



Mary Taylor, CPA
Auditor of State

Bulletin 2007-003

Auditor of State Bulletin

Date Issued: April 6, 2007

**TO: School District Treasurers
Educational Service Center Treasurers
Community School Finance Officers
Independent Public Accountants**

**FROM: Mary Taylor, CPA
Ohio Auditor of State**

SUBJECT: 598 Schoolwide Building Program Fund

Background

The purpose of this bulletin is to inform you of the creation of a Schoolwide Building Program Fund. The Schoolwide Building Program Fund allows for the pooling of Federal, State, and local funds to be used to upgrade the overall instructional program of a school building where at least 40 percent of children are from low-income families. The provision for this program was created under the No Child Left Behind Act of 2001.

Schoolwide programs address the educational needs of children living in impoverished communities with comprehensive strategies for improving the whole school (a school building) so every student achieves high levels of academic proficiency. Schoolwide programs have great latitude to determine how to organize their operations and allocate the multiple funding sources available to them. They do not have to identify particular children as eligible for services or separately track Federal dollars. Instead, schoolwide programs can use all allocated funds to increase the amount and quality of learning time.

Accounting Procedures

The Schoolwide Building Program Fund is optional to those school districts that are eligible. In order to use the Schoolwide Building Program Fund, a school district must have an approved consolidated funding application from the Ohio Department of Education. School districts should use fund number 598 from the Uniform School Accounting System for the program. A special cost center should also be used for each eligible building.

The receipts to the Schoolwide Building Program Fund are transfers from federal grants¹ that are typically accounted for in separate federal grant funds. School districts are to initially record the individual federal grant receipts to the appropriate federal grant fund and the portion to be used in the schoolwide building program should be transferred to the Schoolwide Building Program Fund. Similarly, the program also requires school districts to contribute State and local matching funds to the program using transfers. School Districts should appropriate for and record a transfer-out of the contributing grant funds to the Schoolwide Building Program Fund.

Dollars transferred to the Schoolwide Building Program Fund must support the purposes of the grants which contributed to the Schoolwide Building Program Fund and be consistent with the schoolwide building plans. For example, if the school building program plan includes recruiting, hiring and retaining highly qualified teachers and extending high speed internet connections to all classrooms, then Improving Teacher Quality (Title II, Part A) grants (fund 590) and Education Technology (Title II, Part D) grants (fund 599) may contribute to the Schoolwide Building Program Fund. As long as the school maintains records that demonstrate that the schoolwide building program (considered as a whole) addresses the intent and purposes of each of the Federal programs that were consolidated to support the program, the school is not required to maintain separate fiscal accounting records (by program) that identify the specific activities supported by those particular funds. The use of this fund does not change the audit requirement for federal program compliance.

At fiscal year-end, the revenues and expenditures of the Schoolwide Building Program Fund need not be allocated back to the original contributing funds in order to demonstrate compliance with the contributing grant programs; however, the Schoolwide Building Program Fund expenditures should be reported as part of and in the same proportion as the contributing funds on the Schedule of Federal Financial Assistance.

Using the approved consolidated funding application, a school district may establish a requirement that a certain percentage of the amounts transferred to the Schoolwide Building Program Fund be obligated by fiscal year-end. Care should be taken to ensure that the percentage is met. Money not obligated by fiscal year-end shall revert to the original contributing source in proportion to the amounts contributed. For example, if the State and local funds contributed 20 percent and the fund has \$100 not obligated at fiscal year-end, then \$20 would revert to the State and local funds that provided the funds and \$80 would revert to the individual grant funds that originally contributed to the Schoolwide Building Program Fund.

The Schoolwide Building Program Fund should be included on the School District's certificate of estimated resources and the Board of Education must appropriate the expenditures. In addition, the Board of Education must authorize, by resolution, the

¹ For a list of grants that are eligible to participate in the Schoolwide Building Program Fund, please consult the Comprehensive Continuous Improvement Plan documents library at www.ode.state.oh.us.

schoolwide building program, and the transfer of resources from the individual grant funds, including the matching funds, to the Schoolwide Building Program Fund.

Questions and Comments

If you have any questions or comments regarding the information presented in this Bulletin, please contact the Local Government Services Section of the Auditor of State's Office at (800) 345-2519.

