Auditor of State Bulletin 2000-16

December 11, 2000

TO: ALL SCHOOL DISTRICT TREASURERS INDEPENDENT PUBLIC ACCOUNTANTS

SUBJECT: Complying with, and auditing, vocational education additional weighted cost funds:

New Ohio Administrative Code Rule 3301-61-16. Also, requirements related to

special education funding.

Rationale for the Rule

School districts offering career-technical programs have new performance expectations, requiring additional funding. In response, the 123rd General Assembly passed House Bill 282 (H.B. 282), revising the career-technical (vocational) education funding formula in FY 2000 for all school districts, including joint vocational school districts. Previously, vocational education funding was allocated based on "units" (i.e., types of vocational services). Funding is now based on "weighting rates" for pupils enrolled in vocational programs. The weighting method will increase total career-technical funding for most schools.

Weighting rates were established by analyzing adequately performing career-technical programs. The analysis found that meeting workforce development academic performance measures costs 60% more than meeting regular academic performance measures. The analysis also found that work and family studies career-based intervention program costs were 30% higher. The new funding will provide these additional amounts.

Prior to the enactment of H.B. 282, there was an assumption that schools spent unit funding on vocational education programs. However, since unit funding was commingled with districts' general funds, there was no assurance or documentation of this. H. B. 282 instructed the Ohio Department of Education (ODE) to establish rules governing appropriate uses of these funds. Rule 3301-61-16 (the Rule) describes this requirement. Districts must document the amounts so spent. Districts spending less for eligible costs than the amounts received will have future funding reduced.

H. B. 282 also funds career-technical associated services. These services are in addition to regular classroom instruction and therefore were not included in the weighting cost analysis. Since these services are often provided by the lead school within a vocational education planning district, ODE determined this funding should be distributed directly to these 94 school districts.

The remainder of this Bulletin addresses weighted funds (for vocational and special education), excluding funding for career-technical associated services. Recipients of career-technical associated services funding should refer to the Rule (attached) for descriptions of allowable uses.

Certifying Funds Under the Rule

ODE will annually produce a report of weighted funds targeted by Rule 3301-61-16. ODE's Office of Career-Technical and Adult Education will issue the report based on EMIS data districts transmit. ODE will certify this information to school districts no later than February, for school districts completing their EMIS data submissions by the previous November. Districts not filing EMIS data by the November deadline may receive their final certification later.

Disputes regarding the amounts ODE certifies must be in writing and submitted to the Office of Career-Technical and Adult Education.

ODE is currently distributing certifications for the fiscal year ended June 30, 2000. You can contact the Ohio Department of Education, Office of Career-Technical and Adult Education regarding these certifications at 614/466-4835.

Computing Amounts Refundable (i.e. Spending Reductions)

The Rule includes the percentages to use for computing refunds, and descriptions of allowable costs. A copy of the Rule is attached to this Bulletin, beginning on page 8.

Examples of Eligible Costs Under 3301-61-16(A)(2)(b)

The following are <u>examples</u> of acceptable expenditures under the Rule, and should help clarify acceptable expenditures. These examples are not an exhaustive listing of all acceptable costs. Acceptable expenditures must be directly attributable to career-technical instruction and must be documented. See "Best Practices for Accounting" for examples of methods and systems enhancements for documenting these costs.

The table lists typical function codes for each expenditure. These function codes are not mandatory, but are provided as a guide.

	Acceptable Career-Technical Expenditures	Typical Function Code
1.	Curriculum development, including teacher stipends necessary to develop curricula.	2212
2.	Student assessment costs, including expenditures for Work Keys, student industry certifications, and Occupational Competency Analysis Profile assessments.	2123
3.	Instructional resources and supplies including textbooks.	1300
4.	Career-technical student organization operational costs including teacher stipends for activities beyond the regular school day and year.	4300
5.	Work-site learning experience costs.	1300
6.	Extended programming costs including teacher personnel costs. Please note the definition of extended <u>programming</u> in the rule is more restrictive than extended <u>service</u> . For FY 2000 only, all extended service costs for career-technical education teachers are allowable under the rule.	1300
7.	Marketing costs that are solely attributable to marketing career-technical education programs.	2930
8.	Technology costs directly associated with career-technical instruction.	2960
9.	Costs associated with receiving industry certification of career technical education programs.	1300
10.	Costs associated with student credentialing, such as the cosmetology certification exam.	1300
11.	Instructional equipment.	1300
12.	Computers used for instruction.	2960
13.	Professional development costs for career-technical educators including administrative staff. These costs do NOT include expenditures required to meet basic teacher licensing requirements.	1300
14.	Curriculum consultant costs such as High Schools That Work implementation or career pathways development.	1300 or 2200

