

**Columbus City Schools
Office of Internal Audit**



**COLUMBUS
CITY SCHOOLS**

**Revenue / Accounts Receivable
Audit Report**

Report Date: January 23, 2020

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Executive Summary

The Columbus City Schools (District) Office of Internal Audit (OIA) completed an audit of the revenue/accounts receivable function. OIA examined nine separate revenue generating activities. Those nine activities included:

- Property tax payments in lieu of taxes – Board of Revisions (PILOTs);
- Property tax abatement/revenue sharing;
- Win-Win agreements;
- Medicaid annual cost report preparation and submission;
- Medicaid eligible billed services;
- Nationwide Children’s Hospital (NCH) billed educational services;
- Excess special education billed costs;
- Catastrophic special education costs application; and
- Foster care billed tuition.

Our audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* established by the Institute of Internal Auditors. Our audit included such procedures as we deemed necessary to provide reasonable assurance regarding the audit objectives. Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. Internal Auditing helps an organization accomplish its objectives through a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

OIA’s audit focused on gaining an understanding of the revenue generating activities, their governance, and their internal controls. OIA also performed testing to ensure proper financial recording of the revenue generated.

OIA reported six issues and eight recommendations. OIA rated the risk associated with the six issues as follows:

High	Moderate	Low
5	1	0

OIA appreciates the cooperation and assistance provided by management and staff during the audit.

Risk Ratings, defined:

1 – High/unacceptable risk requiring immediate corrective action;

2 – Moderate/undesirable risk requiring future corrective action; and

3 – Low/minor risk that management should assess for potential corrective action.

Issues	Risk Rating		
	1	2	3
Objective 1: For each of the revenue sources identified for examination, gain an understanding of the organizational structure, typical transaction flow, and key performance metrics monitored by management.			
Issue 1 - Management did not perform risk assessment activities for any of the revenue generating activities examined.	X		
Issue 2 - OIA concluded the concepts of business objectives and metrics applied to PILOTs, Medicaid eligible billed services, and NCH billed educational services. Management did not establish business objectives and identify relevant metrics related to those revenue generating activities.	X		
Issue 3 - In many instances those responsible for conducting or overseeing the revenue generating activities were unaware if, when, or how much revenue the Treasurer's Office received related to their activity. Additionally, in many instances neither the Treasurer's Office nor those responsible for conducting or overseeing the revenue generating activities appeared to monitor the financial results of the activities to ensure monies due were actually received or the amounts received were the correct amounts.		X	
Objective 2: For each of the revenue sources identified for examination, determine whether relevant governance exists, such as laws or regulations governing the function, board of education policies and administrative guidelines, and written operational procedures, to guide the functions.			
Issue 4 - Management of each of the revenue generating activities examined during the audit did not develop written operating procedures for the revenue generating activities for	X		

Issues	Risk Rating		
	1	2	3
which they were responsible. In certain instances, management used external legal counsel or third-party service providers for services related to PILOTs, abatement/revenue sharing, Win-Win, and Medicaid eligible billed services. However, management was unable to produce signed contractual agreements with any of the external parties.			
Objective 3: For each of the revenue sources identified for examination, identify key internal controls and test the key controls to determine if the controls are designed effectively and working as intended.			
Issue 5 - Management has not designed and implemented internal controls relative to the following revenue generating activities: PILOTs; property tax abatements/revenue sharing; Medicaid eligible billed services; and NCH billed educational services. Relative to foster care tuition revenue, while management designed and implemented control procedures, occurrence of the control procedure was not consistently evident and documented.	X		
Objective 4: For each of the revenue sources identified for examination, determine the revenue was deposited timely, supported by documentation, and credited to the proper fund and revenue code.			
Issue 6 - During FY 2019 management recorded 12 disbursements totaling \$562,934 paid to a vendor for services rendered as negative revenue rather than as expenditures.	X		
Objective 5: For all revenue sources conduct trend analysis and determine the source of significant variances noted, if any. Determine whether additional revenue sources warrant more detailed examination.			
No Issues Reported			

