

***How To
Reduce
Property Taxes
with a
Citizens
Audit Committee***

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This manual is designed to help local politicians, taxpayer activists, and concerned citizens to lower onerous property taxes by organizing to reduce local budgets, both for their towns and schools.

Although written in the early months of 2009 – a time of dramatically falling home values, widespread job losses and worldwide economic difficulties – it is designed to be implemented during any period, so that events like those of today will never again put property tax payers in such dire economic circumstances.

This manual is also designed to be straightforward and accessible. Even policymakers are often confused by the terminology of local finance. Many otherwise intelligent people cannot clearly define “mil rate” or “grand list.” They are also made to feel helpless by false assertions that the cost of public employment is forever fixed by contract, that local programs are strictly mandated by state law, and that unions and other special interest groups are too powerful to be resisted.

What follows is based on the work of Dr. Armand Fusco, former school superintendent in Branford, Connecticut, and author of *School Corruption: Betrayal of Children and the Public Trust* (2005), a pioneering study of waste and fraud in K-12 education.

Dr. Fusco wrote two pamphlets for the Yankee Institute – *Stopping School Corruption* (2006) and *Ending Corruption and Waste in Your Public Schools* (2007) – and formed the first Connecticut public education audit committee at the request of the Enfield school board. In January of 2009, the taxpayer group Nonpartisan Action for a Better Redding (NABR) decided to conduct a first-of-its-kind audit of both the Redding school and town budgets with the goal of engineering a ten percent reduction in 2010 – a project appropriately called “10-in-10.” Dr. Fusco agreed to guide the Redding citizens audit committee, and its work has influenced what follows.

ESTABLISHING A CITIZEN’S AUDIT COMMITTEE (CAC)

Taxpayers can have a dramatic impact on local spending, ensuring that municipal government and educational services are delivered in the most cost-effective way, but only if they organize themselves into something we shall refer to as *citizens audit committee*, or CAC. This is a group of volunteers who can provide independent and objective oversight to budgeting and spending practices by assessing whether there is efficiency, effectiveness, and economy in the use of physical, human and financial resources – and whether elected and appointed officials are being accountable, transparent and responsive to the voting public.

A Citizens Audit Committee can do what school boards and town officials are either unwilling to do for political reasons or unable to do because of a lack of skill, information, and time.

A CAC accomplishes its mission by reviewing and analyzing operations, procedures, practices, and policies to determine whether any recommendations for improvement would enhance the allocation of available resources. All the documents and data needed to perform the tasks required are in the public domain.

Because of massive fraud uncovered years ago in the affluent Long Island community of Roslyn, New York legislated the establishment of audit committees in all of the state's school districts beginning in 2006. That said, there is no legal impediment to establishing a citizens audit committee anywhere in the United States – nor is the support of town and/or school officials necessary. But every effort should be made by an audit committee to seek the support of local officials.

Getting Started

A few interested citizens, or a more formal body such as a taxpayer group, can form a committee. The simplest procedure is to send out a news release to the local press, announcing a committee is being organized and inviting citizens to attend an orientation meeting at a predetermined location and date to learn more and decide if they want to participate. **This manual can be used as the basis for a presentation.**

Anyone interested in joining should fill out a registration form after the initial gathering. Soon after, a workshop should be scheduled to provide volunteers with an overview of basic tasks (analyzing a budget, reviewing a check register) and to have the group name subcommittees to review different aspects of the town and school budgets. Subcommittees can be organized by topic (purchasing, benefits) or by budget line items, but either way it is important to have a “policy” group that receives and recommends procedures. CAC members then volunteer for the subcommittee of their choice, meet to select a chair, and arrange future subcommittee meetings.

Once the subcommittees are formed, efforts should be made to obtain the relevant documents required by each (see below). These can be distributed in hardcopy form or posted onto a website with access by a password known only to members. The goal is for the chairman of each subcommittee to summarize findings and recommendations for submission to a final meeting of the full CAC, where they will be reviewed and approved before being passed along to the appropriate town or school body.

Guidelines

The key guideline is the development of a charter that will specify how the CAC will organize and focus its efforts. It may be decided, for example, to exclude from the audit some department of the town or school for a practical reason – i.e., the town shares its high school with another town under a separate budget.

Another important guideline is to make CAC membership open to any interested resident, excluding employees of the town or school. Liaisons from the school board, town council, etc., should feel free to participate in full CAC deliberations, when subcommittee recommendations are reviewed, but participation in subcommittee activities could lead to harmful rumors and distracting politics.

