



DAVE YOST
Ohio Auditor of State



Community School Overpayments Webinar

November 2017

Presented by:
Kelly Berger-Davis, Quality Assurance &
Technical Specialist

1

Agenda

- **Background**
- **What Community Schools Need to Do**
- **Additional Information**
- **Example Calculations**
- **Auditor Steps**
- **Q&A's**


2

Background


3



4



IMPORTANT NOTE



This guidance is not only referring to ODE 'claw backs' – it is referring to **ANY** changes that affect funding or payments.

5

Sample Foundation Settlement

DESCRIPTION	USAS CODE	ANNUAL AMOUNT	YEAR TO DATE PRIOR TO PAYMENT	BALANCE PRIOR TO PAYMENT	MONTHLY PAYMENT
STATE SUPPORT					
OPPORTUNITY GRANT	3110	3,962,086.00	3,638,762.21	323,323.79	323,323.79
TARGETED ASSISTANCE	3110	85,062.77	78,708.20	6,354.57	6,354.57
K-3 LITERACY FUNDING	3110	92,073.40	84,408.54	7,664.86	7,664.86
ECONOMIC DISADVANTAGED FUNDING	3211	599,666.23	566,712.88	32,953.35	32,953.35
LIMITED ENGLISH PROFICIENCY FUNDING	3110	0.00	0.00	0.00	0.00
SPECIAL EDUCATION FUNDING	3110	428,394.67	378,548.74	49,845.93	49,845.93
CAREER TECHNICAL FUNDING	3219	0.00	0.00	0.00	0.00
TRANSPORTATION	3219	0.00	0.00	0.00	0.00
TOT STATE SUPPORT		5,167,283.07	4,747,140.57	420,142.50	420,142.50
ADDITIONAL AID ITEMS					
FACILITIES FUNDING	3190	100,731.00	92,510.91	8,220.09	8,220.09
GRADUATION BONUS	3110	0.00	0.00	0.00	0.00
3RD GRADE READING BONUS	3110	13,232.52	13,232.52	0.00	0.00
TRANSFERS					
ESC CONTRACT DEDUCTION	3110	0.00	0.00	0.00	0.00
ADJUSTMENTS					
IV40 FIS AUDIT FINAL-2	****	-12,071.56	-10,347.06	-1,724.50	-1,724.50
TOTAL PAYMENT BEFORE RETIREMENTS		5,269,175.03	4,842,536.94	426,638.09	426,638.09
RETIREMENT SYSTEM					
SCHOOL EMPLOYEES RETIREMENT - SGRF	221	-131,732.00	-113,232.00	-18,500.00	-18,500.00
STATE TEACHERS' RETIREMENT - SGRF	211	-321,899.00	-294,899.00	-27,000.00	-27,000.00
TOTAL PAYMENT		4,815,544.03	4,434,405.94	381,138.09	381,138.09





June 2016

6

Foundation Settlement & FTE Adj. Reports

<http://education.ohio.gov/Topics/Finance-and-Funding/School-Payment-Reports/State-Funding-For-Schools/Community-School-Funding>

FY2016

- » Community School Payment Reports
- » Community School Deductions
- » FY2016 Final #1  ←
- » FY2016 Final #2 
- » FY2016 Final #3 
- » FY2016 Final #4 

FTE Adj. Report Example

September 7, 2016

FY 2016 Final #1

Community School Name	CS IRN	Final #1 Amount	June Amount	JV78	Difference	Monthly Adjustment	Rate (Months)
A+ Arts Academy	000556	5,243,511.28	5,281,246.59	0	-37,735.31	-3,773.53	10
A+ Children's Academy	013232	1,170,824.72	1,141,210.64	0	29,614.08	29,614.08	1
Acad of Education Excellence	013195	550,185.49	550,620.45	0	-434.96	-434.96	1
Acad Urban Scholars Yngstwn	013249	1,206,546.84	1,183,631.03	0	22,915.81	22,915.81	1

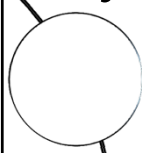
Sample Foundation Settlement

DESCRIPTION	USAS CODE	ANNUAL AMOUNT	YEAR TO DATE PRIOR TO PAYMENT	BALANCE PRIOR TO PAYMENT	MONTHLY PAYMENT
STATE SUPPORT					
OPPORTUNITY GRANT	3110	3,661,680.00	3,391,641.93	270,038.07	270,038.07
TARGETED ASSISTANCE	3110	88,749.18	82,952.74	5,796.44	5,796.44
K-3 LITERACY FUNDING	3110	100,681.60	92,768.54	7,913.06	7,913.06
ECONOMIC DISADVANTAGED FUNDING	3211	527,478.89	494,932.81	32,546.08	32,546.08
LIMITED ENGLISH PROFICIENCY FUNDING	3110	0.00	0.00	0.00	0.00
SPECIAL EDUCATION FUNDING	3110	275,328.87	268,178.08	7,150.79	7,150.79
CAREER TECHNICAL FUNDING	3219	0.00	0.00	0.00	0.00
TRANSPORTATION	3219	0.00	0.00	0.00	0.00
TOT STATE SUPPORT		4,653,918.54	4,330,474.10	323,444.44	323,444.44
ADDITIONAL AID ITEMS					
FACILITIES FUNDING	3190	122,056.00	113,054.74	9,001.26	9,001.26
GRADUATION BONUS	3110	0.00	0.00	0.00	0.00
3RD GRADE READING BONUS	3110	2,034.90	2,034.90	0.00	0.00
TRANSFERS					
ESC CONTRACT DEDUCTION	3110	0.00	0.00	0.00	0.00
ADJUSTMENTS					
COLLEGE CREDIT PLUS DEDUCT (JV09)	479	0.00	0.00	0.00	0.00
EMIS F16 AUDIT FINAL-4	****	0.00	0.00	0.00	-13.27
JV56 F16 AUDIT FINAL-1	****	-37,735.31	-33,961.78	-3,773.53	-3,773.53
TOTAL PAYMENT BEFORE RETIREMENTS		4,740,274.13	4,411,601.96	328,672.17	328,658.90
RETIREMENT SYSTEM					
SCHOOL EMPLOYEES RETIREMENT - SGRF	221	-153,999.00	-139,359.00	-14,640.00	-14,640.00
STATE TEACHERS' RETIREMENT - SGRF	211	-306,956.00	-281,630.00	-25,326.00	-25,326.00
TOTAL PAYMENT		4,279,319.13	3,990,612.96	288,706.17	288,692.90

