



**Department
of Education**

John R. Kasich, Governor
Dr. Richard A. Ross, Superintendent of Public Instruction

December 4, 2015

Stefan Huh, Director
Charter Schools Program
U.S. Department of Education
400 Maryland Ave. S.W.
Washington, D.C. 20202

Dear Director Huh:

Thank you for the opportunity to provide additional materials in support of our Charter Schools Grant Award of Sept. 28, 2015. The Ohio Department of Education is committed to improving educational opportunities for all Ohio students. Recent legislation passed by the Ohio General Assembly and supported by the governor improves oversight of charter schools, including important new provisions that strengthen the ability of the state auditor to oversee the financial activities of these schools.

We have worked with the state auditor and the Ohio Attorney General to provide you with a comprehensive analysis of charter school financial oversight, including a summary of audit findings and the actions taken by state officials.

Under the Ohio Constitution, the state auditor is charged with auditing all public entities in Ohio, including charter schools. While the auditor typically performs financial audits at least once every two fiscal years, community school audits are performed annually. The financial audits review accounts, financial reports, records and files to determine if the charter school has complied with state and federal laws, regulations and accounting principles. If an audit demonstrates misuse, improper accounting or collection of public funds, or misappropriation of public property, the Attorney General, in concert with the department, will take legal action to resolve issues.

The Ohio Department of Education reviews all corrective action plans resulting from the audits of community schools to ensure that recommended improvements in fiscal controls are implemented. Regular audits are shared with schools' authorizers for their review and follow up, if needed.

Per your request, we are providing instructions to access the Auditor of State's website, where 2,315 audits of charter schools are maintained. This includes special audits the state auditor performed concerning how all traditional districts and public charter schools report student test data to the state and a review of student headcount reporting at 30 community schools.

In addition, we have summarized the audit responsibilities, audit process, community school findings, statewide audits and the department's audit results.

Ohio has taken additional steps to improve charter school accountability. As part of recently enacted legislation, charter school sponsors must:

- Communicate with the state auditor regarding audits of the school or the condition of the school's financial and enrollment records and be present at meetings with auditors.
- Verify annually that no finding for recovery has been issued by the state auditor against a person who proposes to create a community school, serves on the governing authority, operates the school or is employed by the school.

In addition, our new law specifies that detailed accounting of operator expenditure reporting is subject to verification through examination of the school's records during its regular audit. Also, eSchools are required to keep accurate records of each student's daily participation in learning opportunities that can be submitted upon request by the department or the state auditor.

We remain appreciative of your willingness to work productively toward our shared goal of building a system of strong accountability that will support the growth of high-quality charter schools in our state. Should you need any additional information about the attached materials or any other matter, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Richard A. Ross".

Dr. Richard A. Ross
Superintendent of Public Instruction

Enclosures

This report describes audit responsibilities, processes and a summary of findings for community schools¹ conducted by the state auditor for the period 2008 to 2014. The report includes the following sections;

1. AUDIT RESPONSIBILITIES

Describes the state auditor’s responsibilities to conduct audits, the Attorney General’s responsibility to collect funds and the Ohio Department of Education’s responsibility to monitor and resolve A-133 audit findings. This section also includes the source of records used to file this report.

- Appendix A: Link and Guidance to Search the State Auditor’s Website

2. AUDIT PROCESS

An outline of the types of community school audits performed by the state auditor and the process through resolutions.

- Appendix B: Financial Audit Process

3. COMMUNITY SCHOOL FINDINGS

Provides a summary of the finding and resolution of major findings related to financial audits, including “findings for recovery” and A-133 federal findings. This section also includes other types of audits performed including “Special Audits” or investigations into reports of misuse of public funds.

- Appendix C – Summary of All Findings for Recovery from 2008 to 2014 and A-133 Audits from 2010 to 2014 – Attached Spreadsheet
- Appendix D – A-133 Audit Definitions
- Appendix E – Sample Ohio Department of Education Audit Review Letter and Corrective Action Plan
- Appendix F – Summary of Other Audits Performed with Resolutions

4. STATEWIDE AUDITS

Summary of two recent statewide audits on data and attendance related to community schools and one audit on community school sponsors.

- Appendix G – Summary – Phase 3 Community School Enrollment Testing
- Appendix H – Letter from the Ohio Department of Education to the State Auditor Regarding the Attendance Audit

5. OHIO DEPARTMENT OF EDUCATION AUDIT RESULTS

- Appendix I – Summary of Ohio Department of Education Management Letter Comments

6. SUMMARY

- Appendix J – Summary of House Bill 2 Audit-Related Changes

¹ Under Ohio law, charter schools are known as community schools.

1. AUDIT RESPONSIBILITIES

The state auditor is the constitutional officer responsible for auditing all public offices in Ohio.² The duties of the auditor are established in Ohio law (Ohio Revised Code section 117.10).

117.10 Auditor of state - duties - federal audits.

(A) The auditor of state shall audit all public offices as provided in this chapter. The auditor of state also may audit the specific funds or accounts of private institutions, associations, boards, and corporations into which has been placed or deposited public money from a public office and may require of them annual reports in such form as the auditor of state prescribes.

In addition to establishing the duties of the auditor, Ohio law also establishes a process for when an audit identifies public funds that were spent illegally, when collected funds cannot be accounted for, or when public property is misappropriated. The state auditor notifies the Attorney General in writing. After receiving the certified report, the official has 120 days to notify the Attorney General in writing whether legal action was taken or not. If not, the official must state reasons why.

117.28 Report of audit and actions thereon.

Where an audit report sets forth that any public money has been illegally expended, or that any public money collected has not been accounted for, or that any public money due has not been collected, or that any public property has been converted or misappropriated, the officer receiving the certified copy of the report pursuant to section [117.27](#) of the Revised Code may, within one hundred twenty days after receiving the report, institute civil action in the proper court in the name of the public office to which the public money is due or the public property belongs for the recovery of the money or property and prosecute the action to final determination.

The auditor of state shall notify the attorney general in writing of every audit report which sets forth that any public money has been illegally expended, or that any public money collected has not been accounted for, or that any public money due has not been collected, or that any public property has been converted or misappropriated and of the date that the report was filed.

Within one hundred twenty days after receiving the certified copy of the report, the officer receiving the report shall notify the attorney general in writing of whether any legal action has been taken. If no legal action has been taken, the officer shall, within the same period, notify the attorney general in writing of the reason why legal action has not been taken...

Ohio Department of Education Monitoring Responsibilities

The Ohio Department of Education does not perform audits, which is the responsibility mandated to the state auditor. As the pass-through entity, the department is required to develop a subrecipient monitoring system to ensure compliance with federal requirements. Per OMB Circular A-133 and the current OMNI Circular (2 CFR 200), the department completed the “During the Award Monitoring” and the review of subrecipient A-133 single audits. The Ohio Department of Education completes subrecipient monitoring reviews.

Community School Sponsor Responsibilities

The sponsor (authorizer) is the entity that authorizes the opening of a new community school; oversees and monitors the school’s operations; provides technical assistance; makes decisions about intervening in the school’s operations; and decides whether it will renew the school’s contract (charter).

More specifically, the sponsor monitors all aspects of a school's fiscal, academic and operational performance, including, but not limited to, compliance with applicable rules, laws and all terms of the community school's contract. The sponsor is expected to provide technical assistance, directly or indirectly through referral, to help the school comply with state and federal laws and terms of the contract. The sponsor annually reports its evaluation of the school’s academic and fiscal

² Community schools are subject to these audits under Ohio law and the contract with the school’s sponsor through section 3314.03(A)(8) of the Ohio Revised Code.

performance, as well as the organization and operation of the school to the Ohio Department of Education and the public. The sponsor is essentially the creator and gatekeeper of a community school.

Records

Since the state auditor is responsible for the audit of public funds, the department, as well as all other state agencies, obtain audit reports for review from the auditor's website. The website is open to the public and allows pass-through entities access to scanned copies of various types of audits, including financial (regular and single audit), special and agreed upon procedures audits.

In question 2b, copies of all of the relevant audits and the responses or copies of documents describing any actions taken by state officials were requested. There were 2,315 financial audits of community schools during the requested time period. As the auditor does not maintain a searchable database of audit findings, the department reviewed all single audits and regular audits where there were findings for recovery.

The department also reviewed all special audits (investigations) and agreed upon procedures (closeouts). The department determined these findings and responses as relevant, and appendices summarizing the details of the audits and actions taken by state officials are attached. Please note that these findings for recovery are resolved by a number of different entities, such as the Attorney General, community school, or others. Only the single audit findings are actually resolved by the department of education.

