



**ELECTRONIC CLASSROOM OF TOMORROW
FRANKLIN COUNTY**

SPECIAL AUDIT

FOR THE PERIOD OF JULY 1, 2000 THROUGH DECEMBER 31, 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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SCHEDULE OF OFFICIALS AND RELEVANT INDIVIDUALS
As of 12/31/00

ECOT Board of Directors

Term

Donald Wihl, Chairman	07/01/00 - 06/30/01
Sherri Dembinski	07/01/00 - 06/30/01
Harry Beale*	07/01/00 - 06/30/01
Donald Lumpkin*	07/01/00 - 06/30/01
Clyde Card*	07/01/00 - 06/30/01

ECOT Administrative Personnel

Dr. Coletta Musick, Superintendent**
Gail Davenport, Director of Educational Services***

Altair Learning Management LLC

William Lager, Chief Executive Officer

Fiscal Agent

Lucas County Educational Service Center

Legal Counsel

Amy J. Borman, Esq.
Udell & Boreman

Lucas County Educational Service Center

Tom Baker, Superintendent
Richard Cox, Treasurer

* In May 2001, these individuals resigned from the Board of Directors and were replaced by N. Eugene Brundige, Carolyn Nellon, and Cynthia Baird.

** Ms. Musick resigned in December 2000.

*** Ms. Davenport resigned on May 5, 2001.

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Report of Independent Accountants

Mr. N. Eugene Brundige, President
Board of Directors
Electronic Classroom of Tomorrow
3700 South High Street
Columbus, Ohio 43207

We have conducted a "Special Audit" and performed the procedures summarized below and detailed in our "Supplement to the Special Audit Report," which were agreed to by you for the period July 1, 2000 through December 31, 2000 ("the Period"). These procedures were performed solely to obtain an understanding of the Electronic Classroom of Tomorrow's ("ECOT") process for enrolling students and obtaining funding for enrolled students; determine whether ECOT received funding for only eligible, enrolled students; and whether the Ohio Department of Education's Regional Coordinators performed a review of the monthly enrollment reports submitted by ECOT. This engagement to apply procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the users of the report. Consequently, we make no representation regarding the sufficiency of the procedures discussed below for the purpose for which this report has been requested or for any other purpose. The procedures we performed and the results of those procedures are summarized as follows:

1. We obtained an understanding of ECOT's process for enrolling students, providing educational services to the students, and preparing requests to the Ohio Department of Education (ODE) Regional Coordinators for funding of students served. In addition, we obtained an understanding of the process followed by ODE to calculate the amount of funding due to ECOT for the services provided.

Significant Results - ODE or ECOT's sponsor, Lucas County Educational Service Center, has not provided written guidance to ECOT regarding the basis for funding student services nor the documentation required to be maintained to support enrollment and attendance. Seven months into the academic year, ODE Office of School Finance notified the Auditor of State that it would only fund students beginning with the student's first log-in to the ECOT system. During September and October 2000, ODE paid ECOT \$1,688,836 for students who did not meet this definition. ODE should develop a written funding agreement within 30 days of the issuance of this report or cease payments to ECOT to prevent continued funding of students who may not be meeting ODE's definition of what constitutes "enrolled" for a computer-based community school.

The Xerox system did not accurately track and record the amount of computer-based instruction received by students. We noted instances where the system recorded unrealistic amounts of computer-based instruction. For example, students received greater than 24 hours of instruction in one session. Additionally, ECOT did not review and monitor the amount of computer-based instruction recorded by students. Again, we noted instances of unrealistic entries. For example, one student recorded 10,000 minutes in one session. It is likely that the amounts of computer-based instruction recorded by both the Xerox system and students is unreliable and inflated. ECOT should establish procedures to monitor instruction time claimed by students and correct the system deficiencies which record computer-based instruction time.

ECOT did not have any written policies or procedures for enrolling students. As a result, the September and October ADM reports contained 106 instances in which the reported student was either less than 5 years old or greater than 21 years old contrary to legislated age requirements. We recommended ECOT establish policies and procedures which ensure enrolled students meet legislated age requirements.

Due to their inability to provide computers to students at the beginning of the school year, ECOT used hard copy lessons mailed to students as an alternative to computer-based instruction. However, ECOT was unable to identify the students required to complete and return the hard copy lessons because ECOT did not maintain a listing of students who received hard copy lessons during the Period.

2. We obtained the September 2000 and October 2000 ADM reports used by ODE in determining ECOT's funding for those months. For purposes of illustration, we recalculated the funding that would have been due to ECOT based on the number of students who actually logged in during those months, i.e., the definition of "enrolled" for funding purposes that ODE did not adopt until March 30, 2001.

Significant Results - ODE paid ECOT based on an estimated enrollment and expected attendance rather than actual recorded hours of computer-based instruction. For September, ODE paid \$932,030 in Basic Formula funding for 2,270 students although only 7 students logged-in to one of the available computer-based instruction systems. For October, ODE paid \$983,750 in Basic Formula funding for 2,346 students although only 506 students logged-in to one of the available computer-based instruction systems. Using actual hours of recorded computer-based instruction as the basis for funding, ODE paid ECOT \$1,897,192 for which there is no documentation to support actual hours of computer-based instruction. We understand the need to fund community schools based on estimated enrollment while not in session. However, we recommend that while in session, community schools be funded based on actual attendance and in the case of ECOT, based on actual documented hours of services provided.

For all community schools, ODE should complete annual enrollment audits within 90 days of the fiscal year-end to identify any monies due back to ODE for instances of overfunding. In regards to ECOT, we understand the potential overfunded amount may exceed the approximately \$1.9 million noted in this report. Any money due back to ODE as a result of overfunding should be spread over a reasonable period so as not to cause a financial hardship on ECOT.

3. We reviewed the September and October 2000 ECOT Monthly ADM reports to determine whether the resident districts returned the reports to ODE by the due date to allow any errors in enrollment to be taken into account when calculating ECOT's funding. We reviewed the reports returned by the resident districts for evidence of review by the districts. We reviewed the September and October 2000 enrollment reports for obvious discrepancies.

Significant Results - ODE Regional Coordinators do not consistently review monthly ADM reports returned by resident districts for errors nor consider those identified errors when calculating the amount of State funding due to ECOT. ODE paid ECOT \$87,508 for 19 students identified by resident districts as not to be included in ECOT's funding from the respective district.

ODE should begin monitoring the financial operations of community schools on a monthly basis. This monitoring should include student records, accounting operations, and financial reporting.

ECOT corrected various errors on its monthly ADM reports submitted to the ODE Regional Coordinators. However, the funding related to these errors was prorated and returned to the effected resident districts over the remaining months of the fiscal year rather than entirely at the time the error was noted. When ODE receives notification of an error by a community school, the money incorrectly deducted from the resident district should be returned to the resident district in one lump sum.

4. On October 4, 2001, we held an exit conference with the following Officials representing ECOT:

N. Eugene Brundige, President, ECOT Board of Directors
Jeffrey P. Forsia, Superintendent, ECOT
Scott Kern, Manager Information Systems, ECOT
Mike Bradley, Consultant, ECOT
Brian Usher, Consultant, ECOT
Bill Lager, CEO, Altair Management Company
Tom Baker, Superintendent, Lucas County ESC
David Varda, Assistant Superintendent, ODE
Holly Miller, Assistant Legal Counsel, ODE
Jeff Jordan, Associate Director of Goods Management, ODE

The attendees were given an opportunity to respond to this Special Audit. We received a written response from ECOT dated October 19, 2001 and a written response from ODE dated October 26, 2001. Mr. Tom Baker, Superintendent of Lucas County ESC, stated he did not intend to respond. The responses were received, evaluated, and changes were made to the report as we deemed appropriate.

ECOT's response indicated that they believe that funding should be based on learning opportunity rather than enrollment. Ohio Revised Code Section 3314.03 defines required terms of the community school contract of which one of the required terms is that the school will provide 920 hours of learning opportunities. However, Ohio Revised Code Section 3314.08 indicates that school funding is based on the number of students enrolled rather than the number of hours of learning opportunity. Additionally, this Section requires ODE to adjust the funding to reflect any enrollment of students for less than the equivalent of a full school year. ECOT was not able to provide documentation that once a student was enrolled at ECOT, the student remained enrolled and received services.

