Community School Training

August 11, 2015

Ohio Department of Transportation
1980 W. Broad St.
Columbus, Ohio 43223

2015 Community School Training Agenda

Tuesday, August 11, 2015

8:30 - 9:00 a.m.	Registration

9:00 - 9:45 a.m.	**Head Count Project** *Marnie Carlisle, Ohio Auditor of State's Office* Course Description: A review of the AOS Community School Student Attendance Project, the results, and sponsor/legislative recommendations. You Will: • Learn how to maintain proper student attendance documentation • Learn how to understand frequently encountered audit issues • Learn how to improve internal controls over student attendance documentation & reporting Level: Applies to beginner, intermediate and advanced

9:45 - 10:45 a.m.	**Agreed Upon Procedures-Close out for Community School Audits** *Kelly-Berger Davis, Ohio Auditor of State's Office* Course Description: This session will walk attendees through the various steps an auditor will perform when testing the ODE close-out procedures, in the event that a community school closes. You Will: • Learn about the new Agreed-Upon Procedures for the ODE Close-Out Procedures Level: Beginner

10:45 - 11:00 a.m.	Break
11:00 - 12:15 p.m.	**EMIS/ODDEX** *Marnie Carlisle, Ohio Auditor of State's Office & David Ehle, Ohio Department of Education* Course Description: A review of the challenges related to the implemenation of EMIS-R and ODDEX. You Will: • Learn about the status of ODE's work on EMIS-Rewrite • Learn how to understand the impact of EMIS-R challenges on community school audits Level: Applies to intermediate and advanced

12:15 - 1:15 p.m.	Lunch
1:15 - 2:15 p.m.	**Developing and Evaluating Internal Control Policies** *Tim Downing, Ohio Auditor of State's Office* Course Description: This course is structured to provide a basic understanding of the internal control framework and provides basic steps on writing and evaluating internal control policies. You Will: • Learn the definition and objectives of internal controls • Learn the components of internal control • Learn how to develop and evaluate internal control policies Level: Beginner

2:15 - 2:30 p.m.	Break
2:30 - 3:30 p.m.	**Legislative Update** *Mark Altier & Shawn Busken, Ohio Auditor of State's Office* Course Description: This session will detail important developments in charter school legislation, including the Substitute HB 2 which recently passed out of the Ohio Senate and is pending a vote in the Ohio House. We will detail provisions added to the legislation by the AOS office. You Will: • Learn the content of Charter School Reform Legislation Level: Beginner

3:30 - 3:45 p.m.	Certificates/Adjourn

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Community Schools Update 2015

Presented by: Marnie A. Carlisle,
Assistant Chief Deputy Auditor

Ohio Auditor of State
Dave Yost

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Agenda

- **AOS Community School Attendance Count Report**
- **Recommendations to ODE and Sponsors**
- **Legislative Proposals**
- **HB 10, Community School Guarantee**

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Student Head Count

- AOS conducted a surprise count of 30 site-based brick and mortar schools on October 1, 2014.
- "Report on Community School Attendance Counts" available on AOS website under Audit Search.
- Not intended to be a financial or performance audit.
- 7 schools found to have unusually high variances – all DORPs.
- Provided policy recommendations to ODE, the legislature, and sponsors.

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Student Head Count

- Recommended ODE immediately fix the SOES flagging system which was not operational until November of 2014 and carefully review the errors identified to identify possible adjustments to earlier Foundation settlements.

- Recommended ODE and sponsors develop minimum standards for documentation and provide best practice tools to use as a guide in developing and monitoring blending learning curriculum.
  - The Educational Plan in sponsor contracts should specifically describe these requirements – no boilerplate language.

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Student Head Count

- Recommended sponsors actively review, especially near the beginning of the school year but also periodically throughout the year, community school enrollment and student attendance information.

- Sponsors should consider conducting unannounced, onsite FTE reviews and verify enrollment and attendance information against original source documents contained in the community school's student files.

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Student Head Count

- Recommended ODE update their manuals - AOS noted ODE's EMIS and SOES Manuals had not been updated for the consolidation of these systems or the changes to EMIS-R.

- Recommended ODE and sponsors require accurate reporting of monthly FTE estimates to prevent overstatement of FTEs and prevent risk of loss of State Foundation dollars due to a community school's closure.

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Student Head Count

- **Temporary Assistance for Needy Families (TANF)** – As part of maintaining certain benefits under the Federal TANF program and in lieu of working, students must remain enrolled in school.

- During our interviews of the Category 1 community schools, management explained students will frequently attend the bare minimum number of required hours to remain enrolled in school but fail to actively participate.

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Disclaimer: The items discussed in the following slides are legislative proposals that AOS supports. These items have NOT been passed by the legislature and remain subject to negotiation and change as the charter school legislative reform process continues.

LEGISLATIVE PROPOSALS

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Community School Legislative Proposals

- **Government look-a-like financial statement reporting**
    - Community schools currently follow Government Accounting Standards for financial reporting using the Business look-a-like model.
        - No perspective on how public monies are spent on instruction.
    - Allows management company activity to remain proprietary

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Community School Legislative Proposals

- **More detailed management company footnote to provide instructional insight**
  - ORC §3314.02.4 – a mc that provides services to a community school that amount to > 20% of the annual gross revenues of the school shall provide detailed accounting.
    - AOS Bulletin 2004-009 provided a detailed example but mc's generally truncate it.

Cuureny Footnote Example

New Proposed Fn

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Community School Legislative Proposals

- **Sponsors checking the unresolved Finding for Recovery Database**
  - Together with the OAG, AOS maintains a database of unresolved FFRs pursuant to ORC §9.24.
  - Sponsors should check to see if community school developers, board members, and other key personnel handling cash have any outstanding FFRs against them as listed in the database as part of their evaluation for service.

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Community School Legislative Proposals

- **Fiduciary Duty**
  - Ohio Rev. Code §2735.01(E) authorizes the court to appoint a receiver when a corporation has dissolved, is insolvent, or is in imminent danger of insolvency, or has forfeited its corporate rights.
  - Generally, the assets of the receivership would be used to pay the receiver's expenses; however, closed community schools often have no assets remaining.