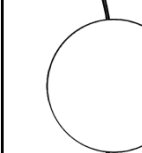
June 2017

9

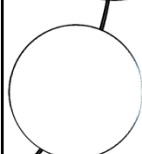
Why FTE & Foundation Rev. Change



Ohio Rev. Code § 3314.08 provides the formula by which community schools are funded.



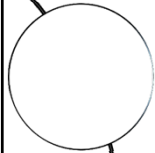
The community school's Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student.



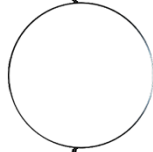
Comm. schools enter data concerning the students into EMIS and the EMIS data populates the SOES which is used by ODE to inform public districts about their students who are enrolled in community schools.

10

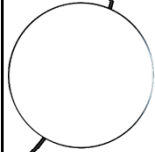
Why FTE & Foundation Rev. Change



Based on the reported numbers, ODE calculates and subtracts the appropriate amount of state aid from each traditional school district. The amount subtracted is paid to the corresponding community school entitled to receive those funds.



Community schools are able to continuously update estimated student FTE information in EMIS, but must report actual FTE information no later than the end of the school year.



ODE continues to adjust the FTE used for the funding formula as the school updates its information throughout the year.

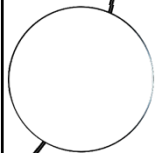
Why FTE & Foundation Rev. Change



At the close of the school's fiscal year, ODE will reconcile the Final FTE Foundation payments and determine whether the school has a corresponding receivable from or payable due to ODE based upon the accumulation of student FTE's throughout the year.



These adjustments are referred to in the remaining slides as 'Final FTE Adjustments'.



In prior years ODE has made anywhere from 1-5 Final FTE Adjustments for each year.

Why FTE & Foundation Rev. Change

#2

Ohio Rev. Code § 3314.08 also mandates FTE reviews, which ODE performs to verify the accuracy of the enrollment and attendance data reported by community schools into EMIS.

These reviews can also result in a corresponding receivable from or payable due to ODE based upon the results.

If these results are not appealed, they are included in the Final FTE Adjustments.

When the results are appealed, they are handled through a different process by ODE.

13

What Community Schools Need To Do

14

Summary of What Schools Need to Do Now

#1 Review All Contracts	#2 Create Written Policy	#3 Perform True-up Calculation(s)
#4 Obtain Legal Opinion(s)	#5 Initiate Repayments	#6 Determine Financial Statement Impact
#7 Maintain File of Support for Audit		

15

#1 Review All Contracts

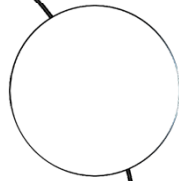
Community Schools must review all contracts/agreements to determine if paid on a percentage or number of ADM/FTE, students, revenues, etc. (anything that changes).

Examples of such contracts / agreements include:

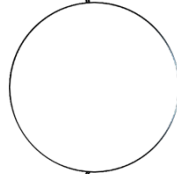
Sponsor Agreements	Management Company / Operator Agreements	Vendors (ie. education service providers, online software, etc.)
---------------------------	---	---

16

#2 Create a Written Policy



How often the true-up calculations/payments will occur



If contract is based on number of 'students' – legal interpretation/definition of such



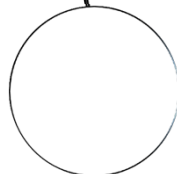
Based on agreements, which components from the Foundation Settlement are considered in payment calculation

17

#2 Create a Written Policy



If change vendor / sponsor / management company, will the school require full repayment prior to the change – will the school include a clause in agreements for such



Depending on the financial stability of the management company/sponsor/vendor, will the school require collateralization or other assurances of potential future re-payments



If the same vendor/sponsor/management company is still being used, will current year payments be calculated net of adjustments or in a true-up at end

18

Sample Foundation Settlement

DESCRIPTION	USAS CODE	ANNUAL AMOUNT	YEAR TO DATE PRIOR TO PAYMENT	BALANCE PRIOR TO PAYMENT	MONTHLY PAYMENT
STATE SUPPORT					
OPPORTUNITY GRANT	3110	3,962,086.00	3,638,762.21	323,323.79	323,323.79
TARGETED ASSISTANCE	3110	85,062.77	78,708.20	6,354.57	6,354.57
K-3 LITERACY FUNDING	3110	92,073.40	84,408.54	7,664.86	7,664.86
ECONOMIC DISADVANTAGED FUNDING	3211	599,666.23	566,712.88	32,953.35	32,953.35
LIMITED ENGLISH PROFICIENCY FUNDING	3110	0.00	0.00	0.00	0.00
SPECIAL EDUCATION FUNDING	3110	428,394.67	378,548.74	49,845.93	49,845.93
CAREER TECHNICAL FUNDING	3219	0.00	0.00	0.00	0.00
TRANSPORTATION	3219	0.00	0.00	0.00	0.00
TOT STATE SUPPORT		5,167,283.07	4,747,140.57	420,142.50	420,142.50
ADDITIONAL AID ITEMS					
FACILITIES FUNDING	3190	100,731.00	92,510.91	8,220.09	8,220.09
GRADUATION BONUS	3110	0.00	0.00	0.00	0.00
3RD GRADE READING BONUS	3110	13,232.52	13,232.52	0.00	0.00
TRANSFERS					
ESC CONTRACT DEDUCTION	3110	0.00	0.00	0.00	0.00
ADJUSTMENTS					
JV40 F15 AUDIT FINAL-2	****	-12,071.56	-10,347.06	-1,724.50	-1,724.50
TOTAL PAYMENT BEFORE RETIREMENTS		5,269,175.03	4,842,536.94	426,638.09	426,638.09
RETIREMENT SYSTEM					
SCHOOL EMPLOYEES RETIREMENT - SGRF	221	-131,732.00	-113,232.00	-18,500.00	-18,500.00
STATE TEACHERS' RETIREMENT - SGRF	211	-321,899.00	-294,899.00	-27,000.00	-27,000.00
TOTAL PAYMENT		4,815,544.03	4,434,405.94	381,138.09	381,138.09