Mary Taylor, CPA
Ohio Auditor of State



Auditor of State Bulletin

Date Issued: July 11, 2007

TO: School District Treasurers
JVSD Treasurers
Educational Service Center Treasurers
Community School Finance Officers
Independent Public Accountants

FROM: Mary Taylor, CPA
Ohio Auditor of State

SUBJECT: Additional Guidance on the Use of the New Account Codes for Debt Refunding Transactions

Purpose of the Bulletin

In Bulletin 2006-004, the Auditor of State's Office provided new account codes for the proper recording of debt refunding transactions. Based on inquiries we have received, we have agreed to provide additional guidance per this Bulletin.

What is Intended

Some portions of a refunding transaction should be recorded and reported as Expenditures while other portions of the transaction should be reported as Other Financing Uses. Bulletin 2006-004 expanded the 830 object codes (Other Debt Service Payments) to address those aspects of the refunding transaction that should be reported as Expenditures. The aspects of the refunding transaction that should be reported as Other Financing Uses have been included in the new 900 level object codes.

The Questions

Treasurers have been asking why the uniform school accounting system will not accept a transaction that uses the 7900 function code and 830 objects. That is because the 7900 function code is used exclusively for transactions that are to be reported as Other Financing Uses. Since the 830 objects are intended to be reported as Expenditures (rather than Other Financing Uses), they will not work with the 7900 function. When using the 830 objects, use the 6100 function, Debt Service.

The new 900 level objects are intended to appear on the financial statements as Other Financing Uses. They should be used with the 7900 function and not 6100.



Auditor of State Bulletin

Date Issued: August 30, 2007

TO: School District Treasurers
Educational Service Center Treasurers
JVSD Treasurers
Community School Finance Officers
Community School Sponsors
Independent Public Accountants

FROM: Mary Taylor, CPA
Ohio Auditor of State

SUBJECT: Unauditable Community Schools

This section is still law, even though its not codified in ORC.

Overview

Recently enacted House Bill 119, the State's biennial budget bill, includes a provision that affects those community schools declared unauditabile by the Auditor of State's Office (AOS) or by a contracted Independent Public Accountant (IPA) firm pursuant to Section 117.41 of the Ohio Revised Code. Section 269.60.60 of the biennial budget bill also places certain requirements and restrictions on sponsors of unauditabile community schools. The purpose of this Bulletin is to inform you of the new provision, describe how the AOS intends on fulfilling its role under the new provision, and provide guidance to community schools on how to avoid an unauditabile declaration.

Unauditabile Offices

Ohio Revised Code Section 117.41 enables the AOS or contracted IPA firm to declare a public office to be "unauditabile" (i.e., unable to be audited) when its accounts, records, files, or reports have been improperly maintained and, as such, the documentation is insufficient to perform the audit. If the AOS determines that the records are insufficient, the AOS sends a letter to the public office that formally declares it to be unauditabile.¹ The letter outlines the procedures the public office must follow to bring its records into an auditabile condition, and generally includes a list of missing or insufficient records. If the public office fails to make reasonable efforts and continuing progress to bring its records into an auditabile condition within 90 days after being declared unauditabile, the AOS shall request the Attorney General's Office to commence legal action pursuant to Section 117.42 of the Ohio Revised Code to compel the public office to bring its accounts, records, files, or reports into an auditabile condition.

Unauditabile Community Schools

¹ In practice, when an IPA firm has been contracted to complete an audit and believes the public office should be declared unauditabile, the firm informs the AOS of the situation. Once notified, the AOS evaluates the condition of the records and makes the determination whether the public office is auditabile.

When a community school is declared unauditible, Section 269.60.60 of the biennial budget bill requires the AOS to provide written notification of the unauditible declaration to the community school, the school's sponsor, and the Ohio Department of Education (ODE). The AOS shall also post the notification on its website.

Upon being notified that a community school has been declared unauditible, the sponsor is not permitted to contract with any additional community schools per Section 3314.03 of the Revised Code until the AOS or contracted IPA firm has completed a financial audit of that community school. Additionally, within 45 days of being notified, the school's sponsor must provide a written response to the AOS and include the following information:

- An overview of the process the sponsor will use to review and understand the circumstances that led to the school's unauditible condition;
- A plan for providing the AOS with the documentation necessary to complete an audit of the community school and for ensuring that all financial documents are available in the future; and
- The actions the sponsor will take to ensure the plan described above is implemented.