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Community School Legislative Proposals

- **Fiduciary Duty**
  - In our experience, key personnel are often absent upon a school's closure, leaving it to the sponsor and courts to ensure public records are turned over for audit.
  - The court process is lengthy and cumbersome.
  - AOS is requesting the legislature grant the right of action to a sponsor to compel a fiscal officer to remain in place and provide documents for audit.

Community School Legislative Proposals

- **Definition of Blended Learning and Eschools**
  - Ohio Rev. Code § 3301.079(K)(1) - "blended learning" is the delivery of instruction in a combination of time in a supervised, physical location away from home and online delivery where the student has some element of control over time, place, path, or pace of learning.

Community School Legislative Proposals

- **Definition of Blended Learning and Eschools**
  - Ohio Rev. Code § 3314.02(A)(7) "Internet- or computer-based community school" means a community school … in which the enrolled students work primarily from their residences on assignments in nonclassroom-based learning opportunities provided via an internet- or other computer-based instructional method that does not rely on regular classroom instruction or via comprehensive instructional methods that include internet-based, other computer-based, and noncomputer-based learning opportunities.

Community School Legislative Proposals

- **Definition of Blended Learning and Eschools**
  - Typically, blended learning courses are those in which a significant portion of the learning activities have been placed online and in-class time has been reduced but not eliminated.
  - We recommend the legislature amend these definitions to provide more distinction and clarify the intended difference between a blended school and an Eschool.

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Community School Legislative Proposals

- **Definition of Blended Learning and Eschools**
  - We have also recommended only high quality (i.e., Exemplary and Effective) sponsors be able to sponsor blended learning schools due to the complexity of designing and evaluating their curriculum while maintaining compliance.

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Community School Legislative Proposals

- **Conflict of Interests**
  - Ohio's law does not truly require a community school's governing board to be independent of its management company. This is a significant policy question for the legislature.
  - Current law does not require a community school to negotiate its management agreement at arm's length.

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Community School Legislative Proposals

- **Conflict of Interests**

  – A community school's governing body is less likely to be independent of a management company where:

  (1) the management company was involved in forming the school and applying for its charter;

  (2) the board is controlled by the management company;

Community School Legislative Proposals

- **Conflict of Interests**

  (3) the board members have no authority under the management agreement over major school policies, including the budget, curriculum, and hiring and firing,

  (4) the management company directly employs key employees who provide services to the school;

  (5) the management agreement, or administrators' and teachers' contracts, provides that the school may not hire the administrators or teachers upon a termination of the management agreement;

Community School Legislative Proposals

- **Conflict of Interests**

  (6) the community school leases significant facilities and equipment from a management company; and

  (7) the management agreement provides for a significant penalty on termination that would compromise the school's ability to terminate the agreement, such as a lump sum penalty or loss of facilities, equipment, curriculum, use of name, or similar penalty.

Community School Legislative Proposals

- **Conflict of Interests**
  - Decisions about opening, operating, and closing a school should be made by independent parties.
  - We recommended a separate sponsor for conversion schools so that the sale of goods and services between the resident district and conversion school would be at an arm's length.

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Community School Legislative Proposals

- **HB 555, Sponsor Rankings**
  - The Bill enacted a sponsor ranking system; however, it did not tie the rankings to incentives or consequences.
  - We support building incentives into legislation for sponsors to improve and maintain higher rankings.

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Community School Legislative Proposals

- **Disclosure of Community School Facilities Leases**
  - We support disclosure of a community school's facilities' lease to increase transparency.
  - We also support disclosing any relationship between the management company and the leaseholder.

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Community School Legislative Proposals

- **Community School Truancy**
- Temporary Assistance for Needy Families (TANF) – As part of maintaining certain benefits under the Federal TANF program and in lieu of working, students must remain enrolled in school.
- During our interviews of the Category 1 community schools, management explained students will frequently attend the bare minimum number of required hours to remain enrolled in school but fail to actively participate.

Community School Legislative Proposals

- **Community School Truancy**
  - We recommend the legislature revamp the 105-hour rule for truant community school students to be more consistent with the truancy statute used for traditional school students.

ORC § 3314.50, Community School Guarantee

- **Required under law, but AOS will not enforce**
- Applies to new start-up community schools after March 23, 2015
- Cannot open a school until the governing board has posted a surety bond or cash in the amount of $50,000 with the AOS.
- The bond or cash must be used to pay AOS for audit costs upon closure of the school.

HB 10, Community School Guarantee

- **Surety Bonds or Cash**
- AOS must deliver the bond or cash to the TOS, who will hold in the name of the school until AOS notifies the TOS of the school's closure/forfeiture.
- Bonds/payments can be sent to:

  **Office of Auditor of State Finance Department
  88 East Broad Street, 4th Floor
  Columbus, Ohio 43215**

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Audits of Closed Community Schools
August 11, 2015

Presented by:
Kelly Berger-Davis

Ohio Auditor of State
Dave Yost

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Overview

- Background
- What to do if your school closes or suspends operations
- ODE Close-Out Procedures (& Agreed Upon Procedures audit of such)
- Final Financial Audit or Agreed Upon Procedures
- Common problems encountered during close-out audits

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Map of Community Schools in Ohio 2013-2014

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Number of Charter Schools: 1998-1999 to 2013-2014

Full-Time Equivalent (FTE) of Charter School Students: 1998-1999 to 2013-2014

Background

- To date Ohio has had 602 community schools open……

  ……..and of those, 220 have closed, and 1 is in suspended status
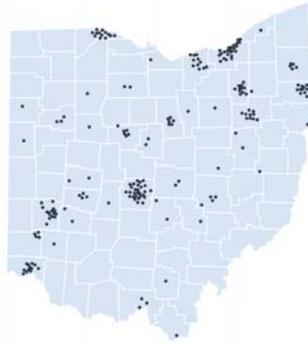
Background

- ORC 3314.35 – Permanent closure; criteria

- ORC 3314.351 – Closure of certain community schools.

- ORC 3314.072 – Suspending operation of noncomplying school.