19

#2 Create a Written Policy

If client pays net of Adj's, this approach may be a potential method to 'true up'

However, auditors should test and determine if full repayment was/will be satisfied

If client didn't begin paying net of Adj's until October 2017, then the Fy 2016 FTE true-up may not be satisfied in whole by this method

Additional Auditor Guidance

20

#3 Perform True-Up Calculation(s)

<p>ODE's 'Final FTE Adj's'</p>	<ul style="list-style-type: none"> • Fy 16 - #1, #2, #3, #4 • These include both 'flags' in the system being resolved and adj's due to FTE rev's when the school did <u>not</u> appeal the results.
<p>Appealed FTE Reviews</p>	<ul style="list-style-type: none"> • When the School <u>did</u> appeal their FTE review results, these are considered isolated instances and therefore do <u>not</u> run through the normal 'Final FTE Adjustment' process. There would be an additional adjustment made once the hearing or settlement agreement is finalized.

21

#4 Obtain Legal Opinion(s)

<p>Policy</p>	<p>Calculation(s)</p>	<p>Whether Reimb. is Due to the Comm. School</p>
----------------------	------------------------------	---

Legal counsel must be independent of the sponsor / management co. / vendor the consultation involves.

22

#4 Obtain Legal Opinion(s)

What if contract says they pay a \$ amount 'per student'?

What exactly does this mean?

FTE?	Total # of students that passed through the school during the year?
------	---

Auditors will assess on a case by case basis; but these situations may need the client to obtain a legal opinion.

Additional
Auditor
Guidance

23

#5 Initiate Re-Payments

Mgmt.
Co.

Sponsor

Send Bills /
Sign Re-
Pmt.
Agreements

Vendor(s)

24

#6 Determine Financial Statement Impact

Auditors will check for the true-up's beginning with the Fy 2016 FTE Adj's.

25

#6 Determine Financial Statement Impact

Fy 2017 Financial Statements

Fy 16 FTE Adj's

- Determine if a receivable / payable needs reported on the fin. stmts.
- Determine if Net Position at Beginning of year needs restated
- Determine if repayment plan(s) need disclosed in footnotes
- If school appealed and not settled yet, determine if disclosure is needed (including disclosure on potential repayment from/to sponsor/mgmt. co./vendor).

Fy 17 FTE Adj's

- Adj. #1 occurred on 9/14/17 foundation settlement
- Adj. #2 planned for December 2017
- Determine if need Comm. School foundation contingency footnote (including appeal if applicable) & if should be expanded to include amounts due from/to Sponsor/Mgmt. Co./Vendor

26

#6 Determine Financial Statement Impact

Fy 2016 Financial Statements

Fy 16 FTE Adj's

- If audit fieldwork is not yet complete
 - Determine if a receivable / payable needs reported on the financial stmts.
 - Determine if repayment plan(s) need disclosed in footnotes
 - If school appealed and not settled yet, determine if disclosure is needed (including disclosure on potential repayment from/to sponsor/mgmt. co./vendor).

27

#7 Maintain File of Support for Audit

Auditors will review the schools calculations and assess if a reasonable conclusion was reached. Schools must maintain a file for auditors including:

**Listing of
Contracts /
Agreements**

**Copies of
Affected
Agreements**

Written Policy

**Each True-Up
Calculation**

**Related Legal
Consultations**

**Repayment
Plans if Not
Pd. In Full**

28

Additional Information

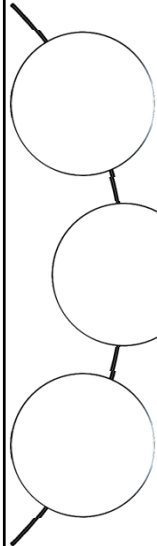
29

Finding For Recovery (FFR)

Ohio Rev. Code § 117.28
authorizes the Auditor of
State to report a *finding for
recovery* in audit reports
when legal action may be
appropriate to recover
public money or property.

30

Auditors Will Likely Issue FFR's When:



The true-up calculation(s)/evaluation(s) have not been performed and the auditor determines an amount is due, OR

An unreasonable legal evaluation/determination has been relied on, OR

The amount due has not been repaid, or is not in the process of being repaid under the terms of a reasonable and enforceable repayment agreement.

31

Calculations Resulting in Underpayments

Only overpayments to community schools are being covered in this presentation (ie. money due back to ODE from the school).

However, if a school had Final FTE Adjustments from ODE that resulted in positive amounts (additional money due to the community school from ODE), they should also perform a true-up calculation/payment to their sponsor / vendor / management company.

32

Calculations Resulting in Underpayments

In cases where the other party is a governmental entity (such as where an ESC is the sponsor):

- The ESC's auditors would consider if a FFR should be made in the ESC's audit against the community school.

Additional
Auditor
Guidance

33

Closed Schools – Pmts. Received

Occasionally a school receives July/August foundation when they were not eligible.

- ie. Failure to obtain minimum # of students
- ie. Planning to open, but does not

Often in these cases ODE requires 100% of these funds to be repaid to ODE.

