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Auditor of State

From: Auditor of State's Center for Audit Excellence

To: All IPA Firms

Subject: FY15 Adjustments to School Foundation and EMIS/ODDEX Issues

Date: July 16, 2015

Below is a sample contingency footnote disclosure to be included in our 6/30/15 school audit reports, where applicable and potentially material. Similar to our community schools, traditional schools may need to reflect a receivable or payable related to Foundation funding adjustments occurring after fiscal year end for the 2014-2015 school year. ODE will be calculating these adjustments in mid-August 2015 or later. In fact, ODE believes it may be necessary to calculate more than one round of adjustments. **For the reasons explained below, this is the first school year that adjustments occurring after fiscal year end for traditional school Foundation funding have the potential to be material. Auditors should assess the risk of material errors in school enrollment during the course of their audits, plan their OCS and Federal program testing accordingly, and ask management to include the attached sample footnote disclosure in their 6/30/15 financial statements where the impact to Foundation funding could be material.** The OCS includes procedures for testing enrollment, including admissions and withdrawals, during the school year.

Additionally, AOS is meeting regularly with ODE to ensure the enrollment reports and information needed for audit will be available in a timely manner. We are also performing tests at the State level to ensure ODE's internal controls over EMIS and the 6/30/15 Foundation adjustment calculations are now operating effectively despite the problems encountered during the school year. We will keep you informed of our progress and notify you of any anticipated changes to our enrollment testing approach, if needed. **At this time, we believe the current OCS and FACCR enrollment procedures will be sufficient for the majority of our school audits. However, there are a few traditional and community schools that have anomalies in their enrollment data that we may forward to you for investigation during your audits if we are unable to resolve/explain those variances in the next few weeks. Schools have until roughly the end of July to finalize their 6/30/15 enrollment data.**

In past school years, traditional school students were funded based upon days attended or excused during a single count week. Effective for the 2014-2015 school year, as a result of legislative changes in the school funding model, traditional schools were funded for students on an hourly basis throughout the year – similar to the way Ohio funds its community school students. As a result of this change, ODE will be making adjustments to fiscal year 6/30/15 Foundation funding for traditional schools (e.g., city schools, local schools, EVSD's, JVS's, etc.) after year end. Some of these adjustments may be significant and should be reported in the traditional school's financial statements. Additionally, due to the complexity of this new funding system, ODE has advised AOS that they may make several "rounds" of adjustments until they

believe the data and resulting funding is accurate. These 2014-2015 school year Foundation adjustments will begin in August 2015 and will continue until ODE believes the data is solid.

Also, due to ODE's consolidation of the Education Management Information System (EMIS) and the School Options Enrollment System (SOES), schools did not have the opportunity to view "flagged" students until April 2015. Resident school districts have the ability to review student records for students attending community schools, vocational schools, court-placed students, etc. in SOES. The resident district may challenge the eligibility of the student for funding if there is a perceived error in the student's information. Once a record is flagged by the resident district, the attending school (e.g., community school, etc.) must work with the resident district to resolve the discrepancy. If the flag is not resolved, ODE will not fund either school for the student nt. However, this "flagging" system of checks and balances was not operational during the months of July 2014 through March 2015. As a result, there is an elevated risk of enrollment errors going undetected. Additionally, since schools did not have the ability to view flagged students until late in the school year, there is a greater likelihood of ODE making significant adjustments to fiscal year 6/30/15 Foundation funding in the Final FTE payments made after fiscal year end.

SAMPLE FOOTNOTE:

> School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school district, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the school district; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School District.

As explained in AU-C 560.15 - .18 below, when material adjustments are discovered after issuance of our audit report, it is possible that we may be able to simply restate the prior year instead of reissuing the report if the subsequent audit is imminent. Auditors must evaluate the significance of these adjustments and consider the potential impact to the users of the financial statements. If the auditors believe the magnitude of Foundation adjustment subsequent to the issuance of our audit report are such that the users could be misled, the auditors will need to consult with the CFAE to determine whether reissuance of the audit report is necessary.

SUBSEQUENT EVENTS REQUIREMENTS:

AU-C 560.15 - .18 describes the auditors' responsibilities for subsequently discovered facts that become known to the auditor after report release.

> **A19** Because of the variety of conditions that might be encountered, the specific procedures or actions to be taken in a particular case may vary somewhat in light of the circumstances. For example, in determining whether the financial statements need

revision, as required by **paragraph .15 *b***, the auditor may consider, in addition to the requirements of the applicable financial reporting framework, whether the auditor believes there are persons currently relying or likely to rely on the financial statements who would attach importance to the subsequently discovered facts. Consideration may be given, among other things, to the issuance of audited financial statements for a subsequent period, the time elapsed since the financial statements were issued and the auditor's report released, and any legal implications.

Please feel free to contact me or Rhonda Kline, Director of Professional Standards in the Center for Audit Excellence, if you have any questions concerning this guidance.