What To Do If Your School Closes or Suspends Operations

- Notify ODE and obtain <u>current</u> copy of ODE Close-Out Procedures

- AOS will perform an Agreed Upon Procedures engagement to test that these close-out procedures were properly performed

Final Audit

- Depending on the situation, the final financial audit will either be:
  - Full financial audit
  - Agreed Upon Procedures

Final Audit

ODE Close-Out Procedures AUP **+** Financial Audit (or Financial AUP) **=** Final Audit

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Common Problems Encountered During Close-Out Audits

• Lack of documentation available for audit
  – Authorizer is required to see that all records are secured and available for completing the schools closing and audit
  – No support for certain close-out procedures (i.e. student files to district of residence)

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Common Problems Encountered During Close-Out Audits

• Lack of Board availability

• Lack of Treasurer availability

• Lack of Authorizer cooperation

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Audits of Closed Community Schools

Center for Audit Excellence

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EMIS/ODDEX

AOS CS Training, August 11, 2015

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Topics

▸ODDEX Review and Clarifications

▸FY2015 Cleanup and Closeout

▸Enrollment and FTE Related Reports

▸FY2016 Rollout

▸Financial Reporting

Community School SOES Roles

▸Read only for all CS data
  ‣ Superintendent
  ‣ EMIS Coordinator
  ‣ EMIS Manager
  ‣ EMIS Director
  ‣ Data View – SOES

▸Comment capability
  ‣ Superintendent
  ‣ Commenter – SOES

▸Ability to modify district settings
  ‣ Superintendent
  ‣ Application Manager – ODDEX

Review of SOES Data

▸ Community schools submit to ODE Report Authority data based on EMIS reporting requirements
  ▹ A portion of data is used for SOES
▸ Community Schools submit to SSDT Report Authority contact data for SOES

Review of SOES Data

▸ ODE sends to SSDT portion of EMIS data submitted by Community School
  ▹ Only what is needed for SOES
  ▹ Limited set of data elements
  ▹ Derived enrollment dates
  ▹ Inactive status records

Review of SOES Data

▸ SSDT merges SOES data provided by ODE with SOES contact data received for each SSID
  ▹ Results appear in ODDEX/SOES
    ▸ Same data is visible by Community Schools and Traditional districts
    ▸ View of data by 2 entity types is different
▸ Resident district flagging can then occur
  ▹ Review flag values for each SSID and reporting IRN combination are sent by SSDT to ODE

SOES Derived Enrollments

▶ Enrollment range for each set of unique values on SOES elements
▶ Start Date latest of
  ▸ Start of school year
  ▸ FS and/or FD Start Date
  ▸ FS Admission Date
▶ End Date earliest of
  ▸ End of school year
  ▸ FS and/or FD End Date

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Inactive Records SOES

▶ ODE process determines when a record is inactive and ODE sends inactive status to SSDT
  ▸ i.e., wrong DOR reported
▶ Records show with a ~~strikethrough~~
  ▸ Data becomes 'Read only' for all districts involved
  ▸ Strikethrough is applied to all data associated with inactive record
    ▶ Any review flags on these are turned off/cleared

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SOES Clarification

▶ SOES flags are an important part of funding, and flagging data from SOES is used in the funding process, but
▶ Actual student enrollment details used in the funding process come directly from the Data Collector submissions of the SOES enrollment data to ODE

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SOES Clarification

▸Implications:
  ▹ Flags from SOES only relevant if flag was placed by the currently reported District of Residence in EMIS- no impact by "old" flags
    ‣ No need to convince incorrectly reported district of residence to remove a flag
  ▹ If update of SOES displayed data is delayed, student still funded on latest submitted data

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Student Cross Reference Roles

▸Read only for all student data
  ▹ Superintendent
  ▹ EMIS Coordinator
  ▹ EMIS Manager
  ▹ EMIS Director
  ▹ Data View – SCR
▸Comment capability
  ▹ Superintendent
  ▹ Commenter – SCR
▸Ability to modify district settings
  ▹ Superintendent
  ▹ Application Manager – ODDEX

Review of SCR Data

▸All EMIS reporting entities submit to SSDT Report Authority data for Student Cross Reference (SCR)
    ▹ Data as submitted appears in ODDEX/SCR
    ▹ Records can get set to inactive
▸District with a reported SSID in current year can see SCR data for student
    ▹ SCR viewable does not make student viewable in SOES
    ▹ District can not see SSID if they have not reported the SSID to SCR

Review of SCR Data

▶ First date each SSID is received by Report Authority is recorded
  ▹ Date *will* get sent to ODE along with Reporting entity IRN and SSID
▶ EMIS data submitted to ODE since FY10 was populated into SCR
  ▹ Student name was not included

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SCR Conflicts

Rules added to SCR
  ▹ Overlapping enrollment
  ▹ Percent of time
  ▹ Withdrawn to
  ▹ Admitted from
Rules yet to be added
  ▹ Records not reported by entity being pointed to

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SCR Conflicts

▶ Records detected with a conflict will be flagged and included on the Landing Page

SCR Enrollment Comparisons

LEA	All	New No Issues	New With Issues	Open With Issues
Auburn Kinderlou City (749026)	9	0	0	1

▶ Student detail listing conflict example

SSID	First Name	Last Name	Birth Date	Conflict Code	Relationships
IL1970343	Theresa	McLeod	2002-09-21	MISSING	Auburn Kinderlou City (749026) ▲ Missing Mayday Shawnee Local (406787)

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SCR Conflicts

Click on conflict code to see grid of data your district reported and data others reported

| | Conflict | Missing report (MISSING) |
| Conflict Effective Dates | 04/24/2015 | |

Reporting Agency	Auburn Kinderlou City (749026)	Missing Mayday Shawnee Local (406787)
SSID	01970343	
Name	McLeod, Theresa	
Birth Date	09/21/2002	
Gender	Male	
Relationship Type	Educating	Not Reported
Educating Entity	Byromdle Waverly Academy (765483)	
Record Active	true	Missing/Not Reported
Date Range	02/11/2016 - Current	

SCR Conflicts

- Use conflict grid for verifications
  - Identify enrollment issues more easily
  - Errors can get resolved before they impact a higher level of data reporting
- Comments can be added to conflict
  - Other districts involved can see comments entered

SCR Conflicts

- Conflicts get resolved when changed data gets submitted to SCR by one or more of districts involved in conflict
- Resolved conflicts
  - Changed to include strikethrough of data
  - Identified conflicts will not disappear

SSID	First Name	Last Name	Birth Date	Conflict Code	Relationships
WP2456364	Corey	Sparks	2005-12-02	MISS	Auburn Kinderlou City (749026) Auburn Kinderlou City (749026)

