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From: Auditor of State's Center for Audit Excellence
To: All IPA Firms
Subject: Community School Guidance
Date: October 24, 2018

The following items are addressed in the memo below with regards to Community Schools:

- 2018 Ohio Compliance Supplement (OCS) 1-27 – Additional guidance to consider
- Fiscal Year 2018 footnotes – FTE footnote updates & budgetary footnote edit
- Close-out audits – Repayment letters received, potential filings/audits after final audit, ODE close-out procedures

2018 OCS 1-27

- OCS 1-27A (brick & mortar) step 9i(e) should have been removed from the 2018 OCS due to the fact absences do not affect brick and mortar schools' FTEs.

However, when completing step 9i(d), auditors should verify that *less than* 1 FTE was claimed if a student selected for testing was reported absent for 105 consecutive hours. Note: The focus of this step is not to calculate the FTE but to identify if the school has a process in place to adjust their FTE when a student hits the 105 hour rule. Step 9ii explains auditors do not need to calculate the exact FTE. The results of step 9i(d) will aid auditors in determining the risk of noncompliance when testing step 9ii.

- OCS 1-27 contains guidance that in order to rely on ODE's FTE review you must first determine if a sample size of at least 25 students was tested, unless for certain situations there were less than 25 students, such as in a drop out recovery program.
 - If the schools letter states a 'modified' review was performed, ODE confirmed this means:
 - The school had a full FTE review in the prior year and issues were noted.
 - ODE performed a review over FY 18 *for documentation of time claimed for funding* on a normal sample; and 5 students from the normal sample were tested for all other items – this is consistent with the number of students auditors test.

Therefore, if the FTE letter indicates a 'modified' sample was used, ODE's review can be relied on for 1-27B step 8 / 1-27C step 9, unless there was increased risk.

FY 2018 Footnotes

- FTE footnote - updated for FY 18 and posted to <https://ohioauditor.gov/references/guidance/communityschools.html>.

No substantive edits were made. The fiscal year was updated and some reorganization took place.

- Budgetary process footnote - ORC 3314.032(C) requires community schools to adopt a budget (effective FY 2017).
 - Auditors may see schools reference this requirement in their budgetary process footnote.
 - At this time, there is no law requiring the school to adhere to their budget. Therefore, failure to follow that budget would not result in noncompliance.
 - Example Footnote:
Budgetary Process - Community schools are statutorily required to adopt a budget by Ohio Revised Code 3314.032(C). However, unlike traditional public schools located in the State of Ohio, community schools are not required to follow the specific budgetary process and limits set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its Sponsor. The contract between the School and its Sponsor does not require the School to follow the provisions Ohio Revised Code Chapter 5705; therefore, no budgetary information is presented in the basic financial statements. (Modify as applicable.)

Close-out Audits

- Repayment letters were received for many of the schools that closed in FY 18. These letters were sent to the Regional Chiefs to be forwarded to IPAs
 - If the letter indicates the school received more funding than the final student data (presumably from the Final FTE Review) could support, these liabilities need to be reflected in the school's financial statements, with appropriate disclosures.
 - Remember to also address the true-up situation, as discussed in our [11/2017 webinar](#) and in the testing procedures on our [Community School internet page](#).
 - Auditors will likely issue FFRs when the true-up calculation/evaluation has 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.

- In situations where a community school closes and still owes ODE money, a Finding for Recovery will be issued. If the school can demonstrate, during the course of the audit, that they have already made the repayment or reached a settlement with ODE, likely no FFR would be issued.
 - A closed school with a FFR against the vendor/management company/sponsor would be in favor of the School.
 - A closed school with a FFR for money due back to ODE for foundation overpayment would be against the School, in favor of ODE.
 - Occasionally when a school closes, they still receive July/August foundation, when they were not eligible (failure to obtain minimum # of students, planning to open but does not, etc.). Often in these cases ODE requires 100% of these funds to be repaid to ODE. In these situations, for any contracts/agreements paid on a % or # of FTE, the community school must assess their contracts and make a determination whether such payments made are due back to the community school.
 - IPAs should follow FFR guidance in the OCS Implementation Guide.
- Testing ODE close-out procedures:
 - AOS auditors are no longer testing these procedures via a separate AUP engagement. AOS auditors will audit all of the ODE close-out procedures as compliance in the regular close-out financial audit.
 - ODE updated their close-out procedures for 6/30/18 and subsequent engagements, however, some schools that closed prior are using the new procedures as well - <http://education.ohio.gov/Topics/Community-Schools/Guidance-Documents-Webinars-and-Presentations>.
- Normally the financial statements of a close-out audit will cut off at the schools closing date. Depending on the schools circumstances, there could be rare situations where the school will need to file financial statements the following year as well, and receive ongoing audit(s). This will be determined on a case by case basis depending on the outstanding closeout work as of our opinion date and the status/resolution of obligations/liabilities. If there are potentially significant items unresolved and/or not yet performed, we may continue to require the school to file and be audited until the remaining activity is negligent. That determination will be up to the schools' management and the AOS regions to assess – and communicate to the CFAE Community School Specialist if such subsequent filings/audits are deemed necessary.
- Continue to notify CFAE (CommunitySchoolQuestions@ohioauditor.gov) as you become aware of a Community School closing/being suspended, or changing sponsor/management company.

- Schedule 'closed' or 'suspended' audits as soon as the audit schedule permits. SAMs/IPAs need to contact the Community School Specialist to set up a close-out conference call for each closed/suspended audit when the audit team is ready to start the engagement.

As a reminder, this memo, along with many other community school items, are available on our [Community School internet page](#).

Questions can be directed to CommunitySchoolQuestions@ohioauditor.gov.