Our detailed procedures and the results of applying these procedures are contained in the attached "Supplement to the Special Audit Report." Because these procedures do not constitute an examination conducted in accordance with generally accepted auditing standards, we do not express an opinion or limited assurance on any of the accounts or items referred to above. Also, we express no opinion on ECOT's internal control system over financial reporting or any part thereof. Had we performed additional procedures, or had we conducted an examination of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you. This report relates only to transactions relating to the above procedures, and does not extend to any financial statements of ECOT taken as a whole.

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This report is intended for the use of the specified users listed above and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Reports by the Auditor of State are a matter of public record and use by other components of state government or local government officials is not limited.

Jim Petro
Auditor of State

June 26, 2001

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

BACKGROUND

Since 1997, Ohio law has permitted the creation and operation of community schools as an educational alternative to the traditional public school districts. Community schools are public schools that are funded annually by the State of Ohio according to certain formulas that are based on the number of students who are enrolled in the community school. Ohio Rev. Code § 3314.08(D). The law directs Ohio Department of Education to “adjust” its payments to a community school “to reflect any enrollment of students in community schools for less than the equivalent of a full school year.” Ohio Rev. Code § 3314.08(L).

On October 14, 1999, the Electronic Classroom of Tomorrow (ECOT) was incorporated as an Ohio Educational Non-Profit corporation to operate a community school in the State of Ohio. The five incorporators were Donald Wihl, Clyde Card, Sherri Dembinski, David Brailsford, and Diane King. The purpose of ECOT was to provide distance learning via the internet to enrolled students in grades Kindergarten through 12.

In late 1999 and early 2000, William Lager, Chief Executive Officer of Altair Management Company LLC¹, (“Altair”) and Kim Hardy, Mr. Lager’s partner in Altair, approached the Lucas County Education Service Center (Lucas ESC) about sponsoring a community school. Mr. Lager provided a preliminary application to the Lucas ESC Board of Education for its approval. Mr. Lager then presented ECOT to a five member board appointed by Lucas ESC for its approval. Once the five member board approved ECOT, Mr. Lager presented the final application to the Lucas ESC Board who voted in June 2000 to enter into a contract to sponsor ECOT as a community school.

On May 16, 2000, ECOT and Altair entered into an agreement by which Altair would serve as the management company for ECOT. The agreement included the duties of Altair. The contract was signed by Donald Wihl, Chairman of ECOT, and William Lager, CEO of Altair.

According to the contract, Altair had the following responsibilities:

- ▶ Manage the following areas: Personnel and Human Resources Administration; Program of Instruction; Purchasing; Strategic Planning; Public Relations; Financial Planning; Recruiting; Compliance Issues; Budgets; Contracts; Equipment and Facility; and other responsibilities as deemed necessary.
- ▶ Although not responsible for day-to-day monitoring of instruction, recommend an individual to be hired as the Superintendent responsible for monitoring the staff and the provision of educational instruction to the staff.
- ▶ Design and manage the public relations strategy for ECOT.
- ▶ Manage the following for ECOT:
 - ▶ Financial Management which included revenue and cash management; selection of benefit packages, monitoring invoices for Lucas ESC; coordinating yearly audits, and managing banking relationships.
 - ▶ Compliance Management which included student enrollment reports, budgets, reports to Lucas ESC, and policies for the Board and for ECOT.
 - ▶ Management of Equipment/Furniture/Property which included selecting a telephone system, negotiating lease or purchase agreements, and inventorying equipment.

¹Altair was incorporated in the State of Ohio on April 3, 2000 by William Lager.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- ▶ Receive from ECOT for the period May 16, 2000 through June 30, 2005 an annual amount, based on each school year, equal to ten percent of all funds received by ECOT from the State of Ohio.
- ▶ Expenses for Altair staff training and development incurred under this agreement; compensate Altair staff performing Altair duties; and design and protect all educational and instructional materials.

A review of the employees and their duties at ECOT indicated many of Altair's responsibilities were performed by ECOT compensated employees. This included areas such as Human Resources Administration, Public Relations, and Financial Management duties. The issue of whether Altair's duties were performed by employees compensated by ECOT will be reviewed during the regular financial statement audit which began May 21, 2001 for the year ended June 30, 2001.

A Community School contract between Lucas ESC and ECOT was signed on June 30, 2000 by Tom Baker, Superintendent of Lucas ESC, and by Donald Wihl, Chairman of ECOT. The contract included the following relevant provisions:

- ▶ Term of the contract is for an initial five years ending June 30, 2005.
- ▶ The school will provide learning opportunities to a minimum of twenty-five (25) students for a minimum of nine hundred and twenty (920) hours per school year.
- ▶ The school shall comply with various Ohio Rev. Code Sections as though it was a school district except there is no prohibition of a school board member also being an employee of the school or from having an interest in a contract the Board enters into.
- ▶ Chief Financial Officer of ECOT will be Lucas ESC who will receive 2% of all funds paid to the School by the State of Ohio.²

Enrollment

Upon approval of the Community School contract with Lucas ESC, ECOT began enrolling students via telephone, mail and electronic mail. Once the student was enrolled, ECOT began the process to have a telephone line installed in the student's home and a computer sent to the student's home to allow access to the ECOT system. The computers sent to the students included a software package designed by Xerox that allowed the student to access ECOT curriculum which utilized Child U^{TM3} and A +^{TM4}. In addition, some of the lessons provided by the teachers required the student to access ECOT's web page at Learn.comTM.

Due to a large initial enrollment of approximately 2,100 students, ECOT was not able to coordinate the installation of telephone lines and computers with the Xerox software package for all students to allow internet instruction to begin on September 1, 2000. As a result, ECOT provided alternative means of instruction until the student received his/her computer. Students were either provided hard copy lessons through the mail or if a student had his/her own personal computer, the student was provided a login identification and password to access Learn.com or Child U directly to begin electronic instruction. Upon receipt of ECOT's computer, the student was to use the Xerox system to complete his or her lessons.

² Lucas ESC was responsible for maintaining the books of ECOT in accordance with the standards established for public schools which included receipting monies and paying bills authorized by ECOT's Board.

³ ECOT contracted with Child U to provide an educational curriculum for students in Kindergarten and grades 1 through 6.

⁴ECOT contracted with A+ to provide an educational curriculum for grades 7 through 12.

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Funding

Each month, ECOT submits to ODE's 9 Regional Coordinators a listing of students, by resident district, which participated in ECOT. The Regional Coordinators submit these reports to the resident districts and utilize their responses to calculate the number of full time equivalent students ECOT had from each of the resident districts. A full time equivalent student is calculated by obtaining the number of service hours to be provided by ECOT, divided by 920 hours as provided in the contract. For example a student listed on the monthly report to receive 920 hours would equal one (920/920 hours) full time equivalent student. For students attending ECOT less than a full academic year, full time equivalency is determined by reducing the 920 hours available by the time a student attended his resident district. The total number of full time equivalent students is used to calculate the amount of funding due to ECOT for the year. The yearly amount less previous payments is divided by the number of remaining payments for the fiscal year to obtain the monies due to ECOT for that month's funding. The amount remitted to ECOT is adjusted monthly for prior months' errors and amounts previously received by ECOT.

ODE funded the first four months of ECOT's operations (July through October) based on an estimated enrollment developed and submitted by ECOT in May 2000. Beginning in September, ECOT was required to file monthly ADM reports on which subsequent funding was based.⁵ Subsequent funding was based on the number of hours a student was expected to complete rather than actual documented hours of electronic instruction.

In a letter dated March 30, 2001, ODE informed us that, "The Department of Education has taken the position that students who enroll in ECOT will be counted for funding purposes beginning with their first login to the ECOT system. So the period of time during which the student is waiting to receive the computer equipment or a telephone line would not count towards the FTE count for funding. We have taken this position because ECOT's contract was approved as an electronic educational system, and so a student would not count towards funding until the electronic system is in place for the student." This basis of funding was not included in ECOT's Community School Contract nor are we aware that ODE notified ECOT in writing of its position.