15.	Teacher and student travel expenses related to instruction.	1300
16.	Conference expenses for teachers and administrators such as the All- Ohio Career Technical Conference.	Varies
17.	Equipment repairs and service contracts.	1300
18.	Specifically metered utility costs that are directly attributable to career technical instructional programming.	1300
19.	Instructional materials production costs including copier costs that are directly attributable to vocational instructional activities.	1300

Eligible costs encumbered at June 30 are also allowable under 3301-61-16(A)(2)(b), to the extent they are subsequently paid in cash.

Amounts paid after June 30, 2000 against amounts encumbered <u>and</u> listed as eligible costs for the period ending June 30, 2000 should not be included as eligible costs for the year ending June 30, 2001 (i.e., a district cannot include the same cost as an eligible expenditure for two different fiscal years).

Please note F Under 3301-61-16(A)(2)(b), allowable salaries are only those for teachers ODE has approved for career-technical instruction. This may include the portion of academic teacher time allocated to classes the state has approved for career-technical weighted funding. EMIS reports list classes approved for this funding.

Ineligible Costs Under 3301-61-16(A)(2)(b)

The following are <u>examples</u> of expenditures the Department would deem ineligible under the Rule:

- 1. Indirect costs that are estimated or based on percentage allocations. These costs include utilities, administration, general school marketing, etc.
- 2. Base teacher salary and fringe benefits.
- 3. Facilities construction and remodeling.
- 4. Costs associated with initial teacher licensing.
- 5. Expenditures made from any fund other than the general fund, a permanent improvement fund, or the DPIA fund.
- 6. Any costs associated with instructional programming not receiving career-technical weightings.
- 7. Student stipends or salaries paid to students.

Six Month Extension for Implementing the Rule

The Rule became effective in February, 2000. Recognizing the difficulty this could cause districts in complying for the initial year, ODE has granted a one-time, six-month expenditure extension. This means that districts that have not spent the weighted funding (i.e., would otherwise have this funding reduced for the year ending June 30, 2001), can include allowable expenditures incurred through December 31, 2000 in computing "refunds" for the year ended June 30, 2000. (Funding reductions are described later in this Bulletin.) Note that fiscal year 2001 expenditures used to avoid refunding fiscal year 2000 amounts must be deducted from allowable costs used to compute weighted funds spent for fiscal year 2001.

Best Practices for Accounting and Documenting Compliance with the Rule

Districts' accounting systems should identify, classify and summarize qualifying disbursements

(and qualifying year-end encumbrances), to (1) document compliance with the Rule, and (2) to prepare GAAP financial statements. Amounts refundable at each June 30 (if any) should be accrued as an expenditure and a GAAP liability. An inability to calculate and document the refundable amount may constitute a restriction on the scope of the audit.

We strongly suggest districts adopt methods to code qualifying disbursements when they are made rather than summarizing eligible costs only after year end. Periodically, districts should compare summaries of eligible costs to amounts they are required to spend (i.e., certified funds). This is especially important as a school year nears completion, so a district can identify whether additional spending is needed to avoid a future funding reduction, or to estimate what the funding reduction will be.

While neither the Auditor of State nor the Department of Education are prescribing a required method of accounting for these costs, districts should consider amending their USAS accounts, to permit separate coding of qualifying transactions. USAS includes additional reporting dimensions districts can use to satisfy this reporting: Districts can classify each qualifying payment with a distinct special cost center or job code. Summaries of costs posted to these unique codes will provide a means of measuring funding earned. Districts should retain these summaries for audit.

If a district's system will not easily permit establishing new special cost centers or job codes, districts might use an automated spreadsheet to classify and summarize eligible costs identified. Spreadsheet software provides great flexibility in establishing separate cost category codes, and will easily summarize costs. The disadvantage with spreadsheets compared to modifying USAS accounts, is that spreadsheets may require reentering each transaction. This is not only a duplication of effort, but is also subject to the risk that transactions may be entered into the spreadsheet for different amounts, different check numbers, different function or object categories than recorded in the USAS system, or not entered at all. This is not an insoluble weakness, but would require additional rechecking or reconciliation with USAS data to assure that transactions were entered completely and accurately to the spreadsheet.