CAC meetings should not be open to the public because rigorous review cannot take place under a spotlight; furthermore, the CAC is not a decision making body. Once subcommittee recommendations are approved for consideration, the public should be invited for transparency's sake to the final session for discussion and resolution.

Training

As the subcommittees make progress, some members will need training in how to review and analyze a check register, a master teacher schedule, and purchasing procedures, as well as how to use resources, databases, and benchmarks. Most important, they will have to know how to conduct performance review audits and develop recommendations.

Not all these skills will have to be learned at the same time or by members who are either familiar with them or serving on subcommittees where the expertise is not needed. In the case of the Redding “10-in-10” project, it was decided to delegate certain policy analyses to interns from nearby Trinity College. Trainers can be drawn from the ranks of knowledgeable CAC members or from those in the community who want to help the audit, but not serve on subcommittees.

Data-Driven Decision Making

Although there are many tasks that must be done by an audit committee, there is one that is vital if savings are to be realized and tracked. **The essential task is to develop a detailed database of every measurable activity, procedure, and practice to both identify inefficiencies and document the results of implementation.** The lack of an adequate database is the primary reason that waste, mismanagement, and fraud exist in local government.

THE DOCUMENTS YOU WILL NEED

In order for an audit committee to do its work, it will need critical information. Many of the required documents are common to both the municipality and school, as there are very few differences among local public institutions in terms of financial operations and procedures.

Officials can charge a per page fee for providing documents – this is permitted *but not required*. They can also refuse to supply the information and force a Freedom of Information (FOI) request, even though they know they are legally obligated to comply. Insisting on fees and forcing an FOI request are clear indications that local officials, for whatever reason, do not want to cooperate – so much so that they are willing to let voters suspect them of having something to hide.

Check Register: The most important financial document to review and analyze initially is not the budget, but the check register. No tax dollars can be spent unless a check is written, and it is listed in a check register. Each check entry should show its number, the recipient, dollar amount, the invoice number or warrant, and reference that tracks the check to a specific line item. If a check register does not show all of this information, then it can be assumed there is something to hide.

The check register is also the most valuable tool for determining if the total final expenditures in the budget book agree with the total checks written for a particular

account. Two years ago, not a single school district posted the check register online; now over 250 school districts in 15 states do so.

Master Teacher Schedule: This is the most important school staffing document to review because it shows each classroom teacher, the subject or assignment for each period of the day, the room number, the number of students in each class, and the total students assigned per day. What is typically reported by schools is a teacher-pupil ratio that supposedly has something to do with class size, but does not.

The only way to determine class sizes is to analyze the master schedule that every principal must have to manage his building. What will be found, particularly at the secondary level, are significant variations among teachers in terms of student loads, even within the same department. When author Fusco examined a department of six teachers, the loads ranged from 36 pupils to 125. The most experienced and the most expensive teachers were assigned the elective classes, and the new teachers were assigned the core classes that all students must take.

The importance of the Master Teacher Schedule can be seen from the fact that it is the most difficult document to obtain, although easily generated on a computer printout.

WHAT TO LOOK FOR

The only basic skill needed to reduce spending is to know how to subtract, because of the public sector mindset that a new budget must add more dollars. This mentality can only be corrected with zero-based budgeting. The reality is that costs can be reduced and controlled without sacrificing either basic needs or quality.

Municipal Government and Schools

Asset Management: Few local governments or schools have programs that track every asset with a value of \$100 or more, maintain an accessible record of their warranty or service contract, and allow the purchasing department to determine if contemplated acquisitions are really necessary.

Where there is no asset management program, expensive items tend to disappear, and taxpayers end up constantly replacing previously purchased non-consumables. An independent survey of officials from 500 schools in every state found that the average annual loss per system was \$250,000 – \$400,000 in larger districts.

Benefits: Some districts provide fully paid benefits to part-timers. There is no reason why a part-timer should not share in the cost based on the time worked. If working 50%, they should pay 50%.

Cash Collections: All departments or activities that generate cash through fees, library fines, payments of taxes, licenses, and student activity funds have to be examined carefully to ensure very strict monitoring.

Energy Conservation: The savings from energy conservation efforts vary widely because there are many variables involved. One option is to enter into an energy savings performance contract, typically with the electric supplier. Tenneco, Inc., in its Schoolhouse Energy Efficiency Demonstration (SEED) project (1979), found that the typical American school could cut the cost of its energy consumption by one-third through local maintenance and low-cost modification programs. Today's energy systems would produce even greater savings.