Each year, ODE performs an enrollment audit verifying the eligibility of the students funded by ODE and whether the students received the services as documented in the contract. In May 2001, ODE began its initial enrollment audit of ECOT. However, it is our understanding that ECOT and ODE are currently in negotiations regarding ODE's legal rights to review ECOT's enrollment records. As a result, the ECOT enrollment audit has not been completed.

Monitoring

Per the contract between ECOT and Lucas ESC, it was the sponsor's responsibility to monitor the activities of ECOT including areas of enrollment, educational services, and financial status. ODE's Office of School Finance, indicated ODE only has a fiduciary relationship with ECOT to provide the required state funding. She further stated that Lucas ESC was responsible for monitoring the activities of ECOT since they were the sponsors.

Mr. Tom Baker, Superintendent of Lucas ESC, indicated Lucas ESC, as ECOT's Fiscal Agent, maintained the ledgers for ECOT which included receiving revenues from ODE and disbursing payments approved by ECOT's Board. He also indicated the following monitoring activities were performed:

- ▶ A representative of Lucas ESC spoke with representatives from ECOT on a weekly basis to answer questions and provide assistance as needed.

⁵Monthly funding payments are received by schools two months after submission of ADM reports. For example, the payment received by a school in November is based on the September ADM report.

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- ▶ Lucas ESC monitored ECOT's expenditures and budget and advised ECOT on potential problem areas.
- ▶ Staff members of Lucas ESC contacted ten families a month to obtain feedback on how well ECOT was performing. A summary of the results were presented for Tom Baker's review, however, the summary was not submitted to ECOT for its review.

Concerns

In November of 2000, the Executive Director of ODE's Office of School Finance, contacted the Auditor of State's Office regarding the significant student enrollment reported by ECOT on its September 2000 and October 2000 Average Daily Membership (ADM) reports and possible irregularities in how those enrollment amounts were generated. Also in November 2000, representatives of the Auditor of State's Office met with then ECOT Superintendent, Dr. Coletta Musick, who expressed concerns that numerous students included within ECOT's enrollment numbers for September and October 2000 did not actually receive services from ECOT during those months.

This information was presented to the Auditor of State's Special Audit Committee and on November 16, 2000, the Committee voted to initiate a Special Audit of ECOT. It was decided our procedures would be performed for the monthly enrollment reports submitted to ODE for September and October 2000 which were paid by ODE in November and December 2000, respectively.

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Issue No. 1 - Obtaining an Understanding of ECOT Enrollment and Funding

We obtained an understanding of ECOT's process for enrolling students, providing educational services to the students, and preparing requests submitted to ODE Regional Coordinators for the funding of students served. In addition, we obtained an understanding of the process followed by ODE to calculate the amount of funding due to ECOT for the services provided.

Procedures

1. We interviewed Gail Davenport, ECOT Director of Education Services, to identify procedures followed to enroll students in ECOT and the methods of providing educational services.
2. We interviewed ECOT personnel to identify procedures followed by ECOT to submit the monthly enrollment report to ODE Regional Coordinators.
3. We interviewed various ODE personnel to identify procedures performed when the ODE Regional Coordinators receive a monthly report from ECOT including the process followed to calculate the amount of funding due to ECOT for enrolled students.
4. We interviewed the Executive Director of ODE's Office of School Finance, to identify the basis of funding for hours of services provided to ECOT.

Results

1. Ms. Davenport provided the following information:

Enrollment

Students had four methods of enrolling in ECOT. These included contacting ECOT by telephone, e-mail, regular mail or in person at ECOT's offices at 3700 South High Street, Columbus, Ohio.

After the initial contact, students and parents were sent a packet of information to be completed and returned to the school prior to enrollment. The packet included forms for registration, health information, transcripts, telephone line installation, computer liability, consent for records release, and others. When ECOT first opened, all of the forms in the packet were to be completed and returned to ECOT prior to enrollment.

Due to the length of time to receive completed forms from the parents, ECOT decided in August 2000 to require only the registration, computer liability, telephone line installation, and consent for records release forms be completed prior to enrollment. ECOT does not have written detailed procedures for processing enrollment of students or policies to identify required documentation for the student to be considered enrolled.

Upon completion of the registration process, a student was considered enrolled. ECOT's staff then contacted Xerox via email to begin preparing a computer for the student's residence. At the same time, the telephone company was contacted to install an additional telephone line at the student's residence and an internet service provider was contacted to allow the student access to ECOT's educational system via the internet.

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If a student wished to withdraw from ECOT, ECOT requested notification of the intent to withdraw in writing. Upon receipt of written notification, the student was removed from the database, instructions were provided to return the computer to Xerox, and the telephone line was to be disconnected. In addition, a transcript was prepared by the student's teacher(s) and forwarded with the student's file to the new school district. Ms. Davenport indicated in September and October 2000, there were no written policies or procedures for processing student withdrawals.

Provision of Services

As noted in the Background portion of this report, during the Period, ECOT used three methods of providing educational services to students: Xerox system, mailed lessons and an existing computer.

Xerox System

Ms. Davenport indicated prior to a student receiving his/her computer, a login account was established with Xerox. When the student logged into the Xerox system, the student recorded an estimate of the amount of time to be spent in various subjects such as math, science or English. The student then accessed the objectives and assignments established by his or her teacher. As the student worked on the assignments, the student e-mailed the teacher any questions. Any communications between the teacher and the student were recorded in the Journal⁶ within the Xerox system.

The assignments for elementary level students were provided via Child U and Learn.com curriculum. The assignments for grades 7 through 12 utilized A+ and Learn.com curriculum. When the student logged out of the system, the student recorded the actual time spent on the various subjects in the Xerox system.

The Xerox system was able to track the length of time the student was in the Xerox system, however, we found this information was often unreliable as students did not log out properly and instead simply closed the session. As a result, the Xerox system believed the session was still ongoing until the student logged in the next time. We noted instances where the system indicated a session lasted more than 24 hours. We also identified errors by the students recording their own time for a day. For example, a student entered he/she spent 10,000 minutes on a subject which is physically not possible within a 24 hour period. ECOT did not review the entries by students to ensure the amounts entered were reasonable based on the objectives completed.

Mailed Lessons

If the student was enrolled in ECOT but had not received a computer due to a backlog of orders at Xerox (no computers were shipped in September 2000 and only 1,412 were shipped in October 2000), the student was provided with hard copy lessons via the mail. These lessons were to be completed and returned to the teacher. ECOT was unable to identify the students required to complete and return mailed lessons because they did not maintain a listing of who received mailed lessons during the Period. In addition, many of the students had not returned the mailed lessons to the teachers for various reasons such as not wanting to incur the cost for postage or the students had not completed the lessons.

⁶ The Journal in the Xerox system recorded all communications between the student and his or her teacher. This allowed the supervisors to verify the teachers were communicating with their students.

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Existing Computer

If a student had not received a Xerox computer but had his or her own personal computer with internet access, the student was provided a login identification and password to access Child U and Learn.com to complete assignments. Upon receipt of the Xerox computer, the student entered the hours of educational services performed utilizing his or her own computer the first time he or she logged in.

2. We interviewed Diane King, ECOT ADM Coordinator, who was responsible for the preparation of the Monthly ADM Report submitted to ODE for funding. Ms. King provided the following information:

The monthly ADM report provided to ODE included the student name, address, parent name, resident district, resident county, date of birth, grade level, date of entry into the database, and the number of hours to be spent at ECOT. If the student was expected to attend the entire year at ECOT, the student's hours at ECOT were 920 hours. If the student spent part of the year at a public school, the hours to be spent at ECOT were prorated for the time spent at the public school.

The September 2000 report was generated from an Excel spreadsheet of enrolled students. The spreadsheet was later identified by Ms. King and the resident districts as having numerous errors such as duplicate students and incorrect resident districts. ECOT does not have procedures to be followed for entering information into the spreadsheet or verification of the information.