In these cases for any contracts/agreements paid on a percentage or number of ADM/FTE, students, revenues, etc. the community school must assess their contracts and make a determination whether such payments made are due back to the community school.

34

Closed Schools – \$ Owed to ODE

Occasionally a school closes and still owes \$ to ODE

- ie.. Final FTE Adj. from prior or current year
- ie. FTE review hearing/settlement agreements from prior or current yr.

Occasionally the foundation settlement or Final FTE Adj. report may 'appear' that the community school received some funds, but ODE actually did not remit those funds to the school.

Be sure to evaluate whether the school *actually* received all amounts showing on the Foundation Settlement and Final FTE Adj. reports when performing these true-up calculations.

Trace the net amount on the last Foundation Settlement report to their bank statement to determine if they 'actually' received the payment.

35

Closed Schools – \$ Owed to ODE

In situations where a community school closes and still owes ODE money, a Finding for Recovery will be issued.

36

FFR's Related to FTE Adj's

Open School

If have FFR against vendor/mgmt. co./sponsor – would be in favor of the School

Closed School

If have FFR against vendor/mgmt. co./sponsor – would be in favor of the School

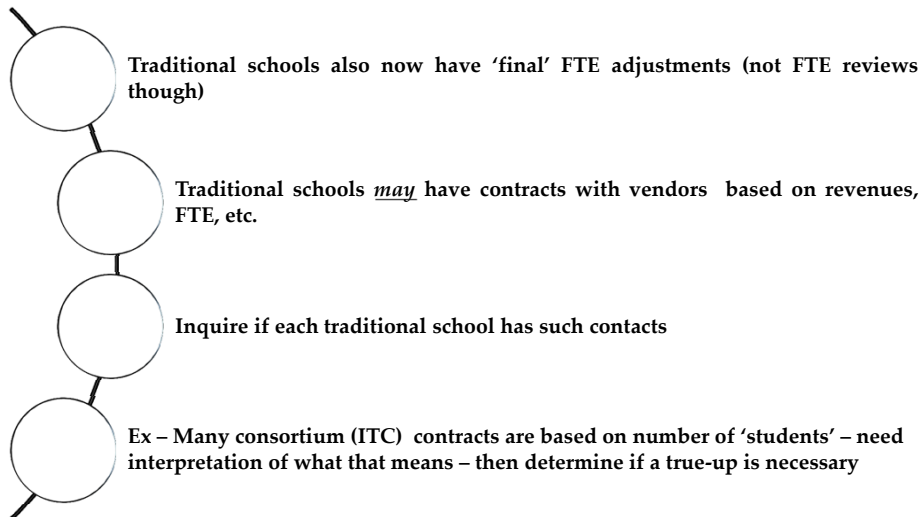
Closed School

If have FFR for \$ due back to ODE for foundation overpayment – would be against the School in favor of ODE

Additional
Auditor
Guidance

37

Traditional Schools



Additional
Auditor
Guidance

38

Example Calculations

39

School A – Fy 2016 FTE Adj's

- Had both positive and negative 'final FTE adj's' (#1-#4)
- Had a claw back due to ODE FTE review/appeal
- Had a Mgmt. Co. contract based on % of revenue
- Had a Sponsor contract based on % of revenue
- Had a Software Vendor contract based on % of revenue

40

School A – Fy 2016 FTE Adj's

	Amt. Paid to <u>Mgmt. Co.</u>	Amt. Should Have Been Pd.
Total State Support Received	\$1,000,000	\$1,000,000
+ Additional Aid Items	+ \$7,000	+ \$7,000
+/- Fy 2016 Final FTE Adj. #1		+ \$6,000
+/- Fy 2016 Final FTE Adj. #2		(\$1,000)
+/- Fy 2016 Final FTE Adj. #3		+ \$3,000
+/- Fy 2016 Final FTE Adj. #4		\$0
FTE Review/Appeal Decision		(\$40,000)
Total	\$1,007,000	\$975,000
Mult. By % Due	3%	3%
Equals Amount Paid/Due	\$30,210	\$29,250
Overpayment to Mgmt. Co.		\$960

School A – Fy 2016 FTE Adj's

	Amt. Paid to <u>Sponsor</u>	Amt. Should Have Been Pd.
Total State Support Received	\$1,000,000	\$1,000,000
+ Additional Aid Items	+ \$7,000	+ \$7,000
+/- Fy 2016 Final FTE Adj. #1		+ \$6,000
+/- Fy 2016 Final FTE Adj. #2		(\$1,000)
+/- Fy 2016 Final FTE Adj. #3		+ \$3,000
+/- Fy 2016 Final FTE Adj. #4		\$0
FTE Review/Appeal Decision		(\$40,000)
Total	\$1,007,000	\$975,000
Mult. By % Due	3%	3%
Equals Amount Paid/Due	\$30,210	\$29,250
Overpayment to Sponsor		\$960

School A – Fy 2016 FTE Adj’s

	Amt. Paid to Software Vendor	Amt. Should Have Been Pd.
Total State Support Received	\$1,000,000	\$1,000,000
+ Additional Aid Items	+ \$7,000	+ \$7,000
+/- Fy 2016 Final FTE Adj. #1		+ \$6,000
+/- Fy 2016 Final FTE Adj. #2		(\$1,000)
+/- Fy 2016 Final FTE Adj. #3		+ \$3,000
+/- Fy 2016 Final FTE Adj. #4		\$0
FTE Review/Appeal Decision		(\$40,000)
Total	\$1,007,000	\$975,000
Mult. By % Due	5%	5%
Equals Amount Paid/Due	\$50,350	\$48,750
Overpayment to Software Vendor		\$1,600

School B – Fy 2016 FTE Adj’s

- Had only negative ‘final FTE adj’s’ (#1-#4)
- No claw back due to ODE FTE review/appeal
- No Mgmt. Co.
- No vendor contracts based on rev, students, FTE/ADM, etc.
- Had a Sponsor contract based on % of revenue