SCR Clarifications

‣ Conflicts indicated in the SCR part of the application do not directly impact funding, but
‣ If SOES and SCR data are in sync, an overlapping enrollment conflict in SCR indicates that overlapping days will not be included in the FTE calculation for that student
‣ SCR used for 30 day rule
‣ Conflicts should be resolved, could impact other reports (e.g., Grad Rate)

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Review of History Data

‣ All data submitted to SCR automatically goes to History- no separate submission for History
‣ Districts can not see SSID if they have not reported the SSID to SCR, past or present
‣ History data is informational, does not impact funding

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Review of History Data

‣ Past enrollments, current enrollment and where the student enrolled next are viewable to any entity with a connection to an SSID
‣ Select the proper year
  ‣ Impacts the records viewable

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FY2015 Cleanup and Closeout

▸ ODE committed to getting data and funding right- congrats on great improvement
▸ Student data submissions for FY15 recently extended to November 24 close
▸ Extension primarily related to accountability reporting and test scores
▸ If test scores delayed, 11/24 close and following dates may also be delayed

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FY2015 Cleanup and Closeout

▸ 75 day flagging rule still in place, but December 4 last day to place a new flag based on updated CS data
▸ January 7 last day for District of Residence to remove a flag
▸ January 8 last day for Community School to appeal a flag to Area Coordinators

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FY2015 Cleanup and Closeout

▸ FY15 Final #1 payment included with August FY16 payment
▸ FY15 Final #2 payment expected in November
▸ Final FY15 enrollment and flagging data planned for inclusion in February

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Enrollment and FTE Reports

‣ Five items to help with final cleanup
  ‣ Review and resolve flags in SOES
  ‣ Review and resolve conflicts in SCR
  ‣ Enrollment reports in Data Collector preview
  ‣ FTE reports in Data Collector Level 2s
  ‣ CS Fatal Error reports

Enrollment and FTE Reports

‣ In addition to current, recently added previous enrollment report to Data Collector

SOES End of Year Student Collection (FY15)
Submission Number 9 (attempt 4)

Select the options and click on the Generate Preview link to create the preview.

Last Prepared: August 06, 2015 (5 days ago) at 10:32:59 AM

Preview Types
- ☐ Detail
- ☑ Enrollment Reports
- ☐ Missing Data Report

Output Options
Zip File: ☐ Download file as a compressed .zip (for faster downloads)
File Format: ○ CSV
● HTML

Generate Preview

File	Valid	Invalid	Total
☐ Enrollment_Headcount_Detail_Report_(Current_Students).html			307
☐ Enrollment_Headcount_Detail_Report_(Prior_Students).html			3
☐ Enrollment_Headcount_Summary_Report_(Current_Students).html			16

Enrollment and FTE Reports

‣ Prior enrollment includes withdrawals, both reports now include more dates

District IRN	Building IRN	EMIS Student ID Number	Last Name	First Name	State Student ID	District Relationship	State Equivalent Grade Level	Legal District of Residence	How Received	How Received IRN	Student Percent of Time	Sent to Reason 1	Sent to IRN 1	Sent to Percent of Time 1
000222	000222	000010292	Bigger	Desirae	IS9108501	1	KG	044909	M	******	100	NA	******	0
000222	000222	000010519	Orth	Liam	SF7585206	1	05	044909	M	******	100	NA	******	0
000222	000222	111111111	AAAAAAAA	AAAAAA	AA1111111	1	02	044909	M	******	100	NA	******	0

Sent to Reason 2	Sent to IRN 2	Sent to Percent of Time 2	Gender	Summative Racial/Ethnic Group	Disability Condition	Disadvantagement	Limited English Proficiency	Admission Date	Effective Start Date	Effective End Date	Withdrawal Reason	Student's Last Day of Enrollment
NA	******	0	F	W	**	1	N	20130821	20140701	20150626	45	2015-06-26
NA	******	0	M	A	**	1	N	20131104	20140701	20141216	75	2014-12-16
NA	******	0	M	W	**	1	N	20120904	20140701	20140707	46	2014-07-07

Enrollment and FTE Reports

- All impacts on funding being added to FTE reports
- Fatal Error report will be fully incorporated into FTE report in Data Collector
- FTE report tied to payment- additional reports will be added for each Final payment
- Errors, overlapping enrollment, and flags reflected in potential vs. actual FTE

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Enrollment and FTE Reports

SIFWorks VRF Data Collector

Collection Requests | Collection Status | Submissions | Progress | Files

Collection Requests Summary » Level 2 Exceptions Summary

SOES End of Year Student Collection (FY15)

Level 2 validation exceptions are listed by exception category and severity.
To generate the exception report for one category and/or severity click the link in the corresponding row and column.

Exceptions Category	Fatal	Critical	Warning	Info	Total
(FTED-JUN) FTE PayDet	0	0	0	397	397
(FTED-MAY) FTE PayDet	0	0	0	396	396
Total Counts:	0	0	0	793	793

Generate Full Validation Report

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Enrollment and FTE Reports

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Enrollment and FTE Reports

- For FY16, additional fields will be added to the FTE report
- In addition, daily updates and detailed reports to show specific reasons for differences between potential and actual FTE

FY 2016 Rollout

- Calendar reporting underway
- SCR and SOES Enrollment reporting for FY16 starts by next week
- SOES Contact reporting starts before end of August
- Will be some time between start of address reporting and start of district reviews

FY 2016 Rollout

- For FY16 payments, pull new school enrollments in August, continuing school enrollments in September
- Reports and processes already in place for FY15 will carry forward to FY16- much less delay
- Reasons for district to flag a student in FY16 under review (definitely no more overlapping enrollment flag)

Financial Reporting

‣ FY 2015 financial reporting open from July to end of September
‣ Critical for report card and maintenance of effort (MOE) calculations
‣ FY15 reports coming later this month
‣ FY14 reports may be needed for upcoming audits

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New EMIS Coordinator Training

‣ August 17th or 26th, 8:30 am to 3:45 pm
‣ Registration required
  ‣ Available in STARS
    ‣ Closed for 17th, but if only date that can work, send email to emis@education.ohio.gov
  ‣ Must have SAFE Account
  ‣ Must complete STARS User Profile
  ‣ Search for keyword "EMIS" within STARS to locate training.