Key Controls Required

- 1. Adequate knowledge of eligible and ineligible costs by persons assigned to code/post disbursements.
- 2. Periodic supervisory review of transactions posted, and analysis of progress towards spending certified funds.
- 3. Rechecking or comparing amounts entered on a spreadsheet to amounts posted to the USAS system (if a spreadsheet is used).

District Reporting

There is no requirement for separate financial statement disclosure or reporting for this Rule. As previously noted, districts should compute and document amounts spent, to support compliance with the Rule and to measure any future funding reduction. Districts should record funding reductions as an expenditure and GAAP liability in the year of underspending.

Funding Reductions

Districts should notify the ODE Office of Career-Technical and Adult Education, in writing, if they have spent less than the required amount. Upon notification, the Office will subtract funds from the district's next career-technical payment. Districts experiencing persistent problems in spending the funding on allowable costs may contact the Office to reduce their regular payments.

As stated previously, districts should accrue the amount of underspending in any fiscal year as an expenditure and liability in their GAAP statements.

Auditing Compliance with the Rule

Government Auditing Standards requires auditors to design audits to reasonably assure detecting material misstatements resulting from noncompliance with contracts or grant agreements. As described above, this Rule may require accruing GAAP expenditures and liabilities. A failure to notify ODE regarding amounts underspent for career-technical purposes (and presumably not recorded as a GAAP liability) would be noncompliance that may be material to the financial statements. Total weighted funding will virtually always be material to a vocational district. Comprehensive districts (i.e., those that offer other programs that may include a vocational program) also often receive this funding. Since comprehensive districts have programs other than vocational education, there is increased risk that the funding might be spent on ineligible programs. There is also inherent risk associated with districts in understanding the new requirements and making appropriate system modifications to summarize eligible costs.

Auditors should perform a level of testing for this funding commensurate with the risks involved. Auditors should consider the following procedures:

- 1. Inquire of management of the method used to document and monitor compliance with the requirements.
- 2. Inquire regarding controls management uses to assure that only eligible costs are recorded, and that those costs are accurately entered and summarized. Based on materiality and risk, consider testing those controls.
- 3. Inspect / foot or test foot the client's computation of amounts spent / refundable. Since the spending period for the year ended June 30, 2000 has been extended through December 31, we would not expect to see a liability for refunds in June 30, 2000 financial statements.
- 4. Trace eligible cost totals to the accounting system.
- 5. If weighted funding is material, consider examining selected transactions to determine that they were allowable costs under the Rule.

The extent of the above testing is a matter of auditor judgment. However, the Auditor of State suggests that even where weighted cost funding is immaterial, if it represents large relative amounts (such as for large urban comprehensive districts), auditors should consider applying, to some extent, the steps above. Compliance with this Rule is important to districts in fulfilling their stewardship responsibilities.

Compliance Reporting

Auditors should report material noncompliance with the Rule in their report on compliance and internal control required by *Government Auditing Standards*. Noncompliance exists when a District has spent less than the weighted funding received and has not notified the ODE of the liability. It is not illegal to have unspent weighted funding at December 31, 2000 or June 30, of 2001 and subsequent years, if a district notifies ODE of the underspending.

Financial Reporting

Current generally accepted accounting principles and Governmental Accounting Statement No. 33 require recognizing the weighted funding as revenue for the fiscal year certified by ODE. Districts should record an expenditure and liability for refundable (i.e., underspent) amounts. We would not expect Districts to have recorded liabilities at June 30, 2000, due to the six-month extension.

Auditors should permit districts an opportunity to retroactively determine the amount of funding spent/refundable, if a District has not yet computed it. Should a district decline to notify ODE regarding a refund prior to the end of fieldwork, auditors should follow the procedures described in the Ohio Compliance Supplement Introduction for reporting findings for recovery.

If an auditor determines that a district's system for summarizing eligible costs is inadequately designed, improperly used or nonexistent, auditors should consider whether a reportable condition or material weakness is required in the report on compliance and internal control required by *Government Auditing Standards*. Auditors should consider whether an inability to reasonably assure material compliance is a restriction on scope of the audit.

Special Education Weighted Funds

HB 282 also requires districts receiving special education weighted funding to spend it only for special education.

Districts should be aware that ODE is monitoring disbursements (including special education staff costs) districts report through the EMIS system under function codes related to special education. It is important that districts use the July, 2000 USAS release. Revisions include new functional codes specific to special education (such as function 2215, classroom support - special education aids).