Audit reports are maintained and available on the auditor's website at <https://ohioauditor.gov/auditsearch/Search.aspx>.

APPENDIX A: Link and Guidance to Search the State Auditor's Website

For the purpose of this request, the department collaborated with the auditor and used the state auditor's website to identify "findings for recovery" and other types of audits completed by the auditor's office for Fiscal Years 2008 through 2014. Audits for FY15 are not yet available on the website. The department also collaborated with the Attorney General's office regarding the status of unresolved findings for recovery.

The department queried the in-house database that maintains the single audit reviews. The single audit review process was converted from a manual to an electronic review process in 2010 to promote efficiency and consistency. The reviews prior to 2010 were completed manually and are unavailable. These records were sent to a vendor for destruction pursuant to both federal and department record retention policies (E.D.G.A.R. (34 CFR 80.42) and the updated OMNI Circular section 200.333).

80.42 Retention and access requirements for records.

(a) Applicability. (1) This section applies to all financial and programmatic records, supporting documents, statistical records, and other records of grantees or subgrantees...

(b) Length of retention period. (1) Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section.

§200.333 Retention requirements for records. *Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. Federal awarding agencies and pass-through entities must not impose any other record retention requirements upon non-Federal entities.*

2. AUDIT PROCESS

Generally, the state auditor is required to perform financial audits at least once every two fiscal years; however, community school audits are performed annually. A total of 2,315 audit reports were issued by the auditor to community schools during the period FY08-14. Table 1 shows the audits completed by fiscal year and type. The different types of audits are described below.

Table 1: Community School Audits – Summary by Type

Fiscal Year	Regular Audit	Single Audit	Other Audits	Total Audits
2014	256	93	19	368
2013	241	97	0	338
2012	220	102	1	323
2011	157	155*	1	313
2010	192	131*	4	327
2009	335	**	2	327
2008	320	**	0	320
Total	1711	578	27	2,315

* Increase in A-133 single audits findings due to ARRA Stimulus funds.

** Ohio Department of Education A-133 single audit system automation/new database in 2010.

Financial Audits

The financial audits review the methods, accuracy and legality of the accounts, financial reports, records and files to determine whether or not the entity has complied with the law, rules and regulations. The financial audits performed by the auditor are segmented into two categories: regular financial statement audits and A-133 single audits. All community schools receive regular financial statement audits annually. Community schools also receive A-133 single audits if they spent \$500,000 or more in federal funds.

APPENDIX B – Financial Audit Process

- **Regular financial statement audits** are independent, objective evaluations of an organization's financial reports and financial reporting processes. The primary purpose for regular financial audits is to give regulators, investors, directors and managers reasonable assurance that financial statements are accurate and complete.

Regular audits may contain findings and comments and/or findings for recovery. The state auditor notifies the public office and the Attorney General whenever an audit results in a finding for recovery. Pursuant to Ohio law, when a finding for recovery is issued in an audit report, the officer for the public office (i.e. community school or Ohio Department of Education) is authorized to collect the public money due within 120 days after receiving the audit report. If, after 120 days, the officer for the public office has not initiated legal action to recover the public money due, the Attorney General is authorized to bring such an action.

Additionally, Ohio law provides that whenever any amount is payable to a state agency, including a finding for recovery, the state agency is authorized to collect the amount due. If the amount due is not paid within 45 days, the state certifies the amount due to the Attorney General and notifies the director of Budget and Management. The Attorney General's office is then responsible for collecting the claim or securing a judgment and issuing an execution for its collection.

This report includes all findings for recovery issued by the state auditor for 2008-2014. Other findings and comments issued in regular audits are followed up by the auditor in the next year's audit. There is no database for tracking these findings.

- **A-133 single audits** combine the annual financial statement audit with additional audit coverage of federal funds. The single audit is intended to meet the basic audit needs of both the non-federal entity and federal awarding agencies.

The department follows up on all single audits performed by the state auditor. Review letters are sent to all community schools acknowledging the single audits and requesting actions when needed. Actions may include requesting payment due to findings for recovery or corrective action plans. The department tracks all single audits through to resolution. The department's A-133 single audit review process is reviewed by the state auditor as part of the agency's single audit. Not only does auditor's office review the department's single audit process, it also ensures the department has reviewed all entities required to have single audits and that corrective action plans are addressed.

This report includes all single audits performed by the auditor from 2010 to 2014. Single audits performed prior to 2010 are not in the department's database and were sent to the vendor for destruction pursuant to the both department and federal records retention policies.

- **Unauditable list** - The auditor may declare community schools as "unauditable." A school is deemed unauditable if its financial records are not adequate to complete an audit.

Lawrence County Academy is the only open community school on the unauditable list. Schools have 90 days from the auditor's notification to provide the necessary information to be audited. Lawrence County Academy was notified on Nov. 3, 2015, and on Nov. 6, 2015, the state auditor's senior audit manager notified the sponsor that it had received the requested financial records/documentation needed to complete the FY14 audit of the academy.

Other Audits

The state auditor performs various other types of audits of community schools. These audits do not necessarily occur for every community school annually. During FY08-14, a combined total of 27 special audits, agreed upon procedures, and State Employee Retirement System and State Teachers Retirement System retirement compliance examinations were completed for community schools. See Table 5 below.

- **Special audits** are a limited-scope examination of financial records and other information designed to investigate allegations of fraud, theft or misappropriation of funds. Two community school audits were performed in 2014 and four audits in 2010.
- **Retirement system compliance examinations** are the result of GASB 68 and are an examination of the entities census data and pensionable wages. Twelve community school audits were performed in 2014.
- **Agreed upon procedures** audits narrow the scope of work to review key internal controls and perform targeted testing of significant transactions for qualifying public offices. Nine agreed upon procedures audits took place since 2008 (five in 2014, one in 2012, one in 2011 and two in 2009).
- **Performance** audits are the independent examination of a program, function, operation or the management systems and procedures of a governmental or nonprofit entity to assess whether the entity is achieving economy, efficiency and effectiveness in the employment of available resources. The auditor has not performed any community school performance audits.

3. COMMUNITY SCHOOL FINDINGS

This section summarizes community school findings and actions taken by the state to resolve issues. In general, community schools with audit findings from financial audits have decreased from 2008 to 2014. Schools with findings for recovery have decreased 71 percent since 2010. Community schools with A-133 single audit findings also are on a declining trend, some of the decrease is due to the end of ARRA Stimulus in 2011.

Table 2 illustrates the declining numbers of community schools with findings for recovery as well as single audit findings. Table 3 (page 7) shows the total number of community schools and their relationship to the number of single audit findings and the number of unresolved issues.

A majority of the unresolved findings for recovery are against individuals who operated or worked at schools, and many of these schools are now closed.

As mentioned previously, the Attorney General is primarily responsible for pursuing claims associated with findings for recovery and criminal prosecution. Additionally, the department pursues action against professional educators, up to and including recommending to the State Board of Education that an educator's license be revoked.

Most recently, the state auditor launched a joint investigation with the FBI into school treasurer Carl Shye's involvement in numerous community schools' findings for recovery. The auditor's investigative and audit staff worked through 19 audits and issued 67 Findings for Recovery against Shye, totaling \$1,115,461. He pled guilty to the charge, admitting that he illegally stole more than \$470,000 in public funds between 2005 and 2011. Shye was sentenced to two years in prison on Oct. 31, 2012, and ordered to pay restitution. Additionally, the State Board of Education revoked Shye's school treasurer license.

Financial Audit Findings

Table 3 (page 7) summarizes the financial audits conducted by the state auditor from 2008 to 2014. The table includes all community schools with findings for recovery and A-133 single audits found in financial audits. In certain instances, the number of schools could be duplicated because Findings for Recovery were issued in the A-133 audit reports. Findings for recovery are not always against the community school and may actually be found in the school's favor.