The October 2000 report was generated from an Access database of enrolled students. The information from the September Excel spreadsheet and any new enrollees were entered into the database to prepare subsequent monthly reports.

The process for generating the report was as follows:

- Five days before the report was due to ODE, ECOT staff discontinued entering new students into the database.
 - A report was generated for each resident school district in which ECOT students resided and included the information identified above.
 - The report was copied and attached to a cover sheet which provided spaces for the name of the district, address of the district, ECOT's approval and the resident district's approval. ECOT's approval was evidenced by the Chairman of the Board and the Chief Fiscal Officer's signature. The report was then sent to the ODE Regional Coordinators who forwarded the copy of the report to the resident districts for review and/or approval.
 - Once the cover sheet was signed by the Superintendent and Treasurer of the resident district, it was returned to the respective ODE Regional Coordinators. All of the returned reports for September 2000 were sent to Region 0 Regional Coordinator. Due to the volume, ODE later distributed the returned reports to the 9 ODE Regional Coordinators based on location of the resident districts. Upon receipt of the reports from the resident district, ODE calculated the full time equivalent students for each of the resident districts.
 - The report was due to ODE by the first Friday of each month.
3. We interviewed the Regional Coordinators who indicated the following steps were performed upon receipt of the monthly reports from ECOT for each of the resident districts.

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The original report was maintained by the Regional Coordinators. A copy was sent with a cover letter to the resident districts for their review. The cover letter indicated the resident district was to review the report and circle in red pencil those students who were not residents of the district or were still attending the resident district. The report was to be returned generally by the 13th of the month.

Of the 9 Regional Coordinators, 7 indicated they did not follow-up to determine whether any errors existed in reports not returned by the resident districts. One of the Regional Coordinators indicated she contacted the resident districts for the first couple of months or until no errors were identified. The remaining Regional Coordinator indicated a fax or a follow-up telephone call was performed to identify any errors in the monthly report.

The Regional Coordinators used the reports with corrections received by the due date to calculate the full time equivalent number of students for calculating funding. Only three of the Regional Coordinators indicated they mailed a summary of the errors to ECOT for adjustments during the Period.

A full time equivalent student is calculated by obtaining the number of service hours to be provided by ECOT, divided by 920 hours as provided in the contract. For example a student listed on the monthly report to receive 920 hours would equal one (920/920 hours) full time equivalent student. For students attending ECOT less than a full academic year, full time equivalency is determined by reducing the 920 hours available by the time a student attended his resident district. If the district did not return the form, the Coordinator processed the payment based on the data submitted by ECOT. The changes documented on reports not received by the due date were to be considered in the next month's calculation.

The full time equivalent students were then totaled by resident district. The Coordinator entered the total full time equivalents by resident district into ODE's computer system to calculate the amount of funding due for the entire year based on that month's enrollment.

ODE subtracted any previous payments during the fiscal year from the total due to ECOT for the year and divided the remainder by the number of remaining payments to arrive at the monthly amount due to ECOT.

4. During an interview with ODE representatives, including the Executive Director of ODE's Office of School Finance, in January 2001, ODE indicated that they were unsure of the official basis on which ODE would consider students enrolled in ECOT for funding purposes; however, indicated ODE was leaning toward defining enrollment as beginning the date a student received a computer and logged in for the first time. ODE was aware in about October 2000 that ECOT was using mailed lessons but did not object to it as a method of instruction eligible to receive funding from ODE.

According to ODE, ODE did not intend to fund ECOT students which received mailed lessons but rather only those students attaining hours on the electronic system beginning with their first log-in into either the Xerox system or Child U and/or Learn.com with their own personal computer. When we inquired of ODE when ECOT was first notified of ODE's intent not to provide funds for students who received mailed lessons, ODE stated that during meetings with ECOT representatives in October and December 2000, ECOT was verbally notified that ODE would fund ECOT based on the number of hours of electronic instruction and documented hours for outside activities such as field trips. To date, we are not aware that ODE's position was conveyed to ECOT in writing.

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In a letter to us dated March 30, 2001, the Executive Director of ODE's Office of School Finance indicated that, "The Department of Education has taken the position that students who enroll in ECOT will be counted for funding purposes beginning with their first login to the ECOT system. So the period of time during which the student is waiting to receive the computer equipment or a telephone line would not count towards the FTE count for funding. We have taken this position because ECOT's contract was approved as an electronic educational system, and so a student would not count towards funding until the electronic system is in place for the student." To date, we are not aware that ODE's position was conveyed to ECOT in writing.

MANAGEMENT COMMENTS

Defining Enrollment For Funding Purposes

The Electronic Classroom of Tomorrow entered into a contract with the Lucas ESC to provide 920 hours of educational instruction to each ECOT student. At the start of the school year, ECOT was unable to deploy computers to all of the students enrolled. Until the students received their computers and began on-line instruction, ECOT provided instruction to enrolled students through other means; one being hard copies of lessons via the mail.

During an interview in January 2001, approximately 5 months into the school year, with ODE representatives, including the Executive Director of ODE's Office of School Finance, ODE indicated that they were unsure of the official basis on which ODE would consider students enrolled in ECOT for funding purposes. During that interview, ODE indicated it was considering defining enrollment as beginning with the date a student received a computer and logged in for the first time.

In March 2001, we contacted ODE to determine whether an official position was established regarding when ECOT students were considered enrolled for funding purposes. In a letter dated March 30, 2001, the Executive Director of ODE's Office of School Finance stated that, "The Department of Education has taken the position that students who enroll in ECOT will be counted for funding purposes beginning with their first login to the ECOT system. So the period of time during which the student is waiting to receive the computer equipment or a telephone line would not count towards the FTE count for funding. We have taken this position because ECOT's contract was approved as an electronic educational system, and so a student would not count towards funding until the electronic system is in place for the student."

Following receipt of the letter, we inquired of ODE as to when ECOT was first notified of ODE's position on enrollment. ODE responded that during meetings with ECOT representatives in October and December 2000, ECOT was verbally notified that ODE would fund ECOT based on the number of hours of electronic instruction and documented hours for outside activities such as field trips. However, ODE's official position was not conveyed to ECOT in writing. This contradicts statements from the January 2001 interview in which ODE stated it was unsure of a definition of enrollment.

As noted in Issue No. 2, ODE funded ECOT for September 2000 and October 2000 students as if all of the students met ODE's March 30, 2001 definition of enrollment. The results of our procedures in Issue No. 2 indicated that less than 1% in September 2000, and 22% in October 2000, of students funded by ODE met ODE's March 30, 2001 definition of enrollment. Thus, ODE funded ECOT \$928,075 for September 2000 and \$760,761 in October 2000 for students who would not have met ODE's March 30, 2001 definition of enrollment had that definition been in existence prior to the start of the school year. This could result in actual overfunding to ECOT should students not obtain the required 920 hours of computer-based instruction or ECOT cease operations prior to the end of the school year.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

ODE provided no written guidance to ECOT regarding the basis of funding, the frequency of payments, nor the documentation required to be maintained to support enrollment and attendance. Given the uniqueness of ECOT, ODE, prior to the beginning of the school year and prior to providing funding to ECOT, should have developed guidelines addressing when a student was considered enrolled for the purpose of receiving funding. Although ODE notified the Auditor of State's Office of its position on this matter in a letter dated March 30, 2001, approximately 7 months into the school year, we are not aware that ODE to date has notified ECOT in writing of its position. Waiting so long to define enrollment, and retroactively applying that definition, is unfair to the organization providing educational services as monies were already expended for services provided through computer-based instruction and hard copy mailed lessons. In addition, ODE continued, during the school year, to provide formula funding for the number of students "enrolled" in ECOT knowing that ODE had not established such guidelines, that students were not receiving computers, and that students were not logging in to available systems to receive instruction.