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Social Media

facebook	Ohio Families and Education Ohio Teachers' Homeroom
Linked in	ohio-department-of-education
Storify	storify.com/ohioEdDept
twitter	@OHEducation
You Tube	OhioEdDept

Ohio Department of Education

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Developing and
Evaluating Internal
Control Policies

Presented by: Tim Downing

Ohio Auditor of State
Dave Yost

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Developing and Evaluating
Internal Controls
Agenda

- Understanding Internal Controls
- Financial vs. Compliance Internal Controls
- Steps on Writing and Evaluating Internal Control Policies

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Understanding
Internal
Controls

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Clarified Auditing Standards AU-C 315

- Defines "internal control"
- Describes the objectives and components of internal control
- Explains how an auditor should consider internal control in planning and performing an audit

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What is "**Internal Control**"?

- A process
- Affected by a client's governing board, management and other personnel
- Designed to provide reasonable assurance of the achievement of certain objectives

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Objectives of Internal Control

- Reliability of financial reporting (financial reporting)
- Effectiveness and efficiency of operations (operational)
- Compliance with applicable laws and regulations (compliance)

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Five Interrelated Components of Internal Controls

☑ Control environment
☑ Risk Assessment
☑ Information and Communication
☑ Control Activities
☑ Monitoring

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Control Environment Factors

✎ Integrity and ethical values
✎ Commitment to competence
✎ Governing Board or audit committee participation
✎ Management's philosophy and operating style

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Control Environment Factors (continued)

✎ Organizational structure

✎ Assignment of authority and responsibility

✎ Human resource policies and practices

✎ Compliance with laws, regulations, contracts, and grants

✎ **Without a suitable control environment, any well developed policy is will be ineffective**

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Risk Assessment

- Your identification and analysis of relevant risks to achievement of its objectives
- This analysis forms a basis for determining how those risks should be managed

Risk Assessment Includes

- Changes in operating environment
- New personnel
- New or revamped information systems
- Rapid growth
- New technology
- New services provided
- New component units
- New accounting, legal or regulatory pronouncements

Control Activities

Policies and procedures :
- Address risks to achievement of your objectives
- Ensure that management directives are carried out
- Have various objectives
- Applied at various organizational and functional levels

Policies and Procedures May Include

* Performance reviews
* Information processing
* Physical controls
* Segregation of duties

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Information and Communication

* Identification, capture, and exchange of information
* Communication of information to RIGHT people
* Enables people to carry out their responsibilities

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Information and Communication Relevant to the Accounting System

* Methods and records established to record, process, summarize, and report transactions
* Accountability for the related assets, liabilities, and net position is maintained
* Communication involves providing an understanding of individual roles and responsibilities pertaining to internal control over financial reporting

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Monitoring

᷒Process that assesses the quality of internal control performance over time

᷒Involves assessing on a timely basis and taking necessary corrective action

Internal Control: Financial vs. Compliance

❑GAGAS – Compliance with laws, regulations, contracts and grants that could have a direct and material effect on the determination of financial statement amounts

❑Single Audit Act – Compliance with program requirements for each major federal program

Sources of Direct and Material Requirements

• Federal laws and regulations

• State statutes (ORC)/Charters

• Local ordinances or resolutions

• Grant agreements

• Debt covenants and other contracts

Developing Internal Controls and Polices

- 5 step approach
- Use to develop new controls /policies
- Use to evaluate current controls/policies
- Never static

Developing Internal Controls and Polices

The most dangerous phrase in the language is "we've always done it this way."

Developing Internal Controls and Polices

First determine your goals and objectives!
Then:
1. Analyze
2. Assess
3. Implement
4. Communicate
5. Monitor

Determining Goals and Objectives

Management Objectives

1. Operations
2. Compliance
3. Reporting
4. Strategic
   – This is an overarching objective

Determining Goals and Objectives

Operations- Managers are responsible for ensuring that the organizations they manage both operate effectively and efficiently.

- Effective- is your organization successful in achieving its purpose?
- Efficient- do you make best use of scarce resources?

Determining Goals and Objectives

Reporting:

External- Managers are responsible for preparation of reliable financial reports;

Internal- Managers are responsible for preparation of relevant and reliable internal reports used to evaluate meeting objectives.

Determining Goals and Objectives

Compliance - Managers are responsible for both ensuring and demonstrating compliance with laws, regulations and policies.

Step 1- Analyze

Analyze your control environment

a. Attitudes

b. Supervision

c. Structure

Step 2- Assess

Assess your Risk

a. Identify Potential Problems

– Keep in mind, a moderate loss that is likely to occur presents as much danger as a more serious loss that is less likely to occur.

b. Identify and analyze current control cycles

Step 3 Implement

Implement Management Control Activities
  – Developing and putting your policy into action

- Decide if the defined system safeguards resources, assures accuracy of information and promotes effectiveness and efficiency

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Step 4- Communicate

Communicate Information
  a. Prepare and distribute the results of the evaluation and any related changes and new policies.
  b. When making changes, discuss the changes with the affected managers, staff and internal auditors (if you have them) to determine if the changes accomplish the control objective. Remember in evaluating alternatives, consider the costs and expected benefits of implementing the control objectives in a cost-effective manner.

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Step 5- Monitor

  a. At a minimum, evaluate your controls and cycles on an annual basis. Remember that risks can crop up rapidly and a well-developed control environment will be cognizant of changes and move to address them.
  b. Try scheduling monitoring on a regular basis, or evaluation will likely be passed up by the emergencies of day to day work.
  c. As part of monitoring, try testing the controls to see if they are still functioning as intended.

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Theory into Practice

- A county human services program has a very substantial public assistance grant it administers.
- The grant will be administered by a specific group of public assistance employees.
- The goal is to provide quality assistance to eligible individuals while meeting local, state and federal requirements

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Theory into Practice (Continued)

- The director has analyzed the public assistance groups control environment.
- Procedures are well documented, provided to all employees and reviewed annually in staff meetings.
- There is a pervasive attitude of "getting it right the first time" and doing quality work over quantity of work

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Theory into Practice (Continued)

- Recently there have been federal legislation changes for the program in the area of eligibility
- The director has reviewed the changes and determine the changes could greatly impact their goals and incorrect implementation could result in total loss of funding
- Review of current practices shows the most risk is in eligibility determination, this is a area of possible significant internal control weakness

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Theory into Practice
(Continued)

- From the risk assessment, the following control objective has been identified for which a policy will need to be developed or modified/replaced:

  Services are approved only for eligible applicants.