Beginning with the fiscal year ending June 30, 2001, ODE will compare amounts reported as special education function disbursements with special education funding reported on Form SF-3. ODE will determine remedies for schools that have spent less than they received for special education weighted funds. The Auditor of State's State Region will test ODE's monitoring system in the State's audit. The State Region will transmit ODE's list of noncompliant schools to the Auditor of State's local regional offices. The local regions will forward the list to auditors of noncompliant schools to determine if the noncompliance requires reporting under *Government Auditing Standards*.

Attachment

RULE 3301-61-16

3301-61-16 RULE FOR THE USE OF VOCATIONAL EDUCATION ADDITIONAL WEIGHTED COSTS FUNDS AND VOCATIONAL EDUCATION ASSOCIATED SERVICES FUNDS IN CITY, EXEMPTED VILLAGE, JOINT AND LOCAL SCHOOL DISTRICTS.

- (A) VOCATIONAL EDUCATION ADDITIONAL WEIGHTED COSTS FUNDS.
- (1) DEFINITIONS.

- (a) "VOCATIONAL STUDENT" MEANS A STUDENT WHO IS ENROLLED IN A DEPARTMENT OF EDUCATION APPROVED VOCATIONAL PROGRAM AND FOR WHICH THE SCHOOL DISTRICT PROVIDES ALL STATE BOARD APPROVED VOCATIONAL PERFORMANCE DATA TO THE OHIO DEPARTMENT OF EDUCATION.
- (b) "VOCATIONAL PERFORMANCE DATA" MEANS DATA NECESSARY TO COMPUTE ALL STATE BOARD OF EDUCATION APPROVED PERFORMANCE MEASURES FOR EACH TYPE OF VOCATIONAL PROGRAM.
- (c) "VOCATIONAL BASIC AID" MEANS THE SUM OF THE FOLLOWING AMOUNTS:
- (i) A SCHOOL DISTRICT'S COST-OF-DOING-BUSINESS FACTOR X THE FORMULA AMOUNT X THE TOTAL VOCATIONAL FTES AS DEFINED IN SECTION 3317.022 OF THE REVISED CODE.
- (ii) THE FORMULA AMOUNT X THE TOTAL VOCATIONAL FTES ENROLLED IN VOCATIONAL EDUCATION JOB-TRAINING AND WORKFORCE DEVELOPMENT PROGRAMS APPROVED BY THE DEPARTMENT OF EDUCATION IN ACCORDANCE WITH RULES ADOPTED UNDER SECTION 3313.90 OF THE REVISED CODE X A MULTIPLE AS DEFINED IN SECTION 3317.014 OF THE REVISED CODE FOR THESE PROGRAMS.
- (iii) THE FORMULA AMOUNT X THE TOTAL VOCATIONAL FTES ENROLLED IN VOCATIONAL EDUCATION PROGRAMS OTHER THAN JOB-TRAINING AND WORKFORCE DEVELOPMENT PROGRAMS APPROVED BY THE DEPARTMENT OF EDUCATION IN ACCORDANCE WITH RULES ADOPTED UNDER SECTION 3313.90 OF THE REVISED CODE X A MULTIPLE AS DEFINED IN SECTION 3317.014 OF THE REVISED CODE.
- (iv) EQUIPMENT FUNDS, INCLUDING REQUIRED LOCAL MATCHING FUNDS, DISTRIBUTED BY THE OHIO DEPARTMENT OF EDUCATION FROM FUNDS PROVIDED FOR SUCH PURPOSES IN THE BIENNIUM BUDGET.
- (v) IN LEAD SCHOOL DISTRICTS ONLY, SUCH STATE AND LOCAL FUNDS AS ARE GENERATED BY ASSOCIATED SERVICES WEIGHTED COST CALCULATIONS AS DEFINED IN SECTIONS 3317.022 AND 3317.16 OF THE REVISED CODE.
- (vi) STATE AND LOCAL FUNDS GENERATED FROM THE APPLICATION OF GRADS FUNDING PROVISIONS IN THE BIENNIUM BUDGET.
- (d) "VOCATIONAL EXTENDED PROGRAMMING" MEANS VOCATIONAL PROGRAMMING THAT PROVIDES GRADUATION CREDITS TO ENROLLED STUDENTS, IS BASED ON LOCALLY APPROVED COURSES OF STUDY, AND OCCURS BEYOND THE REGULAR SCHOOL YEAR.
- (e) "VOCATIONAL EDUCATION WEIGHTED COSTS FUNDS" MEANS THE STATE SHARE OF FUNDS GENERATED BY THE APPLICATION OF VOCATIONAL WEIGHTED FUNDING MULTIPLES DEFINED IN SECTION 3317.014 OF THE REVISED CODE.
- (2) DESIGNATED PURPOSES FOR THE USE OF VOCATIONAL EDUCATION WEIGHTED COSTS FUNDS.