For all community schools, ODE and other community school sponsors should develop written guidelines for funding students prior to the beginning of the school year and prior to providing funding to the school. Those guidelines should address the basis on which students will be funded, the frequency on which the school will receive payment and the documentation required to be maintained by the school to support enrollment and attendance. These guidelines should be communicated to each community school in writing and be considered for inclusion in the community school contract. Additionally, as an appendix to all community school contracts, ODE and other community school sponsors should include definitions of enrollment, funding basis, and acceptable admissions procedures. This will provide a clearer understanding between the school and its sponsor.

In regards to ECOT, ODE should develop such guidelines within 30 days of the issuance of this report or cease payments to ECOT to prevent any possible future funding for students who do not meet ODE's funding guidelines.

In Issue No. 2, we identified the amount of Basic Formula funding which ODE provided ECOT for students attending in September and October 2000 and compared it to the amount that would have been provided to ECOT had ODE not waited 7 months and had decided prior to the beginning of the 2000-01 school year that a student is not "enrolled" in ECOT until his or her first log in date. Please see Issue No. 2 for further results and comments.

Monitoring of ECOT's Operations and Performance

According to Resource Guide for Community Schools in Ohio published by ODE, community school legislation identifies four broad functions of a community school sponsor, one of which is frequent and ongoing monitoring of the community school with respect to accountability for fiscal and learning outcomes.

According to Tom Baker, Superintendent of the Lucas ESC which sponsored ECOT as a community school, monitoring efforts included the following:

- ▶ Contacting ECOT on a weekly basis to answer questions and provide assistance as needed.
- ▶ Monitoring ECOT's expenditures and budget information and advising ECOT of potential problem areas.
- ▶ Periodically contacting families to obtain feedback on how well ECOT was performing.

According to ODE, the sponsor is responsible for monitoring the community school and as such, no monitoring of ECOT was performed by ODE.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

As the sponsor and source of funding, Lucas ESC and ODE should together develop a framework to monitor both ECOT's academic and financial performance as well as ECOT's adherence to sound fiscal practices. Academic monitoring should include ensuring that ECOT is establishing a standard curriculum and that students are meeting the curriculum objectives. Fiscal monitoring procedures should ensure the following:

- ▶ Adequate financial records are maintained
- ▶ Bank accounts are periodically reconciled
- ▶ Adequate resources are available to satisfy not only current but anticipated future obligations
- ▶ Adequate facilities are provided for instruction
- ▶ Fixed assets are adequately safeguarded
- ▶ Adequate documentation is maintained to support attendance and electronic instruction received.

Enrollment

ECOT did not have any written policies or procedures for enrolling students or identifying the forms required to be completed prior to a student being considered enrolled. During the school year, ECOT modified its enrollment requirements; however, this was not documented in ECOT's policies. Without established policies and procedures, inconsistencies arose during the enrollment process. In Issue No. 2 we noted students identified as enrolled in which one or more of the enrollment forms were not completed. We also identified students entered into the database as enrolled although not all of the required forms had been submitted. In addition, we noted there were students listed on ECOT's enrollment roster twice.

We recommend ECOT review its contract with Lucas ESC and guidelines provided by DOE to identify the required documentation to be maintained to support enrollment of a student. Once identified, ECOT should create and implement written policies and procedures to be followed by ECOT staff. The policies should address the process followed for enrolling a student via the internet, the mail, walk-in or the telephone and the required forms to be completed prior to a student being considered enrolled.

Withdrawal of Students

ECOT does not have policies and procedures for processing student withdrawals. In Issue No. 2 we noted students listed on the September 2000 and October 2000 Monthly ADM Reports which were actually withdrawn for which ECOT received funding.

We recommend ECOT implement policies and procedures for withdrawing students. These policies should address, but not be limited to, the removal of the student files from the active student files, return of the computer system, removal of the student from the Monthly ADM Report submitted to ODE, and reporting of grades to the public school districts. We noted that when ECOT was made aware of the withdrawn student by us or the resident district, ECOT corrected the next month's ADM report.

Student Database

ECOT utilized an Excel Spreadsheet for September 2000 and an Access database for October 2000 to maintain a record of the students considered enrolled in ECOT. There were no written policies or procedures for entering students into the spreadsheet/database or explaining the information required for each field in the spreadsheet/database. In addition, no independent verification of information prior to entering it into the spreadsheet/database was performed. As a result, different staff members interpreted the fields differently resulting in various errors such as a verification error where a parent indicated their child attended a school district which did not exist or entry errors which included transpositions in addresses, dates of birth, and social security numbers or the incorrect address.

We recommend ECOT implement policies and procedures for entering students into the database. These policies should include, at a minimum, a description of the information required for each field and steps to be followed to verify information in the student record.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Monthly Funding Report

Each month ECOT prepared a report of all students attending ECOT, sorted by public school district. The ADM Coordinator had approximately five days to prepare the report, obtain the required signatures, and make two copies for approximately 400 districts. The reports were then submitted to ODE's Regional Coordinator to calculate the amount of funding due to ECOT.

We noted ECOT does not have written policies or procedures for preparing these monthly funding reports. The lack of written standard procedures and short time frame to complete reports for 400 districts increases the risk of errors in the reports. For example, we noted a cover sheet was generated for Spencerville Exempted Village School District and the student listing attached was for Springfield Local School District. This resulted in Spencerville Exempted Village School District receiving approximately \$5,422 (\$37,955 for the year / 7 remaining payments) less in formula funding when the District had no students enrolled in ECOT.

We recommend ECOT review the process and the established time line for preparing these reports to determine whether the time frame allows the ADM Coordinator to identify obvious errors. In addition, once an accurate time line is established, ECOT should implement written policies and procedures detailing the appropriate steps for preparing the report submitted to ODE.

Errors Identified by Resident Districts

Each month ODE Regional Coordinators submitted the reports received from ECOT to the resident districts for review. When resident districts identified errors, the errors were noted on the report and returned to the ODE Regional Coordinator. Only 3 of the 9 Regional Coordinators informed ECOT of the errors identified by the resident districts. The other 6 ODE Regional Coordinators did not submit the corrections to ECOT indicating that was the resident district's responsibility.

We recommend any errors/corrections identified by the resident districts to ODE Regional Coordinators be provided to ECOT to ensure all errors are corrected in a timely manner and to prevent loss of funding to resident districts.

Computerized Student Hours

At the beginning of the school year, ECOT believed the Xerox created system tracked the number of hours students were logged into the system. This was to provide a basis for ODE to identify the hours of instruction received by the student in calculating the amount of funding due to ECOT. However, as the school year progressed, ECOT determined if the student did not log out properly, the Xerox created system continued to track the time as logged in until the student logged in the next time. We identified several students during the Period that were logged in for more than 24 hours.

After identifying the logout issue, ECOT abandoned this method of tracking the hours and instead, relied upon the actual hours of work performed as recorded by the students upon logging into or out of the system. Review of computer generated reports identified errors in the number of minutes recorded by the students. For example, a student recorded 10,000 minutes (166 hours) of work in one session. ECOT personnel indicated they did not review or verify the accuracy of the information entered by the students.

We recommend ECOT create and implement a process to monitor the minutes recorded by the students to a) determine the reasonableness of the time recorded by the students and b) periodically contact the student and/or the parent to ensure the student is not logging onto the system, recording time expended and actually performing no work.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Internal Auditor

Periodic internal review of financial systems can identify deterioration or weaknesses in application and monitoring controls. Internal reviews should be part of an organization's overall control structure. This internal review process is most often accomplished by use of an internal auditor.

Internal auditing is an independent appraisal activity within an organization that reviews operations as a service to management. It is a managerial control that functions by measuring and evaluating the effectiveness of other controls. The basic objective of internal auditing is to assist all members of management in the discharge of their responsibilities. The internal audit department provides this assistance by furnishing management with analyses, appraisals, recommendations and comments concerning the activities reviewed. Frequently, this involves going beyond accounting and financial records to obtain a full understanding of the operations under review.

The scope of an internal audit function should encompass the examination and evaluation of the adequacy and effectiveness of ECOT's internal control, and the quality of performance in carrying out its operations including:

- Reliability and integrity of information
- Compliance with policies, plans, procedures, laws and regulations
- Safeguarding assets
- Economical and efficient use of resources
- Accomplishment of established objectives and goals for operations or programs

ECOT should clearly establish the responsibilities of the internal auditor within the organization and should expressly provide the internal auditor with the authority to obtain full access to all of the organization's records, properties, and personnel that could be relevant to the subject under review. The internal auditor should be free to review and appraise policies, plans, procedures, and records.