- The new legislation sets down multiple requirements for eligibility.
  - In reviewing those requirements it was determined that current Medicaid eligibility requirements are identical and active Medicaid enrollment would suffice to meet eligibility documentation requirements for the grant in question.

Theory into Practice
(Continued)

- Policy and procedures have been implemented on paper

What's next?
- Communicate:
  - The Director needs to communicate the program eligibility changes to the staff involved through:
    - Discussions
    - Trainings
    - Written communications
  - Staff in ancillary positions that could be impacted also need the new information communicated to them.
  - the director also needs to communicate the importance of the new process to maintain a positive control environment

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Theory into Practice
(Continued)

- The unit has been up and running for over a month using the new policy and procedures that were developed

Now its time for the Director test the controls:
- Director or cross trained staff under supervision, could pull sample cases to see if the procedures are operating as designed
- If the procedures are operating as designed the Director provides the unit the positive feedback
- If not operating as designed the policy and procedures move back to the assess phase.

Other Online Resources:

- Ohio County Treasurer's Manual- Internal Control Review section
  https://ohioauditor.gov/publications/2013%20County%20Treasurer's%20Manual.pdf
- Auditor of State Best Practices
  - Winter 2006 Issue – Establishing a Formal Risk Prevention Program
  - Spring 2005 Issue- Cell phone and Travel Polices
  - Winter2004 Issue- P-Card and Vehicle Use Policies
  https://ohioauditor.gov/publications/bestpractices.html

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Any Questions?

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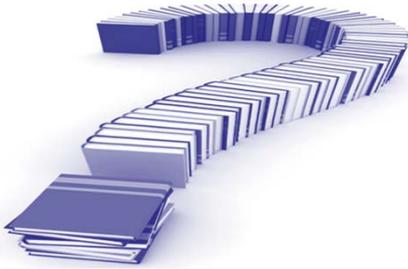
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2015 Auditor of State Community School Training

Charter School Reform Recommendations
and
The Abuse Standard

Presented by:

Shawn Busken, Legislative Director

Mark Altier, Chief Legal Counsel

Ohio Auditor of State
Dave Yost

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Charter School Reform Recommendations

Shawn Busken

Legislative Director

GOVERNMENTAL ACCOUNTING MODEL NOT INCLUDED IN SUB. HB 2

- The legislature should require community schools to adopt the governmental accounting model prescribed by GASB Statement No. 34.

- Financial statements are the core of financial reporting and are the principal means of communicating financial information to external users. An objective of financial reporting is to provide users with information that will assist them in assessing the performance of the reporting entity. Because the primary purpose of community schools is to provide instruction to students, information that will assist users in assessing how efficiently and effectively community schools are using resources to educate students should play an important role in their financial reporting model.

GOVERNMENTAL ACCOUNTING MODEL NOT INCLUDED IN SUB. HB 2 *(continued)*

- Currently, community schools use the business-type activity financial reporting model. Business-type activities are generally characterized by an exchange relationship, manifested by user charges that may be based on the costs of providing a particular service.

- Community schools in Ohio, however, are not permitted to charge for services (e.g., Ohio Rev. Code §3314.08(F) does not permit community schools to charge students tuition).

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GOVERNMENTAL ACCOUNTING MODEL NOT INCLUDED IN SUB. HB 2 *(continued)*

- Additionally, the business-type reporting model does not allow users to compare the actual financial results with the community school's legally adopted budget; determine compliance with finance-related laws, rules, and regulations; or evaluate the efficiency and effectiveness of classroom instruction and non-classroom activities. This information would, however, be more transparent within the governmental reporting model.

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MANAGEMENT COMPANY FOOTNOTE INCLUDED IN SUB. HB 2

- We recommend the legislature required a more detailed format for the management company footnote disclosure required by Ohio Rev. Code §3314.02.4. This statute requires a management company that provides services to a community school that amounts to more than twenty per cent of the annual gross revenues of the school shall provide a detailed accounting including the nature and costs of the services it provides to the community school. This information shall be included in the footnotes of the financial statements of the school and be subject to audit during the course of the regular financial audit of the community school.

- Currently, management companies provide footnotes that have been aggregated at a very high level. These footnotes provide little perspective on how the management company spent the community school's Foundation revenues on classroom instruction versus non-classroom activities.

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MANAGEMENT COMPANY FOOTNOTE INCLUDED IN SUB. HB 2 *(continued)*

The following is an example of a management company footnote provided to community schools under current statute:

For the fiscal year ended June 30, 2014, the management company and its affiliates incurred the following expenses (reported on cash-basis) on behalf of the Academy:

Direct Expenses:		
Salaries and wages	$ 753,698
Employees' benefits	232,410
Purchased services	541,284
Supplies and materials	44,691
Capital outlay	14,163
Other direct costs	61,487
Indirect Expenses	194,837
Total expenses	$ 1,842,570

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MANAGEMENT COMPANY FOOTNOTE INCLUDED IN SUB. HB 2 *(continued)*

- Overhead charges included in other direct costs are assigned to the Academy based on a percentage of revenue. These charges represent the indirect cost of services in the operation of the Academy. Such services include, but are not limited to, facilities management, equipment, operational support services, management and management consulting, board relations, human resources management, training and orientation, financial reporting and compliance, purchasing and procurement, education services, technology support and marketing and communications.

What Percentage?