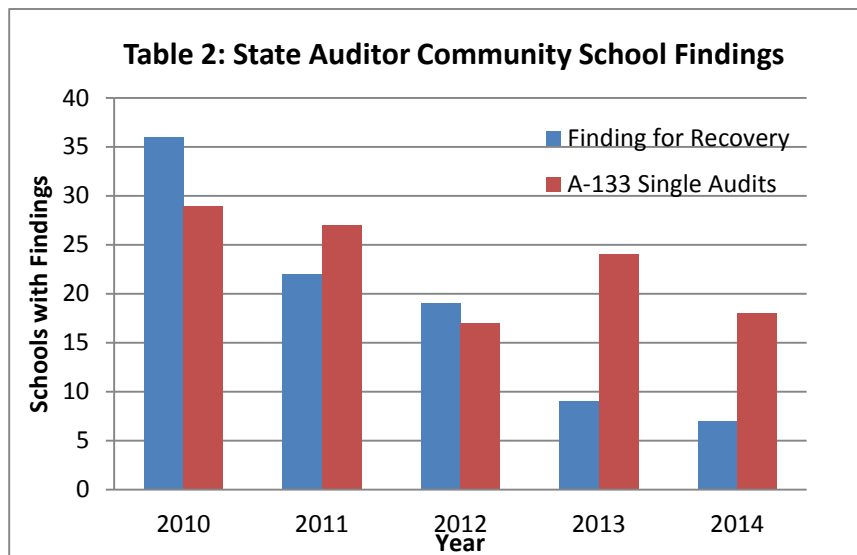


Table 3: Financial Audits – Summary of Community School Findings

Year	Total Community School Audits	A-133 Single Audits Findings		Finding for Recovery	
		Schools	Unresolved	Schools	Unresolved
2014	348	18	1	7	1
2013	337	24	0	9	1
2012	322	17	0	19	10
2011	312	27	0	22	12
2010	325	29	0	36	13
2009	323	*	*	53	13
2008	320	*	*	33	12
Total	2,296	115	1	179	62

* Ohio Department of Education A-133 audit system automation/new database in 2010

- Finding for recovery** - A Finding for Recovery is issued by the state auditor when public property has been misspent or misappropriated. A Finding for Recovery also may be a single audit finding.

The state auditor notifies the public office and the Attorney General whenever an audit results in a finding for recovery. Pursuant to Ohio law, when a finding for recovery is issued in an audit report, the legal counsel for the public office (i.e. community school or Ohio Department of Education) is authorized to collect the public money due within 120 days after receiving the audit report. If, after 120 days, the legal counsel for the public office has not initiated legal action to recover the public money due, the Attorney General is authorized to bring such an action.

APPENDIX C - Summary of All Findings for Recovery from 2008 to 2014 and A-133 Audits from 2010 to 2014 – Attached Spreadsheet

- A-133 single audit findings** - A finding is any significant issue identified during an audit (e.g., non-compliance with the Terms and Conditions in an award or grant). Each finding contains several elements:
 - (1) The criteria or basis for determining that a problem does exist;
 - (2) The condition or situation that was observed;
 - (3) The effect or impact of the condition;
 - (4) The root cause of the problem to the extent that it can be determined; and
 - (5) A recommendation to help management resolve the issue.

Table 4 (page 9) shows the single audit findings for FY 2010 – FY 2014. The data is reported by area of compliance failure, audit finding category, and fiscal year.

APPENDIX D – A-133 Audit Definitions

Ohio Department of Education Single Audit Actions

Single audit review letter - The department sends out single audit exception letters identifying findings in the A-133 single audit report. In addition, the letter outlines the department’s response, and where applicable, includes corrective actions and recommendations to be implemented by the entity with associated deadlines.

APPENDIX E – Sample Ohio Department of Education Audit Review Letter and Corrective Action Plan

Throughout the single audit review process, the department works with the schools to resolve audit issues and provide technical assistance. The amount of involvement the department needs to invest depends on the severity of the issues identified. Examples include collecting refunds, final expenditure report corrections, recommending board policy and procedures to comply with federal and state requirements, providing time and effort support documentation, and monitoring of activities for compliance and future technical assistance. Significant findings may require the creation and submission of a corrective action plan from the community school. Department staff members review the corrective action plans, and once approved, send an acknowledgment letter of the corrective action plan approval.

Corrective action plans - The corrective action plan summarizes the audit findings and a corrective and preventative action plan that both the auditor and the school believe is reasonable to ensure conformity with applicable local, federal and state laws and additional audited requirements. After the initial audit, the form is used to re-record actions taken and to categorize the status of the non-compliances.

Table 4: Financial Audits – Summary by A-133 Single Audit Findings

Compliance Failure	Audit Finding	2010*	2011	2012	2013	2014
Activities Allowed/Not Allowed	Noncompliance	5	3	1	2	0
	Questioned Costs	0	5	0	2	0
	Material Weakness	0	0	2	0	0
Allowable Costs/Cost Principle	Noncompliance	13	4	2	1	10
	Questioned Costs	0	14	12	2	3
	Material Weakness	0	2	0	0	6
Cash Management	Noncompliance	3	1	0	3	0
	Questioned Costs	0	2	2	1	0
	Material Weakness	0	0	3	0	0
	Significant Deficiency	0	0	1	0	0
Eligibility	Noncompliance	1	4	3	1	2
	Questioned Costs	0	0	0	0	0
	Material Weakness	0	0	2	2	0
Period of Availability	Questioned Costs	0	1	0	0	0
	Noncompliance	2	0	0	0	0
Reporting	Noncompliance	21	3	2	3	7
	Questioned Costs	0	4	0	0	0
	Material Weakness	0	2	6	0	0
	Significant Deficiency	0	2	0	0	0
Procurement Suspension and Debarment	Material Weakness	0	0	0	0	1
Special Test and Provisions	Noncompliance	0	4	4	1	0
	Questioned Costs	0	2	0	0	0
	Material Weakness	0	4	0	0	0
	Significant Deficiency	0	0	0	2	0
Equipment and Real Property	Noncompliance	1	0	0	0	0
Total Number of Findings**		46	57	40	20	29

*For 2010, A-133 single audit findings were only classified as noncompliance.

** Increase in A-133 single audits findings due to ARRA Stimulus funds.

Other Audit Findings

Twenty-seven audit reports were issued for other audit types from 2008 to 2014. Details can be found in APPENDIX F – Summary of Other Audits Performed with Resolutions.

- **Retirement system compliance examinations** are an examination of the schools' census data and pensionable wages. There were no findings in any of the 12 retirement system reports issued in 2014.
- **Special audits** can be independent, standalone examinations or conducted during the course of a regular financial audit. Special audits are necessary when an allegation requires extensive detailed testing or if a timely review is not possible during a regular financial audit.

Six special audit reports were issued during the seven-year period (four in 2010 and two in 2014). Special audit findings may include findings for recovery, management recommendations, management comments and noncompliance citations.

Appendix F provides details of the audit findings and actions taken to resolve the issues. Table 5 summarizes the types of findings from these audits.

Table 5: Summary of Special Audit Findings

Audit Comment Category	2010 Four Audits	2014 Two Audits
Finding for Recovery	58	1
Management Recommendations	23	0
Management Comment	7	1
Noncompliance Citation	5	3
Totals	93	5

- **Agreed upon procedures** - Nine agreed upon procedures audit reports were issued during the seven-year period. These reports included three categories: financial statement audit with compliance review, school closure, and FTE calculation. Appendix F provides additional details and resolutions.

4. STATEWIDE AUDITS

During the period from 2008 to 2014, the state auditor completed two statewide audits that made recommendations related to community schools.

- **Statewide Audit of Student Attendance Data and Accountability System – Released Feb. 11, 2013**
https://ohioauditor.gov/publications/Attendance_FINAL_2-11-13.pdf

The state auditor completed a review and assessment of school district student attendance, enrollment and withdrawal practices and included a review and assessment of the department's accountability policies, procedures and data.

APPENDIX G – Summary – Phase 3 Community School Enrollment Testing

Recommendation Related to Community Schools: Establish separate tracking for community school withdrawals. The state auditor recommended the department create a separate and distinct withdrawal code for community schools in the Education Management Information System (EMIS), because of unique requirements for community school funding and monitoring.

Actions Taken by the State

The department revised its EMIS manual as a result of the issues identified by the state auditor.

- **Report on Community School Student Attendance Counts – Released Jan. 22, 2015**
https://ohioauditor.gov/auditsearch/Reports/2015/Community_School_Attendance_Report_01222015_FINAL.pdf

The state auditor’s office conducted an unannounced student head count at 30 of Ohio’s site-based charter schools. See Appendix H – Letter from the Ohio Department of Education to the State Auditor Regarding the Attendance Audit.

The report provided four policy recommendations to the Ohio Department of Education and one policy recommendation to charter school sponsors. Tables 6 and 7 (page 12) summarize the policy recommendations and actions taken by the state.

