11	21%	6	6
Gahanna	67,494	16	18%	2	2
Westerville	63,995	14	19%	5	3
Worthington	68,355	18	22%	1	1

# Conclusions

- Overall costs per ADM are 6% higher than state Peer Group but 3<sup>rd</sup> highest of 6 local peer districts (all funds)
- Administrative costs are lowest of 6 local peer districts
- Instructional costs are 2<sup>nd</sup> highest
- While total Personnel Costs are 4<sup>th</sup> lowest, benefits are 3<sup>rd</sup> highest
- Growth in costs from '95 to '08 are the highest of local peer districts



# **2009 ASSESSMENT OF FIVE-YEAR FORECAST**

# Requirement of Five-Year Forecast

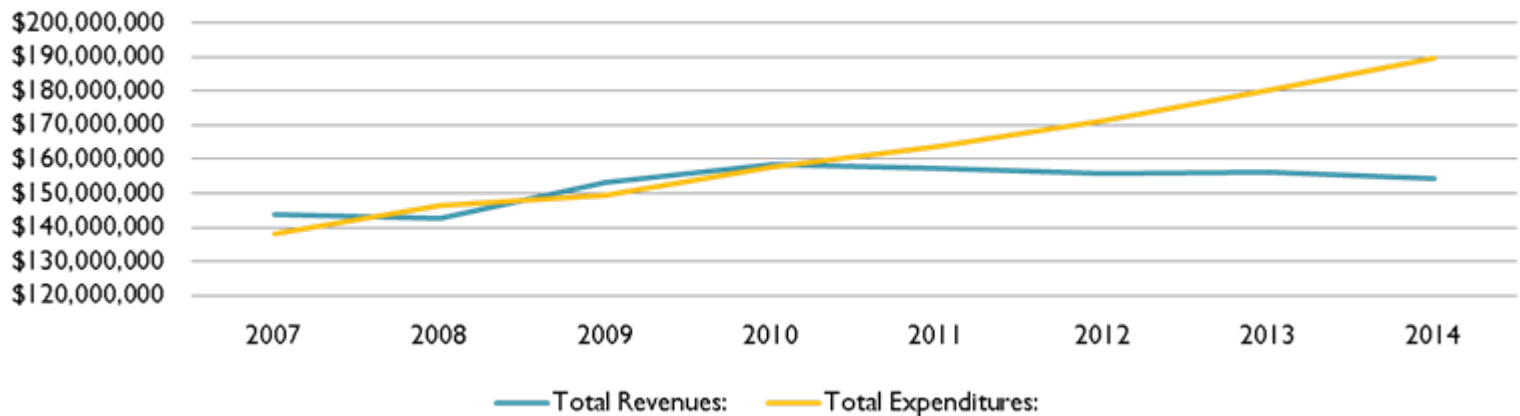
- State law requires (5705.391 of the Ohio Revised Code) that each school district prepare a five-year forecast
- The purpose of the forecast is “for the auditor of state or the department to examine the five-year projections and to determine whether any further fiscal analysis is needed to ascertain whether a district has the potential to incur a deficit during the first three years of the five-year period.”
- The law requires that if a school district is going to incur a deficit, then:
  - The local school district must be notified
  - The local school district must act to prevent deficits in the current year and plan to eliminate deficits in future years
- The Ohio Department of Education has notified the Hilliard School District that they have a deficit in the next three years

# The Forecast

(In Millions)

	2007	2008	2009	2010	2011	2012	2013	2014
Total Revenues and OFS	\$ 144	\$ 143	\$ 153	\$ 159	\$ 157	\$ 156	\$ 156	\$ 154
Total Expenditures and OFS:	139	146	150	158	164	171	180	190
Excess (Deficit)	\$ 6	\$ (4)	\$ 4	\$ 1	\$ (6)	\$ (16)	\$ (24)	\$ (35)
Cash Balance:	\$ 17	\$ 13	\$ 17	\$ 18	\$ 12	\$ (4)	\$ (28)	\$ (63)
Estimated Encumbrances:	2	2	3	2	2	2	2	2
Fund Balance:	\$ 15	\$ 12	\$ 14	\$ 16	\$ 10	\$ (5)	\$ (29)	\$ (65)

## Revenue and Expense Trends



# Evaluation – the model

- The forecasting tool is a professionally developed model by Robert W. Baird & Co.
- The model is commonly used by districts across the state
- Some aspects of the tool were not able to be audited - package is password protected and formulas sometimes not visible
- Package appears to be comprehensive with the summary designed to meet state reporting requirements and a sheet of assumptions and input for each line-item
- The package allows for extensive documentation of assumptions
- We believe the model is sound

# Major Assumptions - Revenue

- Assumption:

- General Property Tax: Slow growth in commercial and private real-estate taxes and flat collection rates below 100% of taxes make up the largest revenue source
- Tangible Personal Property Tax: Shrinking / stagnant personal property taxes
- Unrestricted Grants-in-Aid: Shrinking state aid due to lower state revenues – worst case scenario
- Restricted Grants-in-Aid: Loss of stimulus dollars with no backfill
- Property Tax Allocation: Property tax reduction and homestead act reduce property taxes up to 12.5%. with the loss of state replacement revenues

- Evaluation

- The revenue assumptions are conservative. Some details of calculations are not disclosed in notes (i.e. detail of a components of “All Other Revenue”)
- Real-Estate (residential and commercial) as well as tax collection-rates are based on estimates from the county auditor and the experience of the treasurer. Future years appear conservative
- Treasurer notes that state funding is a “worst case scenario.”

The major assumptions are outlined within the forecast notes provided by the district treasurer.

# Major Revenue Assumptions – Calculated as Change from Prior Year

Revenues:	2008	2009	2010	2011	2012	2013	2014	Consistent with Notes
General Property Tax (Real Estate)	-2%	15%	10%	0%	1%	1%	1%	yes
Tangible Personal Property Tax	-22%	-12%	-52%	-5%	-5%	0%	0%	yes
Unrestricted Grants-in-Aid	-1%	0%	-7%	-4%	0%	0%	7%	yes
Restricted Grants-in-Aid	-8%	30%	728%	21%	-98%	1%	1%	yes
Property Tax Allocation	24%	27%	19%	1%	0%	-2%	-25%	no 1
All Other Revenues	9%	-30%	-24%	-7%	0%	0%	0%	no 2
<b>Total Revenues:</b>	<b>-1%</b>	<b>7%</b>	<b>3%</b>	<b>-1%</b>	<b>-1%</b>	<b>0%</b>	<b>-1%</b>	

1 – Source of reductions in 2013 and 2014 are not disclosed

2 – Listing of components to All Other Revenues not complete in notes.

# Major Assumptions - Expenditures

- Assumptions

- Personal services (salaries): Increases for contract required step-increases (2.3% per year) and cost-of-living wage increases, with some growth for Bradley in year one and others in future years (\$500K)
- Health insurance premiums growing in double-digits, offset by constant percentage of salaries to all other benefits
- Low percentage of growth for purchased services and supplies (3% and 2% respectively)
- Capital outlays moved into a different fund

- Evaluation

- Growth in expenditures are close to likely outcomes
- Some differences between model's assumptions about annual increases and Treasurer's notes
- Assumptions about contracts which are not negotiated growing expenses, but no matching prediction about future revenue (levy)
- Basis for \$500K increase in staff at Bradley unclear in notes or model (how many staff members, what types, etc.)
- Purchase services growth rate is much lower than historical periods – may be too optimistic, the Treasurer discloses this
- Supply cost volatility is tied to textbook adoption and Bradley start-up. Two percent growth rate appears reasonable
- Capital outlays drop from historical periods due to a change in which fund is used

# Major Expenditure Assumptions - Calculated as Change from Prior Year

Expenditures:	2008	2009	2010	2011	2012	2013	2014	Consistent with Notes
Personal Services	5%	2%	4%	4%	4%	5%	5%	no 1
Employees Retirement / Benefits	10%	1%	5%	8%	8%	8%	8%	yes
Purchased Services	7%	12%	5%	3%	3%	3%	3%	yes
Supplies and Materials	6%	-21%	54%	-20%	2%	2%	2%	yes 2
Capital Outlay	-41%	-23%	2%	2%	2%	2%	2%	yes
Principal (History)	0%	0%	-100%					yes
Principal HB263 Loans				0%	-100%			yes
Interest	-28%	-29%	-40%	-67%	-100%			yes
Other Objects	2%	9%	3%	2%	2%	2%	0%	yes
<b>Total Expenditures:</b>	<b>6%</b>	<b>2%</b>	<b>5%</b>	<b>4%</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>	

1 – Includes estimates for un-negotiated future contracts with no offsetting revenues for the same years; growth in staff of \$500K attributed to Bradley in year one, repeats in future years with no disclosure, possibly contradicts other assumptions on student population; movement of teachers between training categories (Bachelors, Masters, Ph.D. of \$120K per year not disclosed

2 – Volatility related to textbook purchases

# Conclusions

- The model appears to be sound.
- The primary goal of the model as used by the Treasurer to the Board is to predict the timing and necessity of a future levy – it adequately meets that objective
- Using conservative assumptions makes resulting forecasts too inaccurate to use for any other purpose than identifying the next likely period for a levy, especially in out-years
- Expense growth rate exceeds revenue, insuring that future levies will be necessary
- It is not sustainable to allow the cost of educating Hilliard students to grow faster than tax-payer income in the Hilliard School District
- The Treasurer's notes are not comprehensive, making it difficult to understand the basis for the forecast.