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MANAGEMENT COMPANY FOOTNOTE INCLUDED IN SUB. HB 2 *(continued)*

- The management company footnote presentation above provides no perspective to the users of the financial statements about how much the management company spent on instruction of students.
- Alternatively, we recommend the legislature require the more thorough footnote presentation illustrated on the following page, which clearly identifies expenses related to classroom and non-classroom activities:

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Expense	Regular Instruction (1100 Function codes)	Special Instruction (1200 Function codes)	Vocational Instruction (1300 Function codes)	Other Instruction (1400 and 1900 Function Codes)	Support Services (2000 Function Codes)	Non-Instructional (3000 through 7000 Function Codes)	Total
Direct expenses:							
Salaries & wages (100 object codes)							
Employees' benefits (200 object codes)							
Professional & technical services (410 object codes)							
Property services (420 object codes)							
Travel (430 object codes)							
Communications (440 object codes)							
Utilities (450 object codes)							
Contracted craft or trade services (460 object codes)							
Tuition paid to other districts (470 object codes)							
Transportation (480 object codes)							
Other purchased services (490 object codes)							
Books, periodicals & films (520, 530, 540 objects)							
Food & related supplies (560 object codes)							
Other supplies (510, 550, 570, 580, 590 object codes)							
Land (610 object code)							
Buildings (620 object code)							
Improvements other than buildings (630 object code)							
Equipment (640, 644, and 645 object codes)							
All other capital outlay (650 through 690 object codes)							
Principal (810 object code)							
Interest (820 object code)							
Judgments (960 object codes)							
Other direct costs (All other object codes)							
Indirect expenses:							
Overhead							
Total expenses							

UNRESOLVED FINDING FOR RECOVERY DATABASE HB 2 INCLUDES BACKGROUND CHECKS FOR SCHOOL BOARD MEMBERS ONLY

AOS recommends amending SB 148 to include developers, operators, personnel. This was included in Sub. HB 2.

- With limited exceptions, Ohio Rev. Code § 9.24 indicates that no state agency and no political subdivision shall award a contract as described in division (G)(1) of this section for goods, services, or construction, paid for in whole or in part with state funds, to a person against whom a finding for recovery has been issued by the Auditor of State on and after January 1, 2001, if the finding for recovery is unresolved. Currently, this requirement does not apply to community school board members, developers, personnel, or the school's related transactions. At a minimum, the legislature should require sponsors check the Auditor of State's unresolved finding for recovery database for community school developers and their board members. Preferably, however, the legislature should expand the applicability of Ohio Rev. Code § 9.24 to all community school transactions, thereby preventing a community school from employing or doing business with individuals that have unresolved findings for recovery.

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FIDUCIARY DUTY INCLUDED IN SUB. HB 2

- Revised Code § 3314.03 requires that certain terms must be included in the contract entered into between a sponsor and the governing authority of a community school. In an effort to create a cause of action in which the sponsor could bring a claim for injury to the governing board caused by a breach of duty of the treasurer, the law could be amended to require that the contract contain the right of the sponsor to pursue an action for recovery against a treasurer for breach of fiduciary duty to the governing board in the event the governing board has dissolved and/or the school has ceased to operate or exist. In other words, Chapter 3314 could be amended to require that the contract contain a clause requiring the transfer of a cause of action for breach of fiduciary duty to the sponsor by the board. The type of assignment has been found to be lawful under Ohio law.

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DEFINITION OF BLENDED AND E-SCHOOLS AND HIGH QUALITY SPONSORS

E-SCHOOL

- We recommend restricting blended learning to just highly rated sponsors. Also, there was no clarification of the definition of blended learning or distinguishing between it and e-schools.

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DEFINITION OF BLENDED AND E-SCHOOLS AND HIGH QUALITY SPONSORS *(continued)*

- Currently, it is complex and difficult for community schools offering online instruction to document enough evidence to support the hours of online learning opportunities attended/received. A student can log into the online learning system and download their assignments for the week. If the assignment involves reading, research, etc. outside of the learning system itself, the student may not need to log back in again until the assignment is ready to be turned in – which could be one or more weeks later. Additionally, students complete tasks at different paces. One student may excel and quickly complete an assignment while another student may struggle and take longer. The current online learning systems are not generally designed to account for differences in the pace of student learning.

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COMMUNITY SCHOOL STUDENT TRUANCY
NOT INCLUDED IN SUB. HB 2

- The legislature should revamp the 105-hour rule for truant community school students to be more consistent with the truancy statute used for traditional school students. Among other items, Ohio Rev. Code § 3317.034(C) requires a community school student's enrollment shall be considered to cease on the date on which the student fails to participate in learning opportunities and has not received an excused absence for 105 continuous hours. If a student is withdrawn from the district for failure to participate in learning opportunities under division (C)(1)(a)(v) of this section and the district [community school] board determines that the student is truant, the district [community school] shall take the appropriate action required under sections 3321.19 and 3321.191 of the Revised Code.

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COMMUNITY SCHOOL STUDENT TRUANCY – NOT INCLUDED IN SUB. HB 2 *(continued)*

- However, as applied to traditional schools and defined in Ohio Rev. Code § 2152.02(D), a "Chronic truant" means any child of compulsory school age who is absent without legitimate excuse for absence from the public school the child is supposed to attend for seven or more consecutive school days, ten or more school days in one school month, or fifteen or more school days in a school year.

- As part of maintaining certain benefits under the Federal TANF program and in lieu of working, students must remain enrolled in school. During our community school head count, community school management and their sponsors frequently informed us that some students attend the bare minimum number of required hours to remain enrolled in school, but fail to actively participate in learning opportunities in an effort to maintain TANF benefits and avoid working.

- A student can break the truancy cycle for the current 105-hour rule by attending class for only one day – this starts the clock over. However, aligning the truancy rules for community school students more closely with the rules for traditional school students would effective end the cycle of abuse and force potentially truant students to become more engaged in their schools.

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CONFLICT OF INTERESTS

AOS recommends employees of a management company not be permitted to serve on a community school board. Included in Sub. HB 2

- We support the following provisions from HB 2:
  - Preventing a sponsor's employees from serving on the community school's board that they sponsor.
  - Preventing public schools acting as sponsor from "selling" goods or services to the schools they sponsor.

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CONFLICT OF INTERESTS *(continued)*

- We recommend the legislature also prohibit a school district from sponsoring its own conversion school. Currently, a public school may choose to move students to the conversion school it sponsors in an effort to improve the local report card of the public school. Similarly, a public school may unduly delay the suspension or closure of a conversion school due to the loss of the sponsorship fees and other monetary benefits received by the public school, and possibly certain administrators on contract by both the public and conversion school.

- This creates an inherent conflict of interest. Instead, while the operations may continue to be managed by the resident public school district, we recommend the legislature require a conversion school to obtain an independent sponsor. Additionally, the legislature may need to include a transition period for current conversion schools to find a new sponsor. This solution prevents inherent conflicts of interest while retaining the ability for schools to share services.

