



Department of Education Cleveland Scholarship Program Audit

Audit Period: July 2015 through June 2016

Results Summary:

Objective	Conclusion
Payment Process	Improvement Needed
Application and Approval Process	Well-Controlled with Improvement Needed

* Refer to Appendix A for classification of audit objective conclusions.



Executive Summary

Background

Within the Ohio Department of Education (ODE), the Office of Nonpublic Educational Options administers the Cleveland Scholarship Program. The Cleveland Scholarship Program provides the opportunity for students who are residents of the Cleveland Municipal School District (CMSD) to attend participating private schools. During state fiscal year 2016, there were 40 private schools registered with ODE to participate in the program. The maximum scholarship award is \$4,250 for students in grades K-8 and \$5,700 for students in grades 9-12. In addition to the scholarships, the program funds tutoring services for students who remain in CMSD. The budget sets aside \$1 million in each fiscal year for CMSD to provide tutorial assistance. During state fiscal year 2016, the Cleveland Scholarship Program awarded 7,222 scholarships for a total of \$34,520,595.

During the audit, OIA identified opportunities for ODE to strengthen internal controls and improve business operations. OIA conforms with the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank ODE staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

Scope and Objectives

OIA staff was engaged to perform an assurance audit related to the controls over the agency's Cleveland Scholarship Program. This work was completed February through June 2017. The audit period was July 2015 through June 2016. The scope of this audit included the key processes within the Cleveland Scholarship Program which allows students of the CMSD an opportunity to attend private schools.

The following summarizes the objectives of the review:

- Evaluate the design and effectiveness of controls within the application approval process.
- Evaluate the design and effectiveness of controls within the payment process.

Detailed Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions.



Observation 1 – Overpayments

The maximum Cleveland Scholarship award is \$4,250 for students in grades K-8 and \$5,700 for students in grades 9-12. ODE disburses the scholarships through three separate payments during the school year. Ohio Revised Code (ORC) 3313.979(A)(3) states the first payment shall be made by the last day of November and shall equal one-third of the estimated total amount that will be due to the parent for the school year pursuant to division (A)(2) of this section. In accordance with ORC 3313.979(A)(2), the scholarship amount shall be proportionately reduced in the case of any such student who is not enrolled in a registered private school for the entire school year.

In order to receive scholarship payments, the participating private school must enter the enrollment date and the monthly attendance for each scholarship student into EAS (Enterprise Application System), the system used for the Cleveland Scholarship Program. If the enrollment date and/or monthly attendance required for that payment cycle has not been entered into EAS for a student, then EAS does not generate an invoice. EAS is designed to pay a percentage of the scholarship award once per billing cycle per student. Annually, after the final billing cycle, the Office of Nonpublic Educational Options (the Office) identifies any overpayments and sends an overpayment notification to the private schools that have been overpaid. However, there are weaknesses within the payment process:

- The Office is not in compliance with the ORC, as the first payment of the scholarship is 41%, rather than the mandated first payment of one-third.
 - While EAS paid a percentage of the scholarship award once per billing cycle per student, for all 31 first payments (100%) tested during state fiscal year 2016, the percentage paid was more than the one-third ORC required first payment. The amount overpaid for the first payment was \$11,105. ODE paid 39% and 20% of scholarship awards for the remaining two payments, respectively.
 - OIA attempted to calculate the overpayment of the first payment allocation over the entire population; however, there were unknown scholarship allocations, totaling \$3,093,171 due to discounts and other financial aid so that the Cleveland Scholarships were amounts other than \$4,250 and \$5,700.

First Payment Overpaid (excluding unknown scholarship allocations)		
	<u>Grades K-8</u>	<u>Grades 9-12</u>
Number of Scholarships	4,514	2,136
Scholarship Amount per Student	\$4,250	\$5,700
Total Scholarships	\$19,184,500	\$12,175,200



First Payment at 41%	\$7,865,645	\$4,991,832
First Payment at 33%	\$6,330,885	\$4,017,816
First Payment Overpaid	\$1,534,760	\$974,016

- To ensure the scholarship student is only enrolled at the participating private school, EAS cross-checks EMIS (system for public and community schools) on a nightly basis for students with concurrent enrollment. Any student identified with concurrent enrollment is flagged in both EAS and EMIS; however, the student is only flagged in the concurrent enrollment query in EAS. The student’s individual profile within EAS is not flagged and the scholarship payment is not put on hold when the student is identified with concurrent enrollment. At the time of OIA’s review, 294 students were identified with concurrent enrollment for fiscal year 2017 Cleveland Scholarship awards.
- EAS is designed so that invoices are not generated unless the private school enters monthly attendance for each student. However, for 11 of 25 (44%) refund payments tested, the private school did not record the required attendance in EAS, yet EAS generated invoices for payment for the billing cycles. Ultimately, based on the 11 students’ FTE (Full Time Enrollment), ODE should have paid \$10,832 in Cleveland Scholarship awards. Instead, ODE paid \$38,330 (difference of \$27,498). The schools refunded all of the overpaid funds to ODE.
- In the following two instances, the student transferred from one participating private school to another during the school year and the total scholarship paid was greater than the maximum scholarship award. Both overpayments were refunded to ODE.
 - For one of 25 (4%) refund payments tested, the total scholarship paid (\$5,028) was greater than the scholarship award of \$4,108
 - For one of 31 (3.2%) students selected for the payment testing, the total scholarship paid (\$6,897) was greater than the scholarship award of \$5,700.
- EAS automatically calculates the FTE based on the start and end date of student enrollment. The FTE is calculated once the end date of student enrollment is entered into EAS by the private school. The final scholarship award amount is then calculated by EAS based on the FTE. Overpayments can occur when the end date of student enrollment is prior to the end of the school year (less than one FTE). After the final billing cycle, the program staff identify the refunds due from the private schools and send overpayment notifications to schools who have been overpaid. However, there is no central accounts receivable unit within ODE to identify refunds due. ODE Fiscal relies on the program staff to identify and recoup the overpayments. Additionally, the following was noted during refund testing:
 - For 11 of 25 (44%) refund payments tested, the school did not enter the enrollment end date in a timely manner (within 45 days). For the sample of 25