Table 6: State Auditor’s Policy Recommendations for Sponsors

Policy Area	State Auditor’s Recommendations for Sponsors	Sponsor/Ohio Department of Education Action
Enrollment Monitoring	1. Sponsors should actively review community school enrollment and student attendance information and conduct on-site FTE reviews.	State law requires that sponsors conduct monthly enrollment reviews. Additionally, the department conducts annual FTE reviews of community schools based on several criteria, including: five-year annual reviews, significant previous fiscal year final payment differences, FTE review findings (FTE adjustments), recommendations from the department program offices, etc.
	2. Blended learning - Review login records to determine whether login hours and completion of lesson plans match daily hours of instruction listed in the sponsor contract education plan and school's entity profile in EMIS.	<p>The department is in the process of updating the FTE review manual to require schools to document non-computer, non-classroom based learning activities. This would allow the department to review learning opportunities and to ensure that the documented time matches the reported FTE.</p> <p>The department also is in the process of updating the FTE review manual to outline how the department should request computer logs to ensure that schools using computer-based learning opportunities are reporting FTEs correctly.</p> <p>In addition, the department will soon release a guidance document about blended learning, offering details to assist sponsor enrollment reviews.</p>
	3. The Ohio Department of Education requires sponsors to review and investigate the schools reviewed with large or unusual variances between head count and EMIS enrollment information.	<p>The department reviewed schools in the report and found no evidence the schools over-reported or misreported enrollment.</p> <p>The department includes schools with large or unusual variances in FTEs in the previous year for FTE reviews in the following fiscal year. Schools with the most significant attendance variances were included in the FTE reviews in the upcoming school year.</p> <p>The department uses state auditor findings, FTE reviews and final payment adjustments to determine schools with significant variances. These schools are then added to the FTE review list for the following fiscal year.</p>

	4. Consider subjecting the community schools to an Ohio Department of Education FTE review to confirm compliance with Ohio community school enrollment statutes and rules.	If the state auditor detects issues with a community school's enrollment/EMIS data, then it is added to the FTE review list for the following fiscal year.
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Table 7: State Auditor's Policy Recommendations for the Ohio Department of Education

Policy Area	Recommendations for Ohio Department of Education	Ohio Department of Education Action
Update of Manuals	Update EMIS Manual and SOES Manual for FY15 changes made during the EMIS-rewrite and consolidation of SOES.	<p>The updated EMIS Manual is posted on the department's website at http://education.ohio.gov/Topics/Data/EMIS/EMIS-Documentation/Current-EMIS-Manual.</p> <p>The department maintains an ODDEX application Web page that provides guidance and information on SOES and SCR at https://wiki.ssd-ohio.org/pages/viewpage.action?pageId=21135503.</p>
Monthly Reporting of FTE Estimates	Monthly reporting of student enrollments should be based on actual data rather than projections.	<p>The department uses actual data reported by community schools for the calculation of FTEs and monthly payments. Estimated enrollment data is not used for the calculation of FTEs or payments.</p> <p>If current fiscal data is not available, updated data from the previous fiscal year is utilized until current year data becomes available once the new school year begins.</p>
SOES Flagging System	Review the errors identified by the SOES flagging system for potential errors during September-November 2014, which may necessitate adjustments to the schools' foundation payments during the months.	<p>The department's foundation funding system recalculates payment amounts and annualizes those amounts every time a payment is run. Several reconciliation payments are made after the end of the fiscal year. Any overpayments related to incorrect data submissions are reconciled as soon as updated data is submitted.</p> <p>The department worked with community schools and districts of residence to address and resolve FY15 flags.</p> <p>Area coordinators are responsible for working with school districts and community schools to resolve enrollment issues. The department's area coordinators gathered flag removal requests from community schools, if the community school was not able to resolve the issues with the district of residence. If the area coordinator was provided with sufficient evidence that the flag should be removed, it was turned over to the department for the removal of the flag(s) in question.</p>

Blended Learning	Develop minimum documentation standards and provide best practices policies and tools to sponsors. Discourage sponsors from using boilerplate language in sponsor contracts with community schools.	<p>Many blended learning models utilize non-classroom, non-computer based learning opportunities and computer based learning opportunities.</p> <p>The Ohio Department of Education is in the process of updating the FTE review manual to require schools to document non-computer, non-classroom based learning activities. These updates will be in place in the next 90 days and incorporated into the 2015-2016 school year FTE reviews, with community schools being held accountable for those changes starting with the 2016-2017 school year. This will allow the department to review learning opportunities and to ensure that the documented time matches the reported FTE.</p> <p>The updated FTE review manual would include templates for documenting non-classroom, non-computer based learning opportunities and minimum documentation requirements.</p> <p>The department also is in the process of updating the FTE review manual to outline how the department should request computer logs to ensure that schools using computer-based learning opportunities are reporting FTEs correctly.</p>
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- Community School Sponsorship - Special Audit Released**
https://ohioauditor.gov/auditsearch/Reports/2015/Community_School_Sponsorships_16-Franklin_SA.pdf

The state auditor reviewed three sponsors' practices related to granting new contracts (charters) during the period of Jan. 1–Dec. 31, 2013. The report was released on Sept. 3, 2015.

The state auditor identified four objectives: (1) vetting of schools applying for sponsorship; (2) potential conflicts of interest; (3) use of funds by schools, sponsors and management companies; and (4) continuous monitoring activities.

Table 8: State Auditor's Review of Three Community School Sponsors

Policy Area	State Auditor's Comments	Ohio Department of Education Action
Vetting of schools applying for sponsorship	The state auditor observed that Ohio law lacks direction about evaluating applications for new schools, or minimum standards for academic and financial sustainability and the department lacked guidance for sponsors with respect to evaluating applications.	In the spring of 2013, the department implemented a review procedure of all sponsors' newly proposed community schools, sharing the checklist of items to be reviewed and rubric for scoring, clearly indicating the importance of comprehensive vetting with respect to developers' historical performance, market research and financial viability.

Potential conflicts of interest	The state auditor's report stated that it did not identify any evidence of an improper interest in a public contract but remained concerned that Ohio laws allow various methods of structuring relationships among community schools, sponsors and management companies and allows arrangements that produce competing interests that in other contexts might be considered improper conflicts of interest.	The department addressed the sponsors' selling of services in administrative rule in 2013. Recently enacted House Bill 2 made more direct changes to limit the risk of such conflicts.
Use of funds by schools, sponsors and management companies	Examination of disbursements by schools and management companies found two instances where expenditures of state funds were not considered for a proper public purpose. The state auditor issued findings for recovery against two community school directors.	No action for the department. One director has repaid, the other has not as of this date.
Continuous monitoring activities	The three sponsors' monitoring of schools was consistent with the obligations under rule and law; however, the state auditor's report pointed out inconsistencies in the sponsors' processes (e.g., failing to report the name of the reviewer; timeliness of sharing the results with schools).	This information will be used, where appropriate, as part of sponsor development activities in calendar year 2016.

5. OHIO DEPARTMENT OF EDUCATION AUDIT RESULTS

The Ohio Department of Education did not receive any single audit comments related to the Federal Charter Schools grant funds or related program administration during FY08-14. The state auditor issued several management letter comments to the department during the period.

Management letters relate to improvements in compliance, internal controls or operational efficiencies. The comments are not required to be included in the single audit report. Table 9 (page 15) lists the management letter finding and recommendation, by comment area and fiscal year. The department did not receive management letter comments during FY11-14. Details of the

management letter comments are listed in APPENDIX I – Summary of Ohio Department of Education Management Letter Comments.

Table 9: Summary of Management Letter Comments

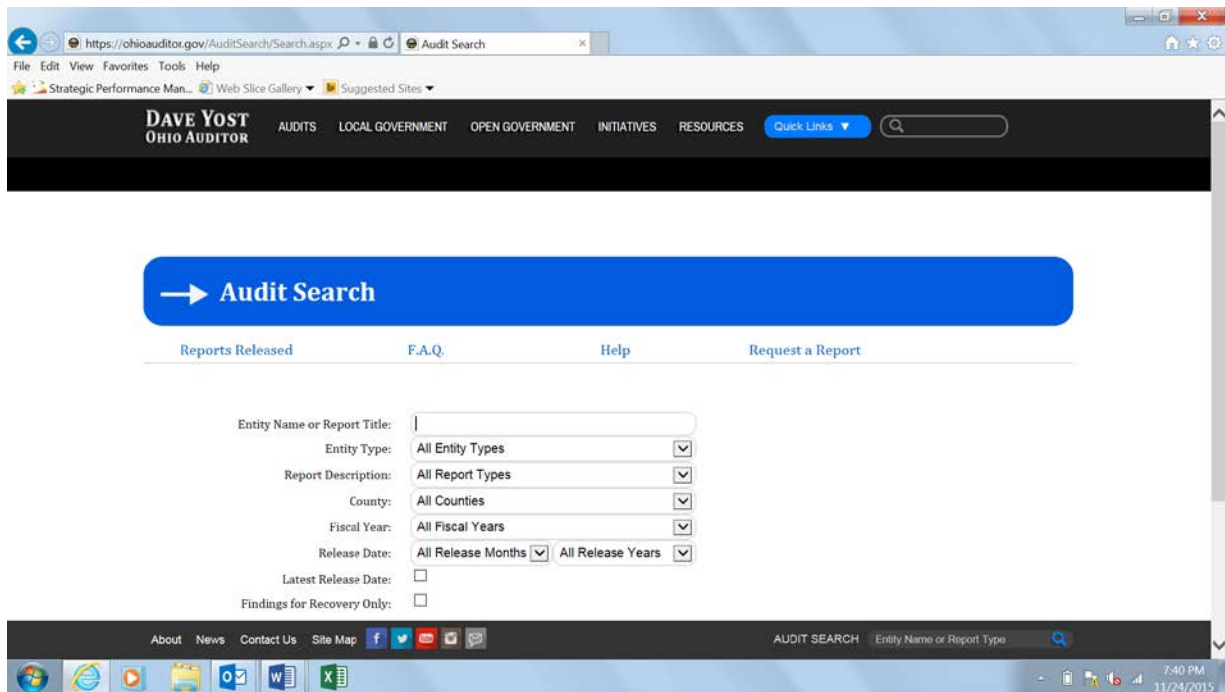
Management Letter Recommendation	2008	2009	2010
Subrecipient Monitoring	1	1	1
Cash Management	1	0	0
Schedule of Federal Awards	1	0	0
Total	3	1	1