44

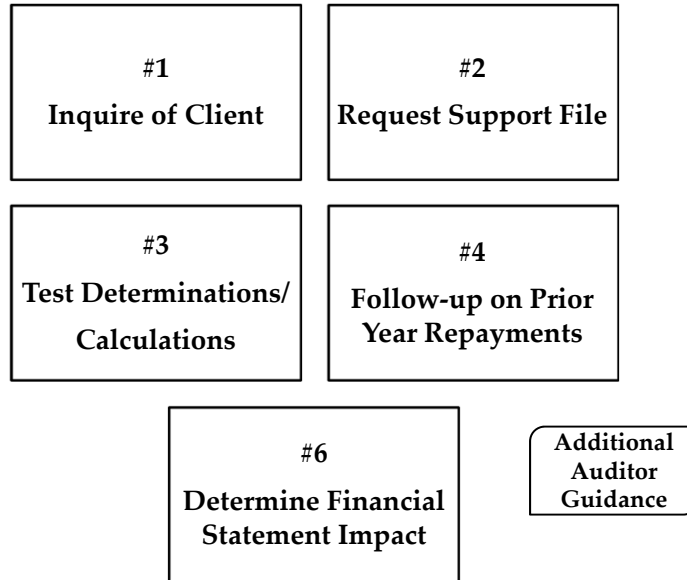
School B – Fy 2016 FTE Adj’s

	Amt. Paid to <u>Sponsor</u>	Amt. Should Have Been Pd.
Total State Support Received	\$5,000,000	\$5,000,000
+ Additional Aid Items	+ \$35,000	+ \$35,000
+/- Fy 2016 Final FTE Adj. #1		(\$60,000)
+/- Fy 2016 Final FTE Adj. #2		(\$50,000)
+/- Fy 2016 Final FTE Adj. #3		(\$20,000)
+/- Fy 2016 Final FTE Adj. #4		\$0
Total	\$5,035,000	\$4,905,000
Mult. By % Due	2%	2%
Equals Amount Paid/Due	\$100,700	\$98,100
Overpayment to Sponsor		\$2,600

Auditor Steps

Additional
Auditor
Guidance

Summary of What Auditors Need to Do Now



47

#1 Inquire of Client

Inquire if school has any contracts/agreements paid on a percentage or number of ADM/FTE, students, revenues, etc. (anything that changes).

Additional Auditor Guidance

48

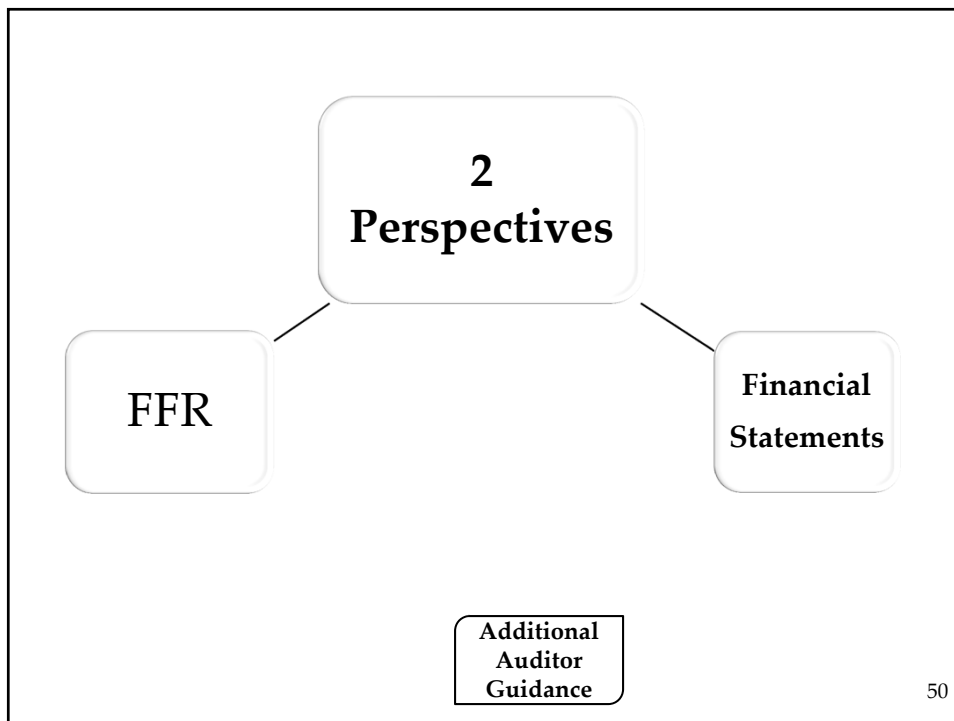
**#2 Request Support for
Determination/Calculations**

**Request file discussed in client step
#7 above containing:**

Listing of Contracts / Agreements	Copies of Affected Agreements	Written Policy
Each True-Up Calculation	Related Legal Consultations	Repayment Plans if Not Pd. In Full

Additional
Auditor
Guidance

49



#3 Test Determination/Calculations

Test the schools calculations and assess if a reasonable conclusion was reached.

AOS consult with legal or CFAE if necessary

IPA's consult with
CommunitySchoolQuestions@ohioauditor.gov if necessary

Additional
Auditor
Guidance

51

#3 Test Determination/Calculations

ORC 3314.03(C) / OCS 2-13

Additional
Auditor
Guidance

The sponsor may contract with the school to receive 3% or less of the amount the State pays to a school annually, for the costs of its monitoring, oversight, and technical assistance.