Audit Objectives

The objectives of the audit were:

- For each of the revenue sources identified for examination, gain an understanding of the organizational structure, typical transaction flow, and key performance metrics monitored by management;
- For each of the revenue sources identified for examination, determine whether relevant governance exists, such as laws or regulations governing the function, board of education policies and administrative guidelines, and written operational procedures, to guide the functions;
- For each of the revenue sources identified for examination, identify key internal controls and test the key controls to determine if the controls are designed effectively and working as intended;
- For each of the revenue sources identified for examination, determine the revenue was deposited timely, supported by documentation, and credited to the proper fund and revenue code; and
- For all revenue sources conduct trend analysis and determine the source of significant variances noted, if any. Determine whether additional revenue sources/streams warrant more detailed examination.

Audit Scope

The period from which transactions and other activities were examined was generally January 1, 2019 to June 30, 2019.

Methodologies

OIA used inquiry, observation, and document/record examination to achieve the audit objectives.

Background

A brief description of each revenue generating activity examined by OIA follows:

- PILOTs – Board of Revisions – The District receives agreed-upon payments from property owners in lieu of the property taxes assessed on the owner’s parcel if the District were to successfully challenge the assessed value of said parcel through the county board of revisions process;
- Property tax abatement/revenue sharing – The District receives payments from property owners or developers based on negotiated compensation agreements for the District’s concurrence on a property tax abatement granted to the owner or developer by a municipality within the District. The abatement agreements also contain provisions in which the District, upon certain thresholds being met, shares in the income tax generated by the project for which the abatement was granted;
- Win-Win agreements – The District receives annual payments from certain surrounding suburban school districts based on contractual agreements. In the agreements the District agreed not to request transfer of territory annexed into the City of Columbus into the District in exchange for annual payments to the District based on the growth in commercial property valuation in the annexed territory;
- Medicaid annual cost report preparation and submission – The annual report is designed to capture the actual costs of Medicaid reimbursable services. The District

submits financial, student, and statistical information related to provided Medicaid eligible services on which the annual settlement amount is calculated and received from the Ohio Department of Medicaid;

- Medicaid eligible billed services – The District submits reimbursement claims to the Ohio Department of Medicaid for Medicaid eligible services provided to students by certain healthcare professionals in the District;
- NCH billed educational services – The District receives payments from other school districts for educating students of other districts admitted to Nationwide Children’s Hospital in Columbus;
- Excess special education costs billed tuition – The District receives funds for educating special needs students of other school districts for which the total cost to educate the student exceeds the amount the District received in state funding;
- Catastrophic special education costs application – The District receives state funds as a supplemental payment for special education children in certain categories whose educational expenses exceed established thresholds; and
- Foster care billed tuition – The District receives funds for foster care placed children enrolled in the District for which a court of appropriate jurisdiction named a district other than CCS the district financially responsible for the child’s education.

Revenue/Accounts Receivable Audit – Issues and Recommendations:

Issue 1 – Risk Identification & Assessment Activities. (High)

Management did not perform risk assessment activities for any of the revenue generating activities examined.

Without risk assessment activities, the impact and likelihood of risks associated with significant business operations and activities are unknown. As a result, management cannot assure the effective use of resources to mitigate risks determined to be significant and likely.

Recommendation

1. We recommend management conduct and document formal risk identification and assessment activities for the revenue generating activities examined.

Management Responses: Process Owners, and Implementation Dates

Payments in Lieu of Taxes – Board of Revisions

Legal Operations will conduct a risk assessment. Legal Operations will review its current controls and measure them against potential risks. The risk assessment will include, but not be limited to, risk of not receiving accurate or timely information from outside counsel, cost/benefit analysis to determine whether to proceed to court hearing, withdraw, or settle each case, utility and timeliness of case status updates from outside