6. SUMMARY OF HOUSE BILL 2 AUDIT-RELATED CHANGES

See Appendix J – Summary of House Bill 2 Audit-Related Changes.

Appendix A – Link and Guidance to Search the State Auditor’s Website

Audit reports issued by the Ohio Auditor of State’s Office are available by accessing the following audit search link: <https://ohioauditor.gov/auditsearch/Search.aspx>.



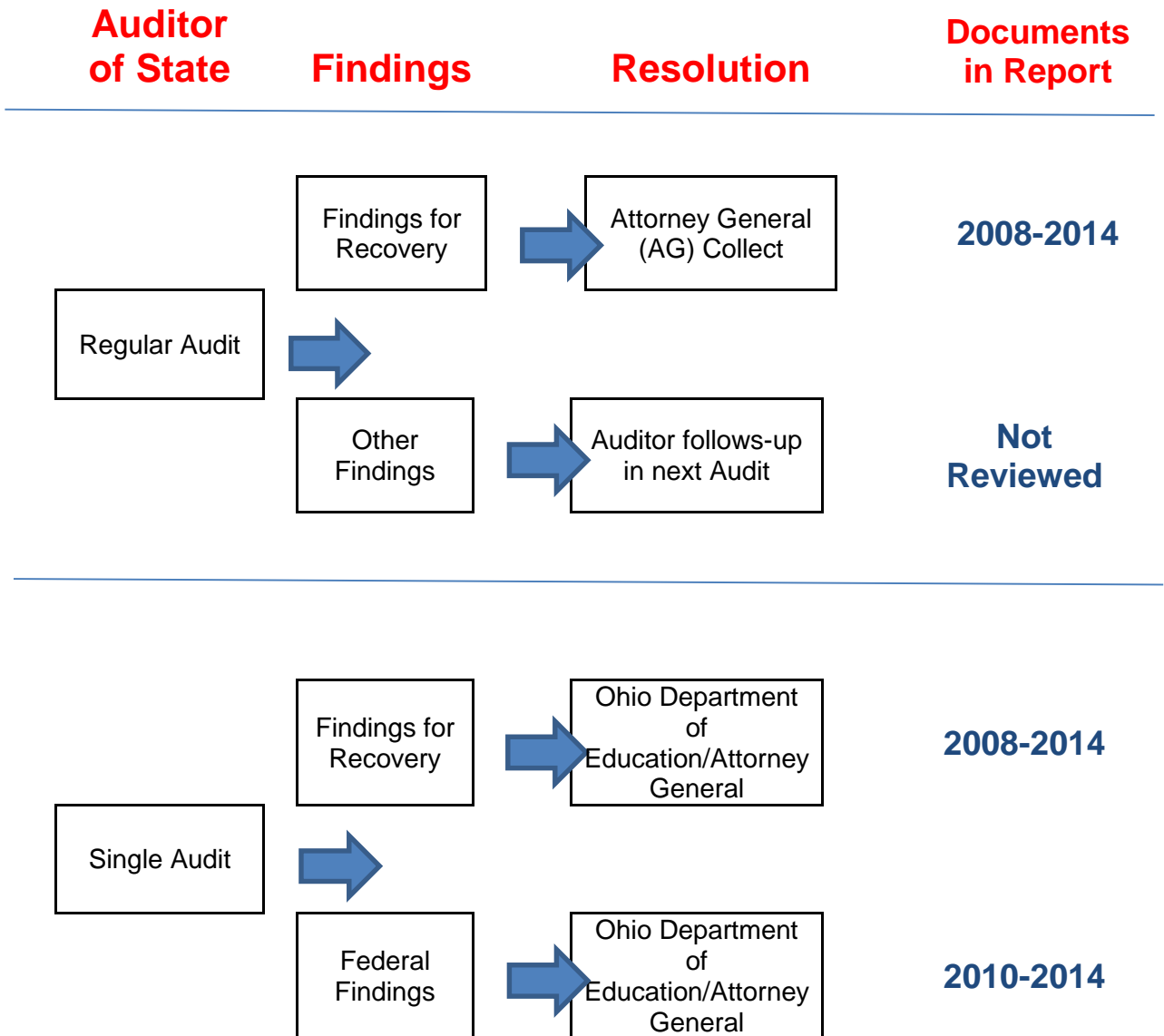
Eight search options are available. The following options are recommended.

- **Entity Name or Report Title:** Enter the exact name of the entity or report title to limit the search results. Entering a partial name will yield greater results. Community school audit reports can be obtained without entering information in this section.
- **Entity Type:** Click the drop-down arrow. Select “Community School District” to view all audit reports issued to community schools. Refine the search results by selecting at least one other search criteria (e.g., report description, fiscal year, findings for recovery only).
- **Report Description:** Click the drop-down arrow. Select the type of audit report to review. Options referenced in the Ohio Department of Education’s response include: agreed upon procedures, financial audit (single audit reports are included in the financial audit group), SERS compliance examination, special audit, and State Teachers Retirement System compliance examination.
- Combining search options will decrease the number of results listed.

Note: There are instances when a community school will be found under “School” or “Other” as opposed to “Community School District.”

Appendix B – Financial Audit Process

FINANCIAL AUDIT PROCESS



Appendix C – Summary of All Findings for Recovery from 2008 to 2014 and A-133 Audits from 2010 to 2014

See Excel spreadsheet titled Appendix C.

Appendix D – A-133 Audit Definitions

A-133 – Compliance Requirements Defined

- A. **Activities allowed or unallowed:** Provides guidance on activities that can or cannot be funded under a specific program.
- B. **Allowable costs/cost principles:** Describes the cost accounting requirements associated with federal awards. These include OMB Circular A-21, “Cost Principles for Educational Institutions”; Circular A-87, “Cost Principles for State, Local, and Indian Tribal Governments”; Circular A-122, “Cost Principles for Nonprofit Organizations”; and HHS CFR Title 45, Part 74, Appendix E, “Hospital Cost Principles for R&D.”
- C. **Cash Management:** Requires the adoption of procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by the grantee. It applies only to grants with advance payments but not to cost-reimbursement grants.
- D. **Davis-Bacon Act:** Requires that wages for “laborers and mechanics” employed by contractors (including subcontractors) of federally-funded projects be paid in accordance with the prevailing local wage established by the Secretary of Labor.
- E. **Eligibility:** Specifies the criteria for determining the individuals, groups of individuals, or subrecipients that can participate in the program and the amounts of assistance for which they qualify.
- F. **Equipment and real property management:** Provides standards for the use and disposition of equipment and real property purchased with federal funds. These requirements cover records and inventory management.
- G. **Matching, level of effort and earmarking:** Requires the auditor to determine whether the minimum amount (or percentage) of grantee contributions or matching funds was provided, specified services or expenditure levels were maintained and minimum or maximum limits for specified purposes were met.
- H. **Period of availability of federal funds:** Requires that only those costs resulting from obligations incurred during the funding period for a federal award may be charged to the award (unless otherwise permitted by the specific grant).
- I. **Procurement and suspension and debarment:** Prohibits recipients of federal awards from contracting with parties that have been suspended or debarred by a federal agency.
- J. **Program income:** Requires that income generated from a federal program be recorded correctly and used as a deduction from outlays, as an addition to the project budget or to meet matching requirements.
- K. **Real property acquisition and relocation assistance:** Requires that people displaced from their homes, businesses or farms by a federal program be treated equitably and in accordance with the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970.
- L. **Reporting:** Requires the use of standard financial and other reporting forms authorized by the Office of Management and Budget (OMB) or the awarding agency and establishes the due dates for report submission.
- M. **Subrecipient monitoring:** Requires entities to monitor the activities of subrecipients relative to their federal awards to ensure compliance with requirements of the awards.
- N. **Special tests and provisions:** Requires the consideration of special provisions related to each federal program, if any, as required by the terms of the award.