In limited circumstances included in Ohio Rev. Code § 3314.46(B) a sponsor can earn more than 3% if it sells additional goods or services beyond sponsorship. These circumstances are limited to: 1) contracts entered prior to 2/1/16 that involve the sale of goods or services to a community school it sponsors; 2) If the sponsor of a community school is also the **school district** in which that community school is located, the sponsor may sell goods or services to that community school **at no profit** to the sponsor or 3) If the sponsor of a community school is a **state university**, as defined in section 3345.011 of the Revised Code, the sponsor may sell services to that community school **at no profit** to the sponsor. It should be noted that Ohio Rev. Code §3311.055 explains that the term 'school district' shall be construed to include educational service centers. If none of these exceptions are met a sponsor should not receive more than the 3% mentioned above.

A contract should specify these additional services, and should differentiate them from the services required of a sponsor.

52

#3 Test Determination/Calculations

ORC 3314.03(C) / OCS 2-13 (cont'd)

In other words, the total amount of such payments for monitoring, oversight, and technical assistance of the school shall not exceed 3% of the total amount of payments for operating expenses that the school receives from the State.

AOS has determined that these monies would include FTE , State grant, and Federal grant monies. Grant monies that are restricted from general operations (such as capital grants or grants for limited operation programs like special education) should be excluded from calculations as these monies cannot be used for general operating expenses.

Additional
Auditor
Guidance

53

#4 Follow-up on Prior Year Repayments

Very important to check if repayment agreements/schedules are being followed (similar to testing debt payments).

Additional
Auditor
Guidance

54

#5 Determine Financial Statement Impact

Fy 2017 Financial Statements

Additional Auditor Guidance

Fy 16 FTE Adj's / FTE Reviews

- Determine if a receivable / payable was properly reported on fin. stmts, if necessary
- See GASB 33 paragraph 26 for guidance (codified in GASB N50.123) – do not restate net position at beg. of year– record as rev/exp.
- Follow ADAM 2017-01 if FTE Review was appealed and not yet settled
- Determine if repayment plan(s) were properly disclosed in footnotes
- If school appealed FTE Review and not settled yet, determine if disclosure was properly made (including disclosure on potential repayment from/to sponsor/mgmt. co./vendor).

Fy 17 FTE Adj's

- Adj. #1 occurred on 9/14/17 foundation settlement
- Determine if a receivable / payable was properly reported on fin. stmts, if necessary
- Determine if repayment plan was properly disclosed in footnotes, if necessary
- Adj. #2 planned for December 2017
- Determine if Comm. School foundation contingency footnote (including appeal if applicable) was included if necessary & if should be expanded to include amounts due from/to Sponsor/Mgmt. Co./Vendor
- Ex. on following slides

55

#5 Determine Financial Statement Impact

Fy 2016 Financial Statements

Fy 16 FTE Adj's / FTE Reviews

- If audit fieldwork is not yet complete
 - Determine if a receivable / payable was properly reported on financial statements, if necessary
 - Follow ADAM 2017-01 if FTE Review was appealed and not yet settled
 - Determine if repayment plan(s) was properly disclosed in footnotes
- If school appealed FTE Review and not settled yet, determine if disclosure was properly made (including disclosure on potential repayment from/to sponsor/mgmt. co./vendor).

Additional Auditor Guidance

56

#6 Determine Financial Statement Impact Reminder: Reporting FTE Adj's

Auditors should evaluate if the clients approach/determination of reporting each FTE Adj's was reasonable

Each FTE Adjustment that occurred through the date of the audit report issuance should be evaluated, rather than waiting until all FTE Adj's have occurred for the fiscal year and just evaluating the net

Additional
Auditor
Guidance

57

#6 Determine Financial Statement Impact Reminder: Reporting FTE Adj's

Ex: If the Comm. School files their Fy 2017 GAAP financial statements in November 2017, then they should have made a determination/assessment as to whether the FTE Adj. #1 should be reported on the financial statements, and if the School Foundation footnote should be included due to the final FTE Adj. #2 not yet being made.

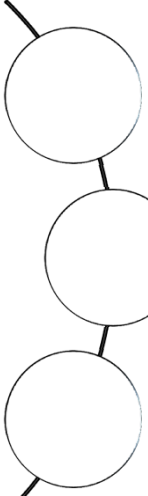
If the FTE Adj. #1 was material, but the client did not report it (they only included the School Foundation footnote), inquire for their reasoning. Absent a well-reasoned assessment not to report it, the auditor should propose an audit adjustment for such and consider if a SD/MW should be made.

If the client reported the FTE Adj. #1, and included the footnote disclosure; but the FTE Adj. #2 was made by ODE before the report was issued – if material, then the auditors would propose an audit adjustment for FTE Adj. #2, but would not make a control deficiency comment, as that information was not available to the client at the time they were preparing their statements.

Additional
Auditor
Guidance

58

#6 Determine Financial Statement Impact



The same theory holds true for the true-up amounts

In regards to actual repayments/FFR's, if the schools policy states they will 'true up' once all FTE Adj's are complete (at the end), as long as it is reasonable, then AOS will audit accordingly.

However, with regards to posting receivable/payable to the financial statements, including the footnote, etc., auditors must follow GASB standards.

Additional Auditor Guidance

59

#6 Determine Financial Statement Impact

Reminder of ADAM 2017-01 on schools that appeal the results of FTE reviews, which are not yet settled/finalized.

As in the past, we do not hold the release of audits until all FTE Adj's are complete, nor until a settlement is reached in an appeal case.

Additional Auditor Guidance

60

#6 Determine Financial Statement Impact

Updated Sample FTE Contingency Footnote – Community School

[You must modify these sample footnotes based on the timing, and the circumstances of the School.]

School Foundation (Community Schools)

Additional
Auditor
Guidance

A. School foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the School for fiscal year 2017. [Include this paragraph if the School did not appeal their Fy 2017 FTE Review results. If the school did appeal their Fy 2017 FTE Review results, and it has not yet been settled, include footnote B below.]

61

#6 Determine Financial Statement Impact

Updated Sample FTE Contingency Footnote – Community School (cont'd)

As of the date of this report, additional ODE adjustments for fiscal year 2017 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2017 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the School.

[You must modify this paragraph based on the contracts involved & related language. The first sentence may need split out for each contract depending on the terms.] In addition, the School's contracts with their [Sponsor, Management Company and [software] vendor] require payment based on revenues received from the State. As discussed above, additional FTE adjustments for fiscal year 2017 are not finalized. Until such adjustments are finalized by ODE, the impact on the fiscal year 2017 financial statements, related to additional reconciliation necessary with these contracts, is not determinable. Management believes this may result in either an additional receivable to, or liability of, the School.

Additional
Auditor
Guidance

62

#6 Determine Financial Statement Impact

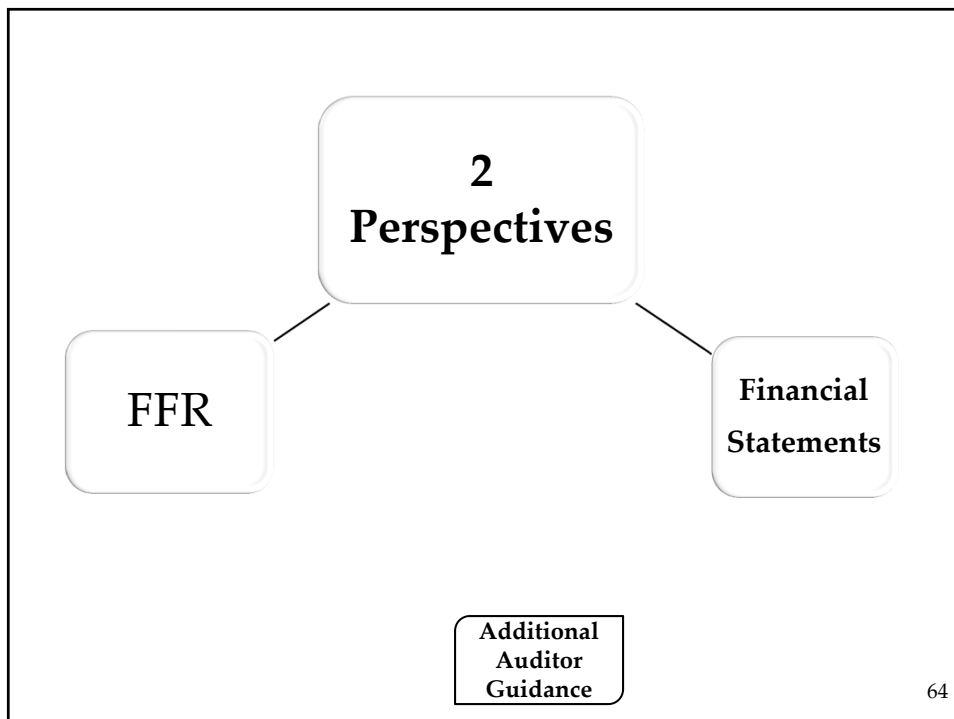
Updated Sample FTE Contingency Footnote – Community School (cont'd)

Additional
Auditor
Guidance

B. Under Ohio Rev. Code Section 3314.08 ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the School for fiscal year 2017. The School appealed their fiscal year 2017 FTE review, which as of the date of this report, has not been settled. As a result, the impact of the appealed FTE Review on the fiscal year 2017 financial statements is not determinable, at this time. Management believes this may result in a liability of the School.




[You must modify this paragraph based on the contracts involved & related language. The first sentence may need split out for each contract depending on the terms.] In addition, the School's contracts with their [Sponsor, Management Company and [software] vendor] require payment based on revenues received from the State. As discussed above, the fiscal year 2017 FTE Review appeal is not finalized. Until ODE finalizes this appeal, the impact on the fiscal year 2017 financial statements related to additional reconciliation necessary with these contracts, is not determinable. Management believes this may result in a receivable to the School.

63



64


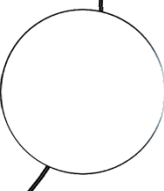
If Client Did Not Address....

-  Auditors should issue a comment for no policy, etc. (see AOSAM 38100 / AU-C 265)
-  Inquire (step #1 – slide 48)
-  Check Sponsor & Mgmt. Co. agreements for payment terms (and any vendors you are aware of that may contain such language)

Additional
Auditor
Guidance

65

If Client Did Not Address....

-  Perform true-up calculations with information available and consult with CFAE/legal as necessary
-  Determine financial statement impact / FFR

Additional
Auditor
Guidance

66

Questions & Answers

67

Client Webinar & Q&A's

<http://www.ohioauditor.gov/references/guidance/communityschools.html>

<http://www.ohioauditor.gov/trainings/default.html>

68

Q&A's

What will happen if schools do not have a policy in place by the time of their audit? For a 2017 audit that has already started and is expected to be completed soon - will the Finding for Recovery (FFR) process begin now or will they be given time to develop a policy? Will the audit completion be delayed until they have the time to develop the policy?



As discussed on slide 25:

- For any Community School (CS) whose Fiscal year (FY) 2016 audit fieldwork is not yet complete, this would be effective for their Fy 2016 audit/financial statements.
- For most CS's this will impact their Fy 2017 audit/financial statements.
- Regardless, the true up testing will begin with the Fy 2016 Full Time Equivalent (FTE) Adjustments.

69

Q&A's

Do schools have the ability to wait to true up until the Ohio Department of Education (ODE) has finished the adjustment process for the year in question? If schools state in their policy, the true up will not be completed until ODE has completed all FTE adjustments, will AOS abide by that time frame? Or will schools be expected to perform interim calculations at each adjustment.



Auditors will audit according to the school's policy, as long as it is reasonable. Specific to this question, in regards to actual repayments/FFR's, if their policy states they will 'true up' once all FTE Adj's are complete (at the end), then AOS will audit accordingly. However, with regards to posting receivable/payable to they financial statements, you must follow GASB standards.