Insurance: Policies should be put out to bid, but are often simply renewed with the existing provider – a practice open to abuse. Premiums for health insurance are expensive and must be constantly examined to determine if the provider has the most cost effective program or whether it would be better to self insure. Competing providers would be happy to assist in the analysis.

Legal Services: Towns and school districts pay hundreds of thousands of dollars for legal assistance but often do not pay enough attention to billing practices. Hiring in-house legal staff is one option, as is having the town and school share the same firm.

Printing and Copying: This is a costly activity that can be easily trimmed. For example, some copy machine leases include replacement ink cartridges, but without a cost breakdown. Few towns or schools take advantage of the fact that expensive printer cartridges can be refilled inexpensively at stores like Walgreens or in-house by a tech person, a teaching aide, or a student computer club. (The club could use this activity as a fund raiser, refilling cartridges for staff, families and friends as well.)

Salaries/Wages and Benefits: Leakages occur for a variety of reasons, including (1) an excess number of employees, (2) lavish wages, (3) inefficient and ineffective allocation of employees, (4) unnecessary overtime costs, (5) unjustified employee reimbursements, (6) avoidable substitute costs due to absence abuse, (7) generous benefits, (8) yearly increases in excess of the cost of living, and most important (9) ghost employees and (10) poor productivity. Since salaries and benefits account for upwards of 80% of town and school budgets, attention to accurate payroll/benefit records and productivity can save even small communities millions.

Because an aggressive and objective analysis would involve policy changes, probably union negotiations, a rigorous evaluation of programs, and effective monitoring of procedures, it cannot be left to internal staff. A consulting firm is possible, but costly. **It can be done for nothing by a CAC**, which usually has skillful volunteers with backgrounds in personnel management, accounting, and organizational development.

Service Duplication within Town: Towns and schools have similar services that could be combined, with the school district contracting with the town to provide the service. Town salaries/wages are lower than school salaries/wages for many positions, including finance, personnel, facilities, maintenance, libraries, health, legal technology, data processing, and purchasing.

Service Duplication among Towns: It is also possible to share similar positions, programs, and services – superintendent, curriculum director, special education, facilities, maintenance, health services, detectives, police chief, senior services, and

purchasing – with neighboring towns. Union contracts can be dealt with by arranging for a regional cooperative or county agency to provide the staffing at their rates.

Technology: Equipment purchases need to be reviewed and analyzed for pricing. The same laptop selling from a retail vendor for \$1,195 can be had on the Internet for \$695. Additionally, many school and town technology contracts sell software site licenses that are available at no cost on the Internet. Finally, the potential for computerized instruction that allows students to go at their own pace, repeating lessons as often as needed 24 hours a day, must also be considered. A recent study (“Online Learning,” *Education Week*, March 18, 2009) found that virtual courses have the potential to cut instructional costs by 50%.

Unpaid Furloughs: Because most absent employees do not require a substitute, costs can be reduced by requiring employees to take unpaid furloughs for whatever number of days are required to achieve a targeted dollar saving.

Utilities: One CAC developed a database on how many gallons of water are used per student, per day, per building and found a low of 3.4 gallons at one school, a high of 13 gallons at another. The difference came from the gallons flushed down the toilets, and correcting the problem at no cost promised \$10,000 less in annual water bills.

Vehicles: It is very difficult to monitor legitimate usage of vehicles. **With perhaps the exception of maintenance vehicles, the problem can be solved easily by simply eliminating the vehicles.** Employees can use their own vehicles and be reimbursed for mileage based on IRS standards. Savings would come from not having to purchase future vehicles, and additional revenues would be realized from the sale of the existing ones. Additional savings would come from reduced insurance coverage. With any remaining vehicles, goals should be set for gasoline savings.

Other Suggestions: Two downloads – the *Finance Committee Handbook* from the Association of Town Finance Committees and *A Guide to Financial Management for Town Officials* from the Massachusetts Department of Revenue – are available free.

Schools Only

Activity and Sports Funding: Pay for play is another popular and increasingly accepted way to offset costs for extra-curricular sports because those who participate in the activity pay for the use. A fairer system would be to provide every student a “debit card” with a certain number of points that can be used in a variety of ways for school activities. Each activity or function would be assigned a point system and, as a student participates, points would be deducted from his or her debit card.

Bus Transportation: Significant transportation dollars can be saved by charging parents whose children use the school bus for the cost (with exceptions for special education and indigent children), a practice now employed by many school districts. Costs can also be reduced by allowing bidders for new transportation contracts to submit alternate bids using refurbished buses.

Class Sizes: Nationwide teacher-pupil ratios have been declining steadily since 1992, but achievement results have not risen; the U.S. standing academically with the industrialized nations has been declining. The California experiment in class size reductions that cost billions of dollars proved that this practice does not improve student outcomes or achievement; in fact, it made the situation worse in urban districts.

Depending on the course and grade level, classes under 30 function very well, particularly with an aide, whose numbers have multiplied tenfold in recent years. In the lower grades, especially kindergarten, classes up to 20 work fine. Increasing class size has tremendous potential for cutting both staffing and construction costs.

Scheduling: Public schools have been operating under an agricultural economy calendar since their inception, even though society has moved through an industrial to an information-based economy. Innovations are long overdue. For five years, Oregon's Colton School district, like 40 others in the state, has held classes just four days a week, saving hundreds of thousands of dollars while providing the same instruction. Year round schools have a foothold in Minnesota, with 27 successful programs. Instead of bonding millions in unnecessary construction, communities could use year round schools to lower the number of buildings by one-fourth without eliminating any programs, firing staff, or even reducing class sizes.

Teacher Course Schedule: Some union contracts provide that if a teacher is assigned more than the required number of teaching classes, he must be compensated for the additional class. It would be less costly overall to pay a part time teacher for the extra class, because it can reduce staffing and benefit costs.

Teacher Substitutes: In Connecticut, there are two universities that provide interns to school districts, and the interns can be used as permanent substitutes within a district. The cost is around \$10,000 – paid to the university to lower intern tuitions – with no added benefit obligations. The savings from using interns is about a third of the average cost of a substitute. If there were 2,000 teacher absences per year, the budget reduction would be around \$60,000, assuming a sub cost of \$90 per day.

Textbooks Online: Instead of buying hard copies of textbooks, purchase the rights to have them available online.

ROADBLOCKS AND MISCONCEPTIONS

By now it should be abundantly clear that CACs can make a real contribution to their communities. However, the reality is that any proposed cuts will always bring out special interests claiming their “wants” are “needs.”

Uncooperative town and school officials will deliberately promote the most painful cuts. School administrators will target kindergarten or athletics, because these economies will turn out protesting parents; municipal officers will usually target senior centers, police, and fire because these cuts will also anger voters. With students, parents and voters used as pawns, many budgeting myths go unchallenged:

Audit Defense

Officials will argue that the work of CACs needlessly duplicates that of town and school accountants. In truth, existing audits mean little, because waste and mismanagement are not covered. Even though town and school audits conform to Governmental Accounting Standards Board guideline #34 and CPA Standard #99 (consideration of fraud in financial statements), they do not identify wasteful practices.

Fallacy of “Fixed Costs”

The phrase often used in defense of budget increases is “costs are contractual or fixed,” falsely implying that they are irreversible labor expenses. Not only can union contracts be renegotiated, but they also only specify the salary to be paid an employee, not how many people are to be employed.

No cost is fixed because the vast majority of budget line items are estimates based on past spending that may not have been allocated efficiently. The only fixed costs are bid orders, contracts, and federal and state mandates for programs, *not staffing*.

Spending Myth

Many have become mesmerized by the money myth, which tries to explain inadequate academic results in terms of inadequate revenues. Realistically, the link between per pupil spending and academic outcomes has always been weak. As noted in *Facing the Future: Financing Productive Schools* (December 2008), “For a quarter century ... spending increases have outstripped achievement gains, and new funding programs have not propelled students over the performance bars set by states. It seems that the connection between resources and learning has been growing weaker, not stronger.”

YOUR COMMITTEE’S LEGACY TO THE FUTURE

It is to ensure that certain policies have been put into place:

Attrition Policy

The single most important policy is not to fill any vacancy for up to 90 days except temporarily to allow for a comprehensive analysis to determine if the position can be eliminated, consolidated, or provided at less cost.

Benchmarking

Benchmarking with other towns to compare practices, procedures, and operations yields many benefits at no cost. Excellent examples are described in the Amherst, Massachusetts online publication *Financial Management Policies & Objectives*.

Budgeting

Incorporate the amounts actually spent previously into proposed budgets. Significant variances between budgeted and actual amounts merit an explanation. Break out the account categories by school whenever possible, and establish a specified bucket for unanticipated items that do not have a good match on the chart of accounts.

New school board members should participate in some form of budget training. The business manager should also avail himself of additional training. A 2004 grand jury report that investigated all 70 school districts in Suffolk County, Long Island, for fraud and waste concluded that “many of the district administrators ... have been lax in taking adequate steps to prevent theft, fraud and other malfeasance (S)trong internal controls in business offices had come to be viewed as optional luxuries.”