A-133 – Audit Finding Types Defined

- A. **Questioned Cost:** A finding that, at the time of the audit, such cost is not supported by adequate documentation.
- B. **Non Compliance:** Non-conformity.
- C. **Material Weakness:** A misstatement could occur from a deficiency or combination of deficiencies, in internal controls.
- D. **Internal Weakness Control:** A defect in the design or operation of internal controls.
- E. **Significant Deficiency:** A deficiency, or a combination of deficiencies, in internal controls over financial reporting.

Appendix E – Sample Ohio Department of Education Audit Review Letter and Corrective Action Plan

Pages 21-24 – Sample of an A-133 Single Audit Report Review Letter

Page 24 – Sample of an A-133 Single Audit Corrective Action Plan



John R. Kasich, Governor
Dr. Richard A. Ross, Superintendent of Public Instruction

Date: May 12, 2015

To: Tammy Emrick, Treasurer
Dayton Leadership Academies-Dayton View Campus (133454) - Montgomery County
temrickcpa@gmail.com

From: Ohio Department of Education, Office of Grants Management

RE: A-133 Single Audit Report review

Dear Treasurer,

The Office of Management and Budget's (OMB), Circular A-133, Subpart D §____.400 necessitates that the Grants Management Office, of the Ohio Department of Education (ODE) to monitor the activities of its subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. It is the ODE's responsibility to ensure that subrecipients who expend \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements.

We have reviewed your school district's FY14 Federal Awards Receipts and Expenditures Schedule as audited by The Ohio Auditor of State and found noncompliance.

#2014-001- Title I Grants to States

Section 9521 of ESEA (20 USC 7901) and 34 CFR section 299.5 states that an LEA receiving funds under an applicable program listed in paragraph (b) of this section may receive its full allocation of funds only if the SEA finds that either the combined fiscal effort per student or the aggregate expenditures of State and local funds with respect to the provision of free public education in the LEA for the preceding fiscal year was not less than 90 percent of the combined fiscal effort per student or the aggregate expenditures for the second preceding fiscal year.

ODE Education Management Information System (EMIS) Manual, Chapters 1, 2, 4 and Appendix I require LEAs to report the annual average daily membership per student for Period N (Year End). ODE Reporting School District Revenue and Spending Per Pupil Handbook (aka: Expenditure Flow Model Handbook) requires LEAs to report District- and Building-level financial data for aggregate "general expenditures" using the Expenditure Flow Model for Period H.

As cited by your Auditor, the Academy reported its average daily membership in EMIS of 483.3 students while the Expenditure Flow Model used 517.44 students to calculate the per student expenditures. The variance may be the result of the EMIS system accurately reporting 188 school days and the Secure Data Center reporting 189 school days. The District was unable to provide documentation as to the reason for the variances. These differences made it difficult to determine if the

District met the level of effort requirements of the Title I federal program. Failure to meet the level of expenditure requirements may result in loss of funding for the Academy.

Your Auditor recommends, that the Academy retain all documentation and any variances be explained.

Officials' Response: The school has implemented backup procedures in order to capture “snapshots” of enrollment data which will enable the staff to easily find older reports and information. Current staff is also in the process of being cross trained on the program used to report enrollment data, which is Infinite Campus. The Expenditure Flow Model is no longer being used by the Ohio Department of Education, which by design allowed for different enrollment numbers to be used in order to calculate expenditure per pupil. The new expenditure per pupil calculation will pull enrollment data directly from the Educational Management Information System.

ODE agrees with your Auditor’s recommendation that the Academy retain all documentation and any variances be explained.

The District’s corrective action is sufficient, no further action is required.

#2014-002 - Title I Grants to States

2 C.F.R. Part 225, Appendix B(8)(h) Support of salaries and wages states:

- (1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.
- (2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.
- (3) Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in 2 C.F.R. Part 225, Appendix B 8.h.(5) of this appendix (below) or other substitute system has been approved by the cognizant federal agency. Such documentary support will be required where employees work on:
 - a. More than one Federal award
 - b. A Federal award and a non-Federal award
 - c. An indirect cost activity and a direct cost activity
 - d. Two or more indirect activities which are allocated using different allocation bases
 - e. An unallowable activity and a direct or indirect cost activity
- (4) Personnel activity reports or equivalent documentation must meet the following standards:
 - a. They must reflect an after-the-fact distribution of the actual activity of each employee
 - b. They must account for the total activity for which each employee is compensated
 - c. They must be prepared at least monthly and must coincide with one or more pay periods
 - d. They must be signed by the employee

As cited by your Auditor, Three employees submitted semi-annual time certificates certifying that they worked a percentage less than the percentage of their salary charged to the Title I fund. This resulted in a questioned cost of \$13,447 in the Title I program. A lack of accurate supporting documentation for charges to Federal funds could lead to a loss of Federal funding and a requirement to repay funds.

Your Auditor recommends, that the School establish time and effort certification procedures that conform to the time and effort reporting requirements detailed in 2 C.F.R. Part 225, Appendix B(8)(h) or the alternative time and effort documentation system approved by the Ohio Department of Education and review this documentation for accuracy and adherence to the required standards for time and effort documentation.

Officials' Response: The school has implemented review procedures to make sure that the time and effort sheets match the percentages of time written into the grant.

ODE agrees with the Auditor's recommendation that the District establish time and effort certification procedures that conform to the time and effort reporting requirements detailed in 2 C.F.R. Part 225, Appendix B(8)(h) or the alternative time and effort documentation system approved by the Ohio Department of Education and review this documentation for accuracy and adherence to the required standards for time and effort documentation, and acknowledges the Corrective Action Plan (CAP) submitted with the audit report. ODE also requires the District to provide "corrected" after-the-fact documentation for the three (3) staff compensated with funds for payroll by May 22, 2015.

If you have any questions regarding this notice please contact me at 614-995-3578.

Sincerely,

Leona Skunza-Keith, External Auditor
Office of Grants Management-Ohio Department of Education



Date: June 8, 2015

To: Tammy Emrick, Treasurer
Dayton Leadership Academies-Dayton View Campus (133454) - Montgomery County
temrickcpa@gmail.com

From: Leona A Skunza-Keith, External Auditor
Office of Federal and State Grants Management

Re: A-133 Audit Corrective Action Plan

We are in receipt of your Corrective Action Plan (CAP) in response to the Fiscal Year FY 14 **2014-002** audit findings. The CAP has been accepted and will be filed with the A-133 report. There are currently no unresolved issues with respect to federal financial assistance programs.

Our office will retain a copy of this official report along with all other documents for review by federal officials and other interested persons. At this time, no further action is required of your school district or agency except the retention of all report documents. At a later date, the Office of Grants Management may test the Schedule of Federal Awards for any discrepancies. If any discrepancies are found, your school district or agency will be contacted at that time.

Thank you for your assistance and cooperation.