- (a) STATE VOCATIONAL EDUCATION ADDITIONAL WEIGHTED COSTS FUNDS SHALL ONLY BE EXPENDED ON COSTS ASSOCIATED WITH THE DELIVERY OF VOCATIONAL PROGRAMMING TO VOCATIONAL STUDENTS.
- (b) AT LEAST SEVENTY-FIVE PERCENT OF SUCH FUNDS MUST BE SPENT ON CURRICULUM DEVELOPMENT AND PURCHASE, STUDENT ASSESSMENT, INSTRUCTIONAL RESOURCES AND SUPPLIES, VOCATIONAL STUDENT ORGANIZATION DUES OR EXPENSES, WORK-SITE LEARNING EXPERIENCE COSTS, HOME AND AGENCY LINKAGES COSTS, EXTENDED VOCATIONAL PROGRAMMING, CURRICULUM SPECIFIC INSTRUCTIONAL EQUIPMENT PURCHASES OR LEASES, PROFESSIONAL DEVELOPMENT, INDUSTRY-BASED PROGRAM CERTIFICATION, STUDENT CREDENTIALLING, AND OTHER UNIQUE COSTS DIRECTLY ASSOCIATED TO VOCATIONAL EDUCATION PROGRAMS EXCLUDING INDIRECT AND ADMINISTRATIVE COSTS.
- (c) THE FUNDS EXPENDED IN PARAGRAPH (A)(2)(b) OF THIS RULE SHALL NOT BE USED FOR PERSONNEL COSTS WITH THE EXCEPTION OF EXTENDED VOCATIONAL PROGRAMMING.
- (3) USE OF VOCATIONAL BASIC AID IN LIEU OF USE OF WEIGHTED COST FUNDING THOSE SCHOOL DISTRICTS THAT EXPEND AN AMOUNT EQUAL TO OR GREATER THAN THEIR VOCATIONAL BASIC AID ON VOCATIONAL PROGRAMMING COSTS INCLUDING PERSONNEL COSTS, COSTS OUTLINED IN PARAGRAPH (A)(2)(b) OF THIS RULE, AND ASSOCIATED SERVICES, AND FURTHER EXPEND AN AMOUNT NOT MORE THAN FIVE PERCENT OF THEIR VOCATIONAL BASIC AID FOR INDIRECT AND ADMINISTRATIVE COSTS, AND FURTHER EXPEND AN AMOUNT EQUAL TO AT LEAST FIFTEEN PERCENT OF THEIR VOCATIONAL BASIC AID ON COSTS OUTLINED IN PARAGRAPH (A)(2)(b) OF THIS RULE SHALL BE EXEMPT FROM PARAGRAPH (A)(2) OF THIS RULE.
- (B) DESIGNATED PURPOSES FOR THE USE OF VOCATIONAL EDUCATION ASSOCIATED SERVICES FUNDING
- (1) VOCATIONAL EDUCATION ASSOCIATED SERVICES SHALL BE DEFINED AS THOSE

NON-ADMINISTRATIVE EXPENDITURES A SCHOOL DISTRICT EXPENDS ON VOCATIONAL STUDENTS FOR APPRENTICESHIP COORDINATION, COORDINATION OF VOCATIONAL PROGRAMMING DEVELOPMENT SUCH AS BUT NOT LIMITED TO CAREER PATHWAYS, HIGH SCHOOLS THAT WORK, AND TECH PREP, PLACEMENT COORDINATION, AND VOCATIONAL EVALUATION.

- (2) EXPENDITURES UNDER PARAGRAPH (B) OF THIS RULE MAY INCLUDE EXPENDITURES FOR PERSONNEL AND PURCHASED SERVICES. INDIRECT AND ADMINISTRATIVE COSTS SHALL NOT BE INCLUDED IN APPROVED EXPENDITURES.
- (C) THIS RULE SHALL NOT BE EXEMPTED FOR "EFFECTIVE" OR IN NEED OF "CONTINUOUS IMPROVEMENT" DISTRICTS PURSUANT TO PARAGRAPH (E) OF RULE 3301-101-01 OF THE ADMINISTRATIVE CODE.

PROMULGATED UNDER: Chapter 119 of the Revised Code

RULE AUTHORIZED BY: R.C. 3317.022 & 3317.16