Internal auditors have no direct responsibility or authority over any of the activities reviewed. Therefore the internal audit review and appraisal does not in any way relieve other people in the organization of the responsibilities assigned to them.

Independence is critical to the effectiveness of internal auditing. This independence is obtained primarily through organization status and objectivity. The status of the internal audit function within the organization and the support accorded to it by management are major determinants of its range and value. The head of the internal audit function, therefore should be responsible to a person or body whose authority is sufficient to assure both a broad range of audit coverage and the adequate consideration of, and effective action on, the audit findings and recommendations.

Objectivity is essential to the audit function. Therefore an internal auditor should not develop and install procedures, prepare records, or engage in any other activity that he or she would normally review and appraise and that could be reasonably construed to compromise his or her independence. The internal auditor's objectivity need not be affected adversely by determining and recommending standards of control to be applied in the development of the systems and procedures being reviewed.

Internal auditors should possess an educational background appropriate to the audits they will perform. Internal auditors should possess adequate knowledge of the audit process. Experience as an external auditor or an internal auditor of another large organization is desirable. He or she should have experience working through others in a diverse, multi-disciplinary culture.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

We recommend that ECOT establish an internal audit function which possesses the characteristics and functions outlined above. One of ECOT's main business functions is to record and monitor the hours of instruction ECOT students receive. These hours are comprised of both time spent in the "electronic classroom" where instruction time is recorded by the computer system and time entered into the computer system for instruction received outside the "electronic classroom." The internal auditor should review the computer system's capabilities, performance, and security to ensure that it accurately and reliably records and reports the amount of each student's computer-based instruction. For instances where students are required to enter their instructional hours into the computer system, the internal auditor should, on a sample basis, periodically review documentation which supports the number of instructional hours entered by the student and evaluate the number of hours for reasonableness.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Issue No. 2 - Review of Enrollment in September and October 2000

We obtained the September 2000 and October 2000 ADM reports used by ODE in determining ECOT's funding for those months. For purposes of illustration, we recalculated the funding that would have been due to ECOT based on the number of students who actually logged in during those months, i.e., the definition of "enrolled" for funding purposes that ODE did not adopt until March 30, 2001.

Procedures

1. We obtained the September and October 2000 monthly ADM reports submitted by ECOT and used by ODE to calculate funding for ECOT.
2. We selected 5% of the students funded in September 2000 and 5% of the new students in October 2000 and verified the students were enrolled in ECOT.
3. We obtained from Xerox, Learn.com and Child U a listing of ECOT students who logged into these systems in September and October 2000. We compared the amount of funding remitted by ODE to ECOT to the amount of funding that would have been due to ECOT had ODE decided prior to the start of the school year that it would pay ECOT only for those actual enrolled students who logged in during September or October 2000.

Results

1. We obtained the monthly ADM reports for September 2000 submitted to ODE's Region 0 Coordinator and the monthly ADM reports for October 2000 submitted to ODE's 9 Regional Coordinators. We entered the names from the reports into a spreadsheet to identify the students funded by ODE for September and October 2000. ODE funded 2,270 students for September 2000 and 2,346 students for October 2000. ECOT received \$976,178 and \$1,045,544 for each month, respectively.

2. September 2000

We reviewed student enrollment files and verified the files contained a completed registration form, a consent for records release form, a computer liability form, and a telephone installation form.⁷ We noted the following exceptions:

- Files for 14 of the 113 students reviewed did not contain one or more of the required forms. ECOT received \$5,064 in both September and October 2000 and potentially received \$46,799 in formula funding for the entire year unless ECOT corrected this error by the submission date of its June ADM Report.
- ECOT could not provide files for 7 of the 113 students selected so we were unable to determine whether all required enrollment documents were submitted. ECOT received \$1,364 in both September and October 2000 for 3 of these 7 students and potentially received \$14,083 in formula funding for the entire year unless ECOT corrected this error by the submission date of its June ADM Report. ECOT did not receive funding for the remaining 4 students.

⁷ As noted in Issue No. 1, Result No. 1, these documents were required to be submitted before the student was considered enrolled by ECOT.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

ODE funded ECOT \$6,428 for September 2000; \$6,428 for October 2000 and potentially funded ECOT \$60,822 for the entire year for 17 students which it did not possess documentation that the students were actually enrolled in ECOT.

October 2000

We reviewed student enrollment files and verified the files contained a completed registration form, a consent for records release form, a computer liability form, and a telephone installation form.⁸ We noted the following exceptions:

- Files for 2 of the 26 students reviewed did not contain one or more of the required forms. ECOT received \$383 for October 2000 for one of the students and potentially received \$4,601 for the entire year in formula funding, unless ECOT corrected the error by the submission date of its June ADM Report. ECOT did not receive funding for the other student.
- ECOT could not provide files for 3 of the 26 students selected so we were unable to determine whether all required documents were submitted. ECOT received \$1,150 for October 2000 and potentially received \$9,198 in formula funding for 2 of these students, unless ECOT corrected this error by submission of its June ADM Report. ECOT did not receive funding for the third student.

ODE funded ECOT \$1,533 for October 2000 and potentially funded ECOT \$13,799 for the entire year for the 5 students which it did not possess documentation that the students were actually enrolled in ECOT.

3. In May of 2000, ECOT filed an estimated enrollment form with ODE indicating 1,500 students were expected to enroll in ECOT and the resident districts the students may reside. ODE did not require any supporting documentation for the estimated enrollment and the resident districts involved. Using ECOT's estimated 1,500 students, ODE calculated estimated monthly amounts to be paid to ECOT until the first monthly count of actual students was performed in September. For payments received July through October 2000, ECOT was funded based on the estimated enrollment. Currently, it is ODE's practice to provide a payment two months after the month the students were counted. For example, the student count in September was used by ODE to calculate the November monthly payment.

In November 2000, ECOT received \$976,178 for 2,270 students attending in September 2000. Of this amount, \$932,030 was received for Basic Formula funding, \$5,620 for Disadvantaged Pupil Impact Aid, and \$38,528 for Special Education Services.

In December 2000, ECOT received \$1,045,544 for 2,346 students attending in October 2000. Of this amount, \$983,750 was received for Basic Formula funding, \$37,800 for Disadvantaged Pupil Impact Aid, and \$23,994 for Special Education Services.

Using documentation provided by Xerox, Learn.com and Child U which documented the date of students first log-in, we noted the following:

⁸ As noted in Issue No. 1 Result No. 1, these documents were required to be submitted before the student was considered enrolled by ECOT.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

September 2000

Of the 2,270 students funded for September 2000, only 7 students logged into either Child U or Learn.com and recorded hours or minutes of service during that month. No students logged into and recorded hours or minutes in the Xerox created system.

Had ODE's March 30, 2001 definition of "enrolled" for funding purposes been in effect prior to the start of the school year, ECOT should have received only \$3,955 for these 7 students who logged in. Instead, ODE paid ECOT \$932,030 in Basic Formula funding. As a result, in September 2000 ODE paid \$928,075 in Basic Formula funding for students that 7 months later ODE no longer considered "enrolled" for funding purposes.

If ODE funded ECOT based on actual hours of student log-in time during September 2000, ECOT should have received \$184 for 37 hours of computer-based instruction. As a result, ODE paid \$931,846 in Basic Formula funding for which there is no documentation to support actual hours of computer-based instruction during September.

October 2000

Of the 2,346 students funded for October 2000, 297 students logged into the Xerox created system, 180 students logged into Child U and 29 students logged into the Learn.com system and recorded hours or minutes of service during that month.

Had ODE's March 30, 2001 definition of "enrolled" for funding purposes been in effect prior to the start of the school year, ECOT should have received only \$222,989 for these 506 students who logged in. Instead ODE paid ECOT \$983,750 in Basic Formula funding. As a result, in October 2000 ODE paid \$760,761 in Basic Formula funding for students that 6 months later ODE no longer considered "enrolled" for funding purposes.