The school board should watch the student activity account closely. The board should also charge the town finance committee with performing a review of selected entries from budget reports as an appropriate control on the business office. With monthly budget variance reports, principals and department heads will better understand how their respective areas of responsibility are doing financially.

Buyer's Service

All municipalities and school districts should have a policy requiring a bid for purchases over a certain amount. Before a bid is awarded, a CAC can determine if there are lower prices by spot shopping for some of the items using a buyer's service. A staff purchasing person or department not only lacks the time required to search for best prices, but also has no incentive to do so.

Consulting Considerations

There are times when towns and schools require consultants with special expertise or lack sufficient staff to conduct studies and surveys. Before contracting out for such services, officials should look for residents with the requisite skills who are willing to donate their time. Retirees are an especially rich source of talent.

Internal Audit Committee

The Sarbanes-Oxley Act (SOX), calling for stricter financial standards, was passed in 2002 in the wake of the Enron scandal. Although SOX standards technically do not pertain to the public sector, the Association of School Business Officials stresses that school boards should adopt them, and it would seem prudent for municipalities to do the same.

One of the most helpful SOX requirements is establishment of an internal audit committee. Among its responsibilities would be to (1) review financial procedures to ensure that best practices are being followed, (2) review and analyze all purchasing requests for need and cost effectiveness, (3) audit the current budget to guarantee expenditures do not exceed allocations, and (4) constantly review policies for updates or additions that are designed to prevent loss, abuse, and misuse of resources.

Posting on Website

Citizens and others have a need to obtain a variety of public documents that require time and money to duplicate. This problem can easily be solved by posting the check register, payroll roster, policies, budgets, and other documents online.

Program / Services Evaluation

Typically, programs are either added or expanded with little effort made to eliminate outdated services. For 20 years, Somers, Connecticut assumed it was paying a fair price of \$3.49 a gallon for 8,000 gallons of propane a year. But when the town allowed competitive bidding, it received a low bid of \$1.49 a gallon. Only then did the Somers' regular supplier drop its price, first to \$2.49 and then finally to \$1.29 a gallon.

There should be a requirement that services be reevaluated every 3-5 years. This cannot be done objectivity by internal staff, but a CAC could assist in the process.

Outsourcing

This has the most potential for saving money, but requires creative thinking to conform to union and/or legal constraints. Many positions can be contracted out to retirees who are looking for extra income, have benefits, and will work for half salaries or even less because they are already collecting a pension.

Union obstacles may be avoided by having the school eliminate a department and then contract with the town for services. This strategy has been used around the country to lower costs for waste removal, food service, custodians, transportation, some special education staffing, and the private management of both single schools and districts.

Purchasing Manual

Purchasing is done all year long and represents a large expenditure. There should be a purchasing manual detailing the procedures and practices.

Other Policies

Many other cost-saving policies can be adopted: **Prohibit administrator credit cards**. They are not needed and the misuse of credit cards is a very common problem. **Require unknown vendor verification** and **put limits on employee reimbursements**. The most abused area of school spending by employees involves reimbursements, and better controls in this area do not reduce quality.

Charge students for parking and have the **PTA or similar group organize and fund field trips**. The vast majority of employees have cell phones; it is far less expensive to **reimburse employees for the legitimate use of their own cell phones** than to supply them with separate service. **Monitor overtime** to determine real need **and track employee absences** by day, week, and month to identify excesses. **Conduct a yearly analysis of retiree benefits** to guard against inflated entitlements and to guarantee that matching payments for medical insurance are contributed.

ABOUT THE AUTHORS

Armand A. Fusco, Ed.D., began his education career in 1958. After serving as a teacher, department chairman, school psychologist, guidance director, and principal of a preparatory high school he founded, he became superintendent of schools in Hadley, Massachusetts in 1971. In 1980, he resigned his position to pursue a postdoctoral fellowship with the Boston Labor Management Center, specializing in Total Quality Management principles and practices for school districts.

Dr. Fusco served as superintendent of schools in Branford, Connecticut, from 1985 until his retirement in 1992 and later became a professor of education and director of the teacher intern program at the University of Bridgeport.

He has authored many publications related to school finance, including *School Corruption: Betrayal of Children and the Public Trust* (2005) and two other manuals for the Yankee Institute. Dr. Fusco has conducted numerous workshops on school finance and has appeared on many radio and TV interview shows.

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