If the community school fails to make reasonable efforts and continuing progress to bring its records into an auditable condition within 90 days after being declared unauditible, the AOS shall request legal action pursuant to Section 117.42 of the Ohio Revised Code to compel the school to bring its accounts, records, files, or reports into an auditable condition. The AOS must also notify the ODE of the school's failure. Conversely, if the AOS or contracted IPA firm is able to complete the audit, the AOS must notify the ODE that the audit has been completed.

Upon notification that the community school failed to make reasonable efforts and continuing progress to bring its records into an auditable condition, the ODE shall immediately cease all payments to the school under Chapter 3314 of the Revised Code and any other provision of law. Upon subsequent notification that the AOS or contracted IPA firm was able to complete the audit, the ODE shall release all funds that were withheld from the school. Please note that the community school is considered unauditible until the audit report is publicly released.

Use of Professional Judgment

As we have done in the past with all public offices subject to audit, the AOS will use due professional care and sound judgment in determining whether a community school can be audited and whether an unauditible community school has made reasonable efforts and continuing progress to bring its records into an auditable condition. Exercising due professional care is based upon auditors following generally accepted government auditing standards and using sound judgment to ensure and maintain competence, integrity, objectivity, and independence in planning, conducting and reporting their work. Because each unauditible declaration traditionally has its own unique set of circumstances, the AOS will handle each declaration on a case-by-case basis and use professional judgment as each set of circumstances dictates. IPA firms should contact their respective AOS regional office when they believe an entity's records are insufficient for audit and should be declared unauditible. AOS regional management will evaluate the condition of the school's records and draft the unauditible declaration if the school's records are insufficient for audit. Each unauditible declaration will be reviewed and approved by the AOS Chief Deputy Auditor before issuance. Determinations of

reasonable efforts and *continuing progress* will also be made on a case-by-case basis; however, community schools should understand these efforts must be measurably substantial to allow the audit to move forward.

Reporting requirements now described in Bulletin 2015-07.

Avoiding an Unauditable Declaration

To help avoid being declared unauditable, the AOS recommends community schools file complete annual financial reports pursuant to Generally Accepted Accounting Principles (GAAP) with the AOS within 150 days after the close of the fiscal year, pursuant to Section 117.38 of the Ohio Revised Code. Although the AOS will not declare an entity to be unauditable solely because it failed to file within the statutorily established timeframe, this does provide cause for the AOS to expedite the review of the entity's records. (Please refer to bulletins ~~2001-012 and 2006-02~~ for more information on filing requirements.) Additionally, having the requisite records and other documentation on hand when the auditors arrive to perform the audit greatly facilitates the entire audit process. As such, to help avoid an unauditable declaration, the following information is typically needed for an audit of a community school:

- An accurate/complete reconciliation of the school's bank and investment accounts to the school's book balance including supporting documentation (e.g., listing of outstanding checks, listing of deposits in transit, support for other adjustments, etc.);
- Approved minutes for all Board meetings held during the fiscal year;
- Ledgers with all fiscal year activity posted;
- Supporting documentation (e.g., receipt detail, expense detail, payroll records, leases, capital assets, contracts with employees and service providers, etc.); and
- Financial statements including notes and management's discussion and analysis.

Please note that this list is not meant to include every item or record necessary for an audit. Rather, the list includes those major items/records that the AOS believes will significantly reduce the school's probability of being declared unauditable. Because each audit client has its own unique set of circumstances, the AOS cannot provide a definitive list of items/records. Nevertheless, the AOS strongly recommends that community schools have these items/records available when the auditors arrive to perform the audit.

Effective Date

Community schools declared unauditable for the fiscal year ended June 30, 2007 and in subsequent years will be subject to the requirements and provisions contained in Section 269.60.60 of the biennial budget bill.

Questions and Comments

If you have any accounting or auditing related questions regarding the information presented in this Bulletin, please contact the AOS Accounting and Auditing Support Group at (800) 282-0370.