If ODE funded ECOT based on actual hours of student log-in time during October 2000, ECOT should have received \$18,404 for 3,879 hours of computer-based instruction. As a result, ODE paid \$965,346 in Basic Formula funding for which there is no documentation to support actual hours of computer-based instruction during October.

September and October Totals

Using ODE's March 30, 2001 definition that students are not eligible for funding until they record their first log-in to the system, ODE paid ECOT \$1,688,836 (\$928,075+\$760,761) in Basic Formula funding for students in September and October who did not meet that definition.

Using actual hours of student log-in time as a basis of funding, ODE paid ECOT \$1,897,192 (\$931,846+\$965,346) in Basic Formula funding for which there is no documentation to support actual hours of computer-based instruction during September and October.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

MANAGEMENT COMMENTS

Basis for Services Provided

As noted in Issue No. 1, ODE did not establish formal guidelines regarding when a student was considered enrolled for funding purposes. ODE also did not take an official position on the definition of enrollment until approximately 7 months into the school year. In addition, ODE did not formally notify ECOT of ODE's position that students who enroll in ECOT will be counted for funding purposes beginning with their first log-in to the ECOT, Learn.com, or Child U. systems causing confusion of the acceptability of ECOT using hard copy mailed lessons until enrolled students received equipment necessary to begin computer-based instruction.

The Electronic Classroom of Tomorrow entered into a contract with the Lucas ESC to provide 920 hours of educational instruction to each ECOT student. However, ECOT's funding was based on monthly student enrollment rather than recorded hours of computer-based instruction. During the Period, ODE provided \$932,030 for September 2000 and \$983,750 for October 2000 in Basic Formula funding. It is ODE's practice of funding schools a prorated (i.e. monthly) portion of the annual amount due rather than basing funding on actual attendance or in the case of ECOT, actual documented hours of computer-based instruction.

Based on log-in reports generated by Xerox, Learn.com and Child U, no students logged into the Xerox created system in September 2000 and only 7 students logged into Learn.com or Child U. In October 2000, only 506 students recorded initial log-ins into the Xerox created system, Learn.com, or Child U. Using ODE's position developed 7 months later that students who enroll in ECOT will be counted for funding purposes beginning with their first log-on to the ECOT system, ECOT should have received only \$226,944 for September and October. However, ODE paid ECOT \$1,915,780 in Basic Formula funding. As a result, ODE paid ECOT \$1,688,836 for students in September and October who did not meet that definition.

The number of documented computer-based instruction hours was 3,916 in September and October 2000. Using actual computer-based instruction hours as a basis for funding, ODE should have paid ECOT \$18,588 for September and October. However, ODE paid ECOT \$1,915,780 in Basic Formula funding. As a result, ODE paid ECOT \$1,897,192 for which there is no documentation to support actual hours of computer-based instruction during September and October.

We understand the need to provide funding to schools based on an estimated enrollment since school is not actually in session in July and August. However, funding for months in which school is in session should be based on actual attendance or in the case of ECOT, actual documented hours of computer-based instruction received, rather than anticipated attendance or anticipated computer-based instruction hours.

Pursuant to Ohio Rev. Code § 3314.08(L), ODE is required to adjust payments to community schools to reflect students who were not "enrolled" in the community schools for the equivalent of a full school year. For all community schools, ODE should complete annual enrollment audits within 90 days of the fiscal year end to determine whether any monies are due back to ODE for instances of overfunding. In regards to ECOT, we understand the potential overfunded amount may exceed the approximately \$1.9 million noted in this report. Future adjustments to ECOT's funding by ODE should be spread over a reasonable period of years so as to not put ECOT out of business. If future adjustments to ECOT's funding are too severe and made too quickly, it is possible that ECOT may cease operations and the State would not be able to recoup the full amount of any past overfunded amounts.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Enrollment Estimates

In July 2000, ECOT submitted an estimated enrollment of 1,500 students which ECOT felt it would serve and the resident districts ECOT believed the students would reside. ODE did not require any documentation to support ECOT's estimated enrollment or the districts the students would reside. Included in the estimate was a district which had no students enrolled in ECOT. This resulted in the resident district's foundation payment being reduced for funding sent to ECOT although the district has no students actually attending ECOT.

We recommend ODE request additional documentation to support estimates of enrollment for developing estimated foundation payments. The documentation should be reviewed to ensure the estimate is reasonable and accurately reflects a number of students which the school would reasonably be expected to serve. This will assist in minimizing unnecessary reduction of funding to resident districts.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Issue No. 3 - Review of Monthly Reports Submitted to ODE

We reviewed the September and October 2000 ECOT Monthly ADM reports to determine whether the resident districts returned the reports to ODE by the due date to allow any errors in enrollment to be taken into account when calculating ECOT's funding. We reviewed the reports returned by the resident districts for evidence of review by the districts. We reviewed the September and October 2000 enrollment reports for obvious discrepancies.

Procedures

1. We summarized the reports obtained in Issue No. 2, Result No. 1 to determine whether the resident districts submitted its corrections, if any, to the ODE Regional Coordinators by the due date to allow any corrections identified to be included in the funding calculation.
2. We selected the three districts with the largest number of disputed students from each region in October 2000 and determined whether ODE's Regional Coordinator considered the error correction when calculating ECOT's funding. Due to the numerous errors in the September 2000 report which were corrected by ECOT and ODE in the October 2000 report and due to the large number of reports returned after the due date which resulted in ODE funding ECOT based on ECOT's filed report, we did not review the disputed students identified on the September 2000 reports.
3. We scanned each of the monthly reports submitted to ODE for September and October 2000 and identified whether ODE funded ECOT for the following:
 - Students under the age of five.
 - Students over the age of 21 at the beginning of the school year.
 - Students who were listed on the resident district's report twice.
 - Students listed as residing in a resident district when the student actually resided in another.
 - Other obvious errors/discrepancies.

Results

1. We reviewed each report obtained from ODE's Regional Coordinators in Issue No. 2, Result No. 1 and noted the following:
 - 458 resident districts returned the monthly ADM reports with some evidence of review by the resident district.
 - 265 resident districts did not return the monthly ADM reports.
 - 226 of the monthly ADM reports contained some indication of an error identified by the resident district.
2. There were 116 resident districts which identified errors on their October reports. We selected the three districts with the most errors from each of the 9 regions and identified whether ECOT corrected those errors on either the November or December 2000 monthly report. We reviewed reports for 27 districts which documented 192 disputed students. Of the 192 disputed students, 139 of the disputes were corrected by ECOT on the November 2000 report, 23 were corrected on the December 2000 report, and 11 were corrected by the June 2001 ADM report. The remaining 19 disputed students had not been corrected as of the June 2001 ADM report. In addition, our review noted only 1 of the 9 regions considered the disputed students each time when calculating the funding due to ECOT. For the 19 disputed students not corrected, funding to resident districts was reduced, and ECOT received, \$87,508.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

3. We reviewed each of the reports submitted to ODE for September and October 2000 to identify obvious errors listed on the reports.

The September 2000 report contained 54 students from 36 districts under the age of 5.⁹ The October 2000 report contained 45 students from 27 districts under the age of 5. ECOT has notified ODE through the monthly reports submitted during the period November 2000 through March 2001 to remove these 45 students from the funding received totaling \$49,221 in Basic Formula funding and provide no future funding to ECOT for these students. ODE indicated the funding, for errors identified by ECOT prior to June 1, were deducted from ECOT's monthly payments and returned to the resident districts as of June 26, 2001.

The September 2000 report contained 4 students from 4 resident districts who were over the age of 21 at the beginning of the school year.¹⁰ The October 2000 report contained 3 students from 3 districts over the age of 21. ECOT notified ODE through the monthly reports submitted during the period November 1, 2000 through March 2001, to remove these 3 students from the funding received, totaling \$7,041 in Basic Formula funding, and provide no future funding to ECOT for these students. ODE indicated the funding, for errors identified by ECOT prior to June 1, has been deducted from ECOT's monthly payments and returned to the resident districts as of June 26, 2001.