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HB 555 – Sponsor Ranking

The House adopted HB 64's administrative burden incentives for exemplary sponsors (i.e., sponsor performance evaluated less often, less paperwork, etc.).
They did NOT address AOS concerns about codifying the minimum components of ODE's rubric for the sponsor evaluations in statute.

- We recommend the legislature prescribe more-detailed performance measures to be included within the sponsor ranking rubric. HB 555 charged ODE with evaluating and ranking sponsors. The Bill prescribed three broad goals for ODE to consider: (1) the academic performance of students enrolled in community schools that are sponsored by the entity, (2) the sponsor's adherence to quality practices, which must be specified by the Department, and (3) the sponsor's compliance with applicable laws and administrative rules as measured by standards adopted by rule of the State Board. However, the Bill did not specify how the Department should measure the academic performance component. Currently, ODE may use its own discretion in determining the metrics which could lead to inconsistencies in the application of the rubric and judgments made over time.

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HB 555 – Sponsor Ranking *(continued)*

- We also recommend the legislature create statutory incentives and consequences to be tied to the sponsor ranking results. Sponsors need to be more invested in the performance of the community schools they sponsor (without creating a conflict of interest). One option might be to reduce the sponsorship fee for sponsors with Effective or Ineffective ratings or to provide an additional 1% fee (i.e., up to 4%) for Exemplary sponsors. Additionally, the legislature should provide specific statutory authority for ODE to require sufficient information from sponsors and the community schools they sponsor to make informed choices about the ranking.

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DISCLOSURE OF COMMUNITY SCHOOLS LEASING FACILITIES

There is no specific provision requiring disclosure of a lease that is held by a management company's subsidiary. Unfortunately, we have found many school leases are held by ancillary companies of a management company that are not subsidiaries. Still working on fixing this loophole.

– HB 2, Pg. 35, Ln. 993 requires community schools to disclose certain components of a community school's facilities lease. However, the proposed Bill does not currently require a lease with the subsidiary company of an operator to be disclosed. We recommend the legislature add "any relationship the lender has with the management company" to the community school's required contract disclosure with its sponsor.

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The Abuse Standard

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Abuse Standard

U.S. Government Auditing Standards

- Comptroller General of United States

Generally Accepted Government Auditing Standards (GAGAS)

Section 4.07

✓ Deficient or improper behavior

✓ Compared to behavior of prudent person

✓ Misuse of authority or position for personal gain

✓ Not necessarily fraud or illegal

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Auditor of State DRAFT Abuse Bulletin 2015-005

Definitions

Immediate family ✗ Spouse ✗ Parents and step-parents

✗ Children and step-children, dependent or not

✗ Siblings ✗ Grandparents ✗ Grandchildren

✗ Any other person related by blood or marriage

✗ Living with Individual

Business Associate ✗ Acting together ✗ Business purpose

✗ Partners, co-owners, employer, LLC co-owners

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Auditor of State DRAFT Abuse Bulletin 2015-005
(continued)

- Capricious and irresponsible behavior

- Won't substitute own judgment.

Draft Abuse Standard

- "Abuse" involves behavior that is deficient or improper when compared with behavior that a prudent person would consider a reasonable and necessary business practice given the facts and circumstances

- "Abuse" also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate.

- Warranted in situations in which there is no violation of law or unethical beneficial conduct but that involve conduct so capricious and irresponsible that some response is required.

Finding Of Abuse Procedure

- Auditors will report abuse on the part of any public official.

- If abuse is discovered, notice to the public official and opportunity for comment will be provided.

- Public official will be afforded 5 days to respond with explanation/other pertinent information.

  - Before including abuse finding in report, auditors will consider explanation, information, and data provided in public official's response.

  - IPA's will also follow the notification and response procedures noted above and notify AOS Regional Office when potential abuse is identified.

Abuse Example #1

- Local school board adopted following policy: "employees would exercise same care incurring travel expenses that a prudent person would exercise if travelling on personal business and expending personal funds."

- While attending a conference members of the board stayed at a hotel at a room rate of $319 per night, per person, valet charges of $69/night were incurred by 2 members, and public body spent $3,699 for expenses incident to the attendance of 4 officials.

- There were may other nearby hotels charging approximately $100/night.

- A prudent person would not spend 200% more than was necessary to secure lodging for each night.

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Abuse Example #2

- School board entered into contract with a manager requiring board to pay employee's previously incurred undergraduate and graduate debt.

- Contract did not specify amount of indebtedness it would pay, and no evidence board was aware of amount of indebtedness.

- The amount of indebtedness was in excess of $170,000

- Board also approved payment of $80,000 to cover employee's MBA cost at a private university.

- Failure of board to ascertain undertaking and potential impact of payments on financial status of district demonstrates indifference to the board's public responsibility and lack of prudence.

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Finding for Recovery Examples

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Findings for Recovery
Section 149.351(A)

- All records property of public office
- Cannot be:
  - Removed
  - Destroyed
  - Mutilated
  - Transferred
  - Otherwise damaged or disposed of/whole or part
  - Except as provided by law
- Section 3314.03(A)

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Findings for Recovery
State Ex Rel. McClure v. Hagerman
155 Ohio St. 320 (1951)

- Expenditures for "public purpose"
  - Judgment of entity unless arbitrary and unreasonable

- 1982 OAG 006
  - Memorialized by enactment
  - Prospective effect only

- Auditor of State Bulletin 2003-005
  - Question if manifestly arbitrary and incorrect

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Findings for Recovery
Debit Card Transactions By School Superintendent

- Retail stores, restaurants, pizza shops, drug stores, grocery stores
  - Total $541.74
- No indication of board approval
- No documentation to support proper public purpose
  - Cannot determine public purpose
  - Loss of accountability
  - Difficulty to identify errors or improper payments
- FFR against employee and for school

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Findings for Recovery
Section 2921.42(A)(4)

- **No knowing interest in benefit of public contract**
  - Does not apply if:
    - → Goods and services are necessary
    - → Continuing course of business
    - → Unattainable elsewhere for same price or less
    - → Preferential or same treatment
    - → Arm's length and notice

- **School paid foundation founded by superintendent $35,112**
  - No indication that exception applied

- **FFR repaid under audit**

- **Referral to ethics commission**

Ethical?

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