Appendix F – Summary of Other Audits Performed with Resolutions

Special Audit Summary

Community School	Year	Summary of Findings	Resolution
Cincinnati College Preparatory Academy, Inc.	2010	<u>Summary:</u> There was a lack of internal control and monitoring of CCPA credit card activity. Employees were compensated amounts greater than approved by CCPA's governing board – timesheets were inaccurate, there was inconsistent supervisory review, and no monitoring of employee leave usage. Findings for recovery totaling \$519,499 were issued for improper/abuse of public funds.	<p>The department worked with state auditor in support of legal action taken by the Hamilton County prosecutor; individuals partially repaid the findings for recovery.</p> <p>The department's Office of Professional Conduct took action against the school leader and others (treasurer and principal).</p> <p>Current status: AG Collection/Litigation & AG/ODE Licensure action</p>
Cleveland Academy for Scholarship Technology and Leadership	2010	<u>Summary:</u> There was no support documentation for numerous vendor payments. Payments were made to companies owned by board members. Findings for recovery totaling \$1,352,501 were issued.	<p>The findings for recovery are unresolved; however, one individual is paying restitution per a court order.</p> <p>The governing board suspected improprieties and requested the special audit. Ultimately, criminal charges were filed against five individuals. The CEO of the management company pled guilty and is paying \$275K in restitution. Subsequent audits have either been clean or have contained unrelated findings addressed with corrective action plans.</p> <p>Current status: AG Collection/Litigation & AG/ODE Licensure action</p>

Community School	Year	Summary of Findings	Resolution
Legacy Academy for Leaders and the Arts	2010	<u>Summary:</u> Payments were made to vendors without appropriate supporting documentation. The school received comments that included records retention — lack of policies, financial accountability and monitoring, and bank account reconciliations. Findings for recovery totaling \$352,062 were issued.	The 2010 special audit report was released on July 7, 2011, after the school's closure. \$233,923 of the findings for recovery was addressed through Ohio Department of Education licensure action. Current status: AG Collection/Litigation & AG/ODE Licensure action
Richard Allen Academy	2010	<u>Summary:</u> There was noncompliance with ethics/conflicts of interest laws. Also, there were issues with retirement system withholdings, various vendor and payroll disbursements — fuel purchases and accrual of credit card rewards. Findings for recovery totaling \$888,411 were issued for public monies illegally expended.	As a consequence of the department's intervention with the school's former sponsor, Kids Count, all schools affiliated with the Richard Allen name were assigned to Office of School Sponsorship in 2012. While there is ongoing litigation with respect to the findings for recovery, \$11,080 has been repaid. Current status: AG Collection/Litigation
General Chappie James Leadership Academy	2014	<u>Summary:</u> The academy reported 459 students in attendance during the period for which it received foundation funding. For 220 of those students, available documentation did not support that students actually attended the academy during the period for which it received funding. One finding for recovery for \$1,179,879 for public monies illegally expended.	School closed. The sponsor initiated actions leading to the finding for recovery — intervened with the school, suspending and ultimately closing it. These issues were referred to the Montgomery County Prosecutor. The finding for recovery is unresolved. Current status: AG Collection/Litigation
Horizon Science and Noble Academies	2014	<u>Summary:</u> The policies and procedures surrounding administration of state assessments was reviewed for a network of 19 community schools affiliated with the operator, Concept Schools, Inc. The audit found a number of the schools lacked written procedures for administration of state assessments and lacked clear understanding of the specific requirements related to ethical assessment practices and written security and investigation procedures.	Sponsors of the community schools in the network provided technical assistance and reviewed the schools' testing policies and procedures during site visits to ensure that compliance issues noted in the report are addressed and corrected.

Agreed Upon Procedures Audits

Community School	Year	Summary of Findings	Status of Findings in Next Fiscal Year
Academy of Columbus	2009	No findings.	N/A
Hamilton County Mathematics and Science Academy	2009	Noncompliance with Ohio law (Ohio Administrative Code 117-2-01: Ineffective internal controls over financial reporting). One item not recorded; one item recorded incorrectly.	No audit findings in the FY10 report.
Arts and College Preparatory Academy	2011	Noncompliance. No student withdrawal documentation for two students. No public notification of school board meetings.	Findings no longer valid in FY12.
London Academy	2012	No findings.	N/A
Barnett Academy of Columbus East	2014	<p><u>Review of Financial Records:</u> A \$15 variance between book and bank account balances. Student file information not maintained to test academy FTEs.</p> <p><u>Closeout Procedures:</u> No notice to the department of school closure. Student file information not maintained, and no student file information was provided to resident districts upon closure. The governing authority did not notify the academy staff of the school closure. Liabilities for employee wages, audit preparation and audit costs not listed on the financial statements or notes to the cash basis financial statements.</p>	<p>Report released on May 12, 2015¹⁵; school closed on Sept. 30, 2014.</p> <p>The department remained in communication with the sponsor through the school's suspensions and ultimate closure and discussed with the sponsor, at length, the department's concerns about the school's failure to launch and steps to prevent any future instances.</p>
Board of Olympus High Schools - Columbus	2014	<p><u>Review of Financial Records:</u> The remittance of \$399,501.48 for the FTE evaluation had not been made to the department. Retirement amounts not paid. <u>Closeout Procedures:</u> Copies of student records sent to resident districts after the seven-day required timeline. Contributions of \$40,690.39 owed to the retirement system. Final payments and adjustments of \$539.92 remained in two bank accounts.</p>	<p>School closed.</p> <p>The department remained in communication with the sponsor through the school's suspensions and ultimate closure and discussed with the sponsor, at length, the department's concerns about the school's failure to launch and steps to prevent any future instances.</p>

Board of Olympus High Schools - Dayton	2014	<p><u>Review of Financial Records:</u> The remittance of \$377,337.56 for the FTE evaluation had not been made to the department. Amounts to retirement system not paid. <u>Closeout Procedures:</u> Copies of student records sent to resident districts after the seven-day required timeline. Contributions of \$42,277.80 owed to retirement system. Final payments and adjustments of \$499.52 remained in two bank accounts.</p>	<p>School closed. As noted above, the department remained in communication with the sponsor through the school's suspensions and ultimate closure and discussed with the sponsor, at length, the department's concerns about the school's failure to launch and steps to prevent any future instances.</p>
Electronic Classroom of Tomorrow	2014	<p>Incorrect withdrawal code used in two of 60 instances. The truancy code was used instead of the transfer code.</p>	<p>Report released on March 10, 2015; FY15 audit report not released.</p> <p>Coding mistakes such as these, if noted, are reconciled monthly. Otherwise, coding areas are addressed during the department's enrollment reviews and funding reconciled at the end of each fiscal year. The department updated its enrollment reporting system beginning in the 2014-2015 school year, reducing the risk of coding errors.</p>
The ISUS Institute of Health Care	2014	<p><u>Closeout Procedures:</u> The department and parents were not notified within 24 hours of action; original student records sent to resident districts and sponsor did not retain copies; resident district schools could not locate student records; sponsor retained but not a signer on the school's checking account; capital asset listing did not identify source of funds used to purchase assets; sponsor unable to identify if computer hardware or software received from Ohio SchoolNet or former eTech Ohio commission; asset listing did not identify proper USAS codes, price of each item, source of funds, and disposition plan for remaining items; unable to determine if assets were purchased with Federal Title funds; unable to determine if assets were purchased with public charter school program funds, so could not determine if items should be offered to other community schools; could not determine if assets were purchased with National School Lunch Program funds; the school owed monies to the other ISUS Institutes that were closed; list of unused checks not provided; one checking account had not been closed; school did not have a copy of the signed certification for the FTE review; school did not sign a representation letter for its responsibilities.</p>	<p>Report released on Dec. 12, 2014; school closed.</p> <p>The school suspended operations Aug. 30, 2012. The contract expired on June 30, 2013, and the sponsor began closing procedures.</p> <p>The students would have re-enrolled in the fall of 2012, and their records would have followed them to their new schools. The treasurer should have been responsible for closing out the books. Generally speaking, most, but not all, of the closeout procedures were followed, per the agreed upon procedures audit.</p>

Retirement System Audits

Community School	FY 2014 SERS Compliance Examination	FY14 State Teachers Retirement System Compliance Examination
GOAL Digital Academy Community School	No findings	No findings
Great Western Academy	No findings	No findings
Horizon Science Academy Dayton Downtown	No findings	No findings
Mount Auburn International Academy	No findings	No findings
Parma Community School	No findings	No findings
Value Learning and Teaching Academy	No findings	No findings

Appendix G – Summary Phase 3 – Community School Enrollment Testing

Statewide Audit of Student Attendance Data and Accountability System – Released Feb. 11, 2013

The following table describes the results identified during the 2010-2011 school year for Phase Three community schools selected for testing. To select these community schools, state auditor obtained and analyzed a list of community schools in Academic Watch or Academic Emergency during the 2009-2010 and 2010-2011 school years. From this list, the state auditor randomly selected five schools for testing.

Community School	Tested Roll Up Students	Issues Identified	Results Reported by State Auditor	Ohio Department of Education Response/Actions
Life Skills Center of Summit County	30	0	Note: Ten students were coded as 71 withdrawals. Each of these students was over the age of 18 and technically fell under code 73 classifications. However, through inquiry with the department, these students had to be coded as 71 based on current guidelines of the 105-hour rule and corresponding funding requirements. See recommendation within the body of this report.	As noted, the department clarified that the coding was appropriate.
Cincinnati Leadership Academy	7	0	Clean	Nothing needed.
Cleveland Arts and Social Sciences Academy	26	0	Clean	Nothing needed.
London Academy	30	0	Note: As noted above, the state auditor referred to the department a matter involving students who are unable to pass the Ohio Graduation Tests transferring to the state of Illinois to receive diplomas.	The department was already aware of the circumstances and actively involved with the sponsor to make appropriate changes in the school's charter/contract and operations.