The September 2000 report contained 4 students from 4 districts which were listed twice on the September 2000 report submitted to ODE. On the October 2000 report, 2 of the students listed twice on the September 2000 reports were removed, however, 2 additional duplication of names were identified resulting in 4 districts affected. ECOT notified ODE through the monthly reports submitted during the period November 1, 2000 through March 2001, to remove these 4 students from the formula funding received, totaling \$7,440 in Basic Formula funding, and provide no future funding to ECOT for these students. ODE indicated the funding, for errors identified by ECOT prior to June 1, has been deducted from ECOT's monthly payments and returned to the resident districts as of June 26, 2001.

We noted the following additional errors/discrepancies in the reports:

- In September 2000, there were 117 instances affecting 55 districts where the student was documented as residing in a resident district, however, the student actually resided in another resident district. In October 2000 report, there were 56 instances affecting 27 districts where a student was recorded on the wrong Monthly ADM Report as he/she resided in another resident district. These instances resulted in \$92,491 in Basic Formula funding being deducted from these districts instead of the district the student resided in. These errors were the result of ECOT personnel not verifying the information being provided with the parent prior to entering the information into the database. ODE indicated the funding, for errors identified by ECOT prior to June 1, has been deducted from ECOT's monthly payments and returned to the resident districts as of June 26, 2001.

⁹ We received a letter dated March 7, 2001 from the Executive Director of ODE's Office of School Finance, which indicated "a student must be at least five years old in order to be eligible for funding in a community school." This is described in Ohio Rev. Code Section 3314.06.

¹⁰ The letter dated March 7, 2001 from the Executive Director of ODE's Office of School Finance also indicated "a student who is twenty-two years of age as of the first day of the school year is not eligible for funding. However, if the student turns twenty-two after that date, then the student is eligible for funding for the remainder of that school year." This is described in Ohio Rev. Code Section 3314.06.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- The wrong county was listed for various school districts such as for Lake Local School District in Wood County, the student was listed as attending Lake Local School District in Stark County.
- There were 20 instances of a social security number listed twice in the database. In 9 instances two different students had identical social security numbers entered into the database. In 11 instances, the same student was in the database twice.
- Several staff members were permitted access to make changes in the database which resulted in changes being made to the wrong student as a result of several students with the same last name.

The \$156,193 received by ECOT associated with these errors should have been returned to the resident districts upon notification to ODE of the error. However, ODE returned these monies on a prorated basis over the remaining payments to the resident districts for fiscal year 2001.

MANAGEMENT COMMENTS

Return of Funding Received in Error

Over the period November 2000 to March 2001, ECOT corrected various errors on its monthly reports submitted to the ODE Regional Coordinators. As is ODE's practice, the funding related to these errors was prorated and returned to the effected resident districts over the remaining foundation payments rather than entirely at the time the error was noted. The error was not the fault of the resident district, therefore, the resident district should not be penalized and required to wait until June 30 for payment.

We recommend when ODE receives notification of an error by a community school, the money incorrectly deducted from the resident district be returned to the effected district in one lump sum. This reduces the lag time of returning much needed funds to the resident district which were incorrectly deducted.

Calculating School Funding

Upon receipt of the monthly reports from the resident districts, the ODE Regional Coordinator calculated the number of full time equivalent students to enter into ODE's computer system to calculate funding. We identified 19 instances where a correction was received by ODE to remove a student from the report and the Regional Coordinator still included the student in the calculation for funding. As indicated in Result No. 2, these corrections were not adjusted by the ODE Regional Coordinator which resulted in ECOT receiving \$87,508 incorrectly. In instances where the report was received after the due date to be used in the calculation, we reviewed the next month to identify whether the error was excluded in the calculation of full time equivalent students. We determined 8 of the 9 regions still did not take into consideration these errors.

We recommend the Regional Coordinators ensure the students identified by the resident districts as errors are not included in the current month's full time equivalent calculation when the report is received in a timely manner from the resident district. If the report is received from the resident district after the calculation, the Regional Coordinator should ensure the student is removed from the calculation for the next month.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Regional Coordinator Review of Monthly Reports

Each month ECOT submits a report to the ODE Regional Coordinator for each of the districts within its region. The ODE Regional Coordinator submits the reports to the resident districts for review and identification of discrepancies. We noted the following errors on the September and October 2000 reports which were not identified by the resident districts or ODE Regional Coordinators and were not considered when calculating full time equivalent students and funding for ECOT:

- 152 instances where the student was recorded in the wrong resident district based on their address.
- 99 instances where the student was under the age of 5.
- 7 instances where the student was over the age of 21 at the beginning of the school year.
- 4 instances where the student was listed twice on the monthly report.

In addition, we noted various districts did not return monthly reports to the ODE Regional Coordinator which resulted in ECOT's original report being used to calculate the full time equivalent students. There was limited or no follow-up performed by ODE Regional Coordinators to verify whether there were errors in the reports.

We recommend the Regional Coordinators closely review monthly reports for errors such as students under the age of 5, students over the age of 21 at the beginning of the school year, whether the district on the monthly report cover sheet is the same one as the student listing, and whether the cities or zip codes appear reasonable for the location of the resident district. In addition, the Regional Coordinators should follow up on a periodic basis with the resident districts to identify why monthly reports are not returned and whether any corrections are necessary. We recommend that Regional Coordinator be required to sign off on each monthly report indicating their review.

Students Served

In school year 2001, ECOT provided services for grades kindergarten through 12. Students attending ECOT ranged from age 3 through age 23 upon entering school. As part of ECOT's Community School Contract, ECOT agreed to follow all provisions of the Ohio Rev. Code which included the sections addressing the age criteria of its students. ECOT provided services to students who did not meet the criteria and received funding for those students included in the September and October of 2000 ADM reports.

ECOT should review its current Monthly Report and database and remove all students that were under the age of 5 and who were over the age of 21 when starting the school year. We also recommend ECOT establish guidelines to ensure only students within the age guidelines described in Ohio Rev. Code Sections 3313.64, 3313.65 and 3314.06 (ages five through the age of 21) are enrolled in ECOT.

Access to the Student Database

Several staff members had access to the enrollment database and were authorized to make changes. These individuals included staff members enrolling the students, staff members of Academic Affairs, and staff members in the Average Daily Membership Department. These individuals had the ability to edit information in the database. As a result, student information was often changed incorrectly or the individual changed the wrong student's information.

We recommend ECOT review its employee job descriptions and identify those individuals who require access and the ability to modify the database. Once these individuals are identified, we recommend other staff members who access the database be given read-only access to prevent unauthorized modifications to the database. In addition, ECOT should appoint an individual to sample, on a periodic basis, the changes to student records to ensure the change was to the correct student record and the change made was accurate.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Monitoring of Student Database

Currently, no one at ECOT performs a review of the student database for accuracy of the information entered into the database. Additionally, there were no written policies or procedures for entering student information into the database or explaining the information required for each field. Using Audit Command Language (ACL), we identified duplicate names, social security numbers, and dates of birth in the student database. We also scanned the monthly reports generated from the database and identified the following errors:

- Two instances where both the child and the mother of the child were listed as students in the database.
- Students were listed twice in the database.
- There were numerous instances where the student's address was not in the District the student was listed as residing. For example, a student with the address of Toledo, Ohio was included in the database as attending Columbus Public School District.
- We noted 20 instances in which a social security number was included in the database twice.

We recommend ECOT develop policies and procedures which detail the required steps to enter student information into the database. The policies and procedures should include a description of each field in the student database and an explanation of information required to be entered. Additionally, the computer system should be programmed to periodically analyze the contents of the database for possible data entry errors such as duplicate names, addresses, social security numbers, and students which do not meet legislated age requirements. The system should generate a report of these possible errors. The report should be reviewed by management or an internal auditor, the possible errors compared to documents contained in student files, and corrections to the database made as appropriate.



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ELECTRONIC CLASSROOM OF TOMORROW

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 13, 2001**