70

Q&A's

If a school reports on the GAAP basis of accounting, their financial statements are required to be filed near the end of November. How are they expected to report a receivable or payable on their financial statements when ODE is still in the process of performing the look back? The final adjustment for 2016 did not take place until June 2017.



Schools should use the best information available at the time they prepare/file their financial statements. If new information comes to light during the audit, then adjustments may be proposed, if material to the financial statements.

71

Q&A's

If during the audit, the auditors determined an audit adjustment is required to post a receivable or payable because of the FTE adjustments, will the school receive a report comment in their Schedule of Findings?



It's not automatically an internal control audit comment if we make an audit adjustment – it depends on the situation and on the nature of the adjustment to determine if a comment should be issued. Auditors follow the guidance in, AU-C 265.

72

(Continued)

If a policy is adopted and a reasonable assessment is utilized by the School, auditors will evaluate to determine if a comment should be issued.



Auditors do not issue internal control audit comments for information that was not available at the time the school prepared/filed their financial statements.



Auditors will assess to determine if an audit adjustment is required, but no corresponding audit comment would be issued if the information was not available to the client at the time they were preparing/filing their financial statements.



Auditors may still issue a FFR, even when there is no internal control comment, if the situation warrants it.

Q&A's

FTE adjustments are not new. Will schools need to go back to previous years to 'true them up' as well?



As discussed on slide 25, auditors will check for the true up's beginning with the Fy 2016 FTE Adjustments.

74

Q&A's

Is maintaining an accounting of the over/under payments as a financial statement item (accounts receivable/accounts payable) sufficient, or do attempts to actually recover the monies need to be made immediately? Is it permissible for a community school to write off these accounts receivables in future years if they so choose?



This would not be permissible. Per slide 31, FFR's will likely be issued when the amount due has not been repaid or is not in the process of being repaid.

75

Q&A's

When are the final adjustments done for each fiscal year? Is there a time frame when schools can expect to see the final adjustments?



The timing and number of Final FTE Adj's varies each year.



In addition, those schools with an FTE Review appeal that occurred outside the normal FTE Adj. process are handled on an individual basis and each hearing/settlement timing can vary. 76

Q&A's

If the FTE Review determination is appealed, is the amount due resulting from the final decision pushed through the Foundation payments or does the District have to issue a check payment to ODE?



AOS' understanding is that all adjustments go through the Foundation payments, over the number of months noted in the settlement agreement/hearing.



If the school has closed, however, a check/EFT would need issued, as there would be no further Foundation payments to deduct the overpayment from.

77

Q&A's

Do community schools typically choose the amount of months in the settlement with ODE?



AOS' understanding is that ODE determines the repayment period based upon the length of the Sponsor contract (remaining) and discussions with the school.

Q&A's

Please differentiate between a "full time student" who attends an e-school vs. brick and mortar (B&M) school. B&M schools are not funded on an attendance basis per the FTE Review Manual. (Discussion from Slide 10.)



Nonclassroom participation must be evidenced for both e-schools and the online portion of any blended learning B&M school where participation takes place outside of the classroom/school facility. FTE adjustments as part of the normal year end reconciliation/true up process can still impact a B&M school even when all instruction is provided in the classroom.



Therefore, AOS believes all community schools should evaluate whether they need repayment policies and procedures in place for their Sponsor, Management Company, and other Vendor contracts.

Q&A's

Will the written policy be required through the Ohio Revised Code, and will AOS provide a model policy?



No, however a policy establishes practice and is the best model for how to handle these transactions. While AOS stated that a policy determining how the school will address any potential overpayment of fees to the Sponsor, Management Company or/and Vendor is needed, the policy is only considered a procedural matter.



There should be an enforceable agreement in place between the school and the company/entity for which the overpayment has occurred to ensure repayment. There also must be proof to show the school and company/entity are adhering to such agreement. Schools should work with their sponsors to help develop appropriate policies.

Q&A's

What if the school owes more money to the Management Company as a result of FTE adjustments but the management company has waived the amount owed to them by the school?





If there is a written agreement, approved by the School Board and signed by the Management Company, the agreement will be reviewed during the next regular audit to determine if it is acceptable.




Q&A's

Is an FFR avoided by proof of an attempt to collect the funds owed, or does it have to be collected. What if the attempt was made but never collected (even after a year or two)?



While the determination in a situation like this is fact specific, if the amount due to the school has not been repaid, the AOS will most likely issue the FFR and refer the matter to the Attorney General and local prosecutor for collection.

<h1>Q&A's</h1>		Additional Auditor Guidance
<p>How do we find out if a School appealed their FTE review?</p>		
		
<p>Best to first ask the Treasurer.</p>		
		
<p>AOS auditors can also check our community school spreadsheet on the intranet; IPA's can inquire of Chief. However, the spreadsheet only contains info CFAE has been notified of.</p>		

<h1>Q&A's</h1>		Additional Auditor Guidance
<p>Where do we find the results of a settled/finalized FTE review that was appealed?</p>		
		
<p>Again, best to first ask the Treasurer.</p>		
		
<p>As AOS receives such agreements/letters, they are posted to 'W:\Community School FTE Review Letters & Other ODE Correspondence'</p>		
		
<p>Such repayments will have a separate JV code on the foundation settlement.</p>		



Community School Overpayments Webinar

Office of the Auditor of State

88 East Broad Street
Columbus, Ohio 43215
(800) 282-0370

Kelly Berger-Davis

Quality Assurance & Technical Specialist

KMBerger-Davis@ohioauditor.gov

CommunitySchoolQuestions@ohioauditor.gov

86



Ohio Auditor of State
Dave Yost

88 E. Broad St.
Columbus, Ohio 43215
Phone: (800) 282-0370 Fax: (614) 466-4490
Email: ContactUs@OhioAuditor.gov

www.OhioAuditor.gov