Toledo Preparatory Academy	22	10	<p>Four students coded as code 41 withdrawal (withdrawn to another Ohio school district) for which student files could not be located.</p> <p>Two students coded as code 41 withdrawal for which the district to which the student transferred was not noted and no additional evidence was noted confirming student enrolled in the other district.</p> <p>Four students for which a mid-year enrollment was noted, but no supporting documentation was available to provide evidence of the mid-year enrollment.</p>	<p>No immediate action required as coding mistakes such as these are addressed during the department's enrollment reviews. Lack of appropriate documentation results in year-end funding reconciliation. In addition, traditional school districts review community school enrollment records monthly and flag students that the traditional district questions, resulting in non-payment until fully resolved. The department updated its enrollment reporting system beginning in the 2014-2015 school year, reducing the risk of coding errors.</p>
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Appendix H – Letter from the Ohio Department of Education to the State Auditor Regarding the Attendance Audit

May 8, 2015

VIA REGULAR MAIL AND EMAIL

Marnie Carlisle
Assistant Chief Deputy Auditor
Audit Administration
88 East Broad Street
Columbus, Ohio 43215

Re: Update on investigation request regarding community school attendance

Dear Ms. Carlisle:

Thank you again for the work of you and your staff in preparing the “Report on Community School Student Attendance Counts” released in January. The Department of Education has reviewed your report and recommendations along with Auditor Yost’s request for further investigation received February 13, 2015. The following is an update as to the progress of our investigation.

Pursuant to section 3314.08 of the Revised Code, section 3301-102-06 of the Administrative Code, and Department of Education policies and procedures, community schools receive a review of enrollment and attendance (FTE Review) during the first year of operation, every five years, and whenever a potential problem has been identified. Following receipt of your report, my staff reviewed the most recent FTE Review for every community school identified as Category 1 or Category 2. There was no evidence in those reports that any of the Category 1 or Category 2 schools over reported or misreported attendance.

However, in light of the information provided in your report, all Category 1 community schools have been scheduled for an FTE Review for the upcoming school year. The standard FTE Review performed by the Department of Education is designed to identify and correct situations where a community school has over reported or misreported enrollment. Consistent with our past practices, the results of these FTE Reviews will be forwarded to your office.

I will continue to provide you with updates on the progress of our investigation over the next few months. If you have any questions, please feel free to contact me at (614) 644-2602.

Page 2
May 8, 2015
Community School Attendance

Sincerely,

A handwritten signature in black ink, appearing to read "Don Leming", with a long horizontal flourish extending to the right.

Donald K. Leming
Assistant Legal Counsel

cc: Dr. Richard A. Ross, Superintendent of Public Instruction
P.R. Casey IV, Chief Legal Counsel

Appendix I – Ohio Department of Education Management Letter Comments

State FY	Comment Summary	Ohio Department of Education Action
Subrecipient Monitoring		
FY08	<p><u>Summary Finding:</u> The monitoring system improved but still had weaknesses.</p> <p><u>Recommendation:</u> Continue to improve onsite monitoring procedures already developed.</p>	Developed an annual on-site review to evaluate accounting records, reports and other documents using forms implemented at the beginning of FY09. Review letters, corrective action plans and Office of Community Schools' approval of the plans was required.
FY09	<p><u>Summary Finding:</u> Weaknesses noted in the monitoring process.</p> <p><u>Recommendation:</u> Continue working to improve on-site monitoring procedures already developed.</p>	The monitoring process was enhanced to include issuing review letters to subrecipients and requiring corrective action plans that would be reviewed and approved by Office of Community Schools' personnel.
FY10	<p><u>Summary Finding:</u> Monitoring review letters, corrective action plans and corrective action plan approval letters could not be found.</p> <p><u>Recommendation:</u> Create policies to ensure documentation is maintained in accordance with the records retention schedule.</p>	A grants coordinator was hired to fill a position vacancy, complete the remaining review segments and develop records retention policies.
FY11	The subrecipient monitoring comment was not reissued in FY11.	
Cash Management		
FY08	<p><u>Summary Finding:</u> Noncompliance with cash management requirements for six draws tested. Cash was on hand for an average of six excess days.</p> <p><u>Recommendation:</u> Implement or strengthen controls to reasonably ensure compliance with the Cash Management Improvement Act, and monitor cash balances of federal funds.</p>	The department enhanced cash management procedures.
FY09	The cash management comment was not reissued for the charter schools program funds in FY09.	
Schedule of Federal Awards		
FY08	<p><u>Summary Finding:</u> The amount reported for the charter schools program grant was overstated by \$24,228.</p> <p><u>Recommendation:</u> Ensure amounts reported on the Schedule of Federal Awards is complete and accurate.</p>	The department enhanced reporting procedures.

FY09	The Schedule of Federal Awards comment was not reissued for the charter schools program funds in FY09.	
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Appendix J – Summary of House Bill 2 Audit-Related Changes

Switching sponsors

- Prohibits a school from changing sponsors if the school (1) received a “D” or “F” for Performance Index and an overall “D” or “F” for the value-added measure on its last report card; or (2) is a dropout prevention and recovery school and was rated “does not meet standards” for the student growth measure and combined graduation rates on its last report card (ORC 3314.034(A)).
 - Exception: The school may change sponsors if (1) the proposed sponsor is the department’s Office of School Sponsorship or was rated “effective” or better on its last evaluation, (2) the school submits a request to change sponsors to the department by Feb. 15 and has not had a prior request granted, and (3) the department approves the request (ORC. 3314.034(B)).
- Allows a school whose request is denied to appeal to the State Board of Education, which must hold a hearing and issue a final decision by June 25 (ORC 3314.034(C)).
- Specifies that the factors to be considered in the State Board of Education’s decision include:
 - The school’s impact on its students and community;
 - The quality and quantity of academic and administrative support received from the current sponsor;
 - The current sponsor’s last three evaluations of the school;
 - The school’s academic performance, taking into account the school’s demographics;
 - The academic performance of alternative schools serving comparable populations;
 - The school’s fiscal stability;
 - Audit results;
 - The length of time the school has been with its current sponsor;
 - The number of times the school has changed sponsors in the past;
 - Parent and student satisfaction rates (ORC 3314.034(D)).

Contract between a community school and sponsor must include a provision that requires the school’s attendance and participation records to be made available to the department, the state auditor and the school’s sponsor to the extent allowed by FERPA and state student privacy laws (ORC 3314.03(A)(28)).

Requires any attorney, accountant or entity specializing in audits contracted by the governing authority to be independent from the school’s operator (ORC 3314.03(A)(31)).

Bonds

- Eliminates the requirement that the bond posted by a school’s governing authority prior to operation must be a surety bond (ORC 3314.50).
- In lieu of a bond, permits (1) the school’s sponsor or operator (in addition to the school’s governing authority as in current law) to deposit cash with the state auditor or (2) the school’s sponsor or operator to provide a written guarantee that it will pay the costs of audits up to \$50,000 (ORC 3314.50).
- Specifies that a written guarantee of payment is binding upon any successor sponsor or operator and that the successor must acknowledge as much prior to contracting with the school (ORC 3314.50).
- Requires the department to notify the state auditor of the proposed operation of a community school and to provide the state auditor with the sponsor’s certification that the school has complied with all legal preconditions for opening (ORC 3314.50).

Requires (rather than permits, as under former law) the state auditor to make the fiscal officer execute a bond conditioned on faithful performance of duties (ORC 3314.011(B)).

Directs the sponsor to seek recovery of funds owed as a result of a finding of recovery by the state auditor against the fiscal officer (ORC 3314.023).

Audits

- Requires a community school sponsor to communicate with the state auditor regarding audits of the school or the condition of the school's financial and enrollment records and to be present at meetings with the state auditor (ORC 3314.019).
- Requires a sponsor to annually verify that no finding for recovery has been issued by the state auditor against a person who proposes to create a community school, serves on the governing authority, operates the school or is employed by the school (ORC 3314.02(E)(2)(c)).

Regarding operator expenditure reporting, specifies that the detailed accounting is subject to verification through examination of the school's records during its regular audit (ORC 3314.024(D))

Requires eSchools to keep accurate records of each student's daily participation in learning opportunities in a manner that can be easily submitted to the department, upon request from the department or the state auditor (ORC 3314.27).

Requires each school to annually report to the department and the state auditor each instance in which one of the school's students resides in a children's residential center (ORC 3314.038).