refunds payments tested, schools entered enrollment end dates into EAS within one and 267 days after the actual enrollment end date, with an average of 73 days.

- Seven of 25 (28%) refund payments tested were not paid by ODE's due date (45 days after requesting the refunds from the schools). The late payments ranged from 7 to 51 days late, with an average of 16 days late.
- OIA analyzed the amount of refunds paid by each private school. Of the 40 total participating private schools during state fiscal year 2016, 34 schools paid refunds back to ODE, totaling \$163,265. There were three schools with refunds greater than \$10,000:

School	Total Refunds Paid to ODE
St Jerome	\$17,638
Cleveland Central Catholic	\$16,872
St Rocco	\$15,598
Total	\$50,108

ODE is not in compliance with state laws and regulations by disbursing a greater portion (41% instead of one-third) of awards for the first scholarship payment. Failure to withhold scholarship payments for students identified with concurrent enrollment increases the risk of scholarship overpayments. Inappropriate system-generated invoices, as well as untimely recording of enrollment end dates also increases the likelihood of unnecessary scholarship overpayments. Identifying scholarship overpayments only at the end of the school year increases the likelihood that overpayments are not identified and collected, in a timely manner or at all.

Recommendation

Adhere to the ORC for the first payment percentage or take necessary steps to amend the code section.

Develop EAS functionality to automatically place scholarship payments on hold for students who are identified with concurrent enrollment in public districts or community schools.

Develop and implement procedures to ensure the appropriate attendance is recorded in EAS for the billing cycles paid. Manually spot check a sample of students for each billing cycle. Make necessary updates to EAS so that payments are withheld if attendance is not entered by the private schools.

Identify overpayments mid-way through the school year (i.e. for students who withdrew or transferred during the first part of the school year), in addition to identifying overpayments at the end of the school year to recoup overpayments. Continue with management's plans to create a centralized accounts receivable unit to assist in identifying, monitoring and recouping overpayments.



Develop EAS functionality to send notifications to remind participating private schools to either enter the attendance or enter an enrollment end date, if attendance has not been recorded in EAS after a month or two. ODE should also reinforce the importance of the schools entering the enrollment end date as soon as possible in order to identify and recoup overpayments in a timelier manner.

Develop and implement a policy for ramifications for private schools that do not timely pay the refunds.

While large overpayments may occur depending on the number of scholarship students that attend the participating private school, consider selecting schools with higher total refunds in prior years to conduct onsite visits and provide technical assistance.

Management Response

The Department of Education acknowledges that Ohio Revised Code 3313.979(A)(3) requires that a Cleveland Scholarship award recipient receive the first payment by the last day of November and that it shall equal one-third of the estimated amount that will be due to the award recipient. To issue payments in accordance with Ohio law, the Department will change its process and procedures to ensure that all scholarship payments are compliant with Ohio law, including the first payment under the Cleveland Scholarship program for the 2017-2018 school year.

We have engaged the Information Technology Office to correct the EAS functionality to include holding payment when students have been identified as concurrently enrolled.

A message will be sent through the EAS system on the first day of every month informing schools to enter monthly attendance and update withdrawal dates if necessary. Prior to issuance of payments, ODE staff will monitor attendance and identify anomalies through an existing query in EAS, and will identify any student not having attendance entered for the appropriate months for payment. Technical assistance will be provided to schools, as necessary, and corrective actions will be required when there are repeated non-reporting issues. In the event that a scholarship has been terminated after a school has entered attendance and received payment, ODE will document on the application noting the school's error and how it being corrected.

We will initiate the reconciliation process mid-way through the school year and will continue our end of the school year reconciliation process. We will continue to work on creating a centralized accounts receivable unit to assist in identifying, monitoring and recouping overpayments.

A message will be sent through the EAS system on the first day of every month informing schools to enter monthly attendance and update withdrawal dates if necessary. Prior to issuance of payments, ODE staff will monitor attendance and identify anomalies and provide technical assistance to schools.

A Payment on Hold for the upcoming school year will be placed on any provider that does not



pay their refund by the designated due date (45 days). Schools that do not pay the refunds by the 45 day due date will be referred to ODE Office of Fiscal Services.

Schools with higher refunds in prior years will be added to the site visit prioritization schedule and will be provided additional technical assistance.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Director, Office of Nonpublic Educational Options	October 2017

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

* Refer to Appendix A for classification of audit observations.



Appendix A – Classification of Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
Well-Controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Improvement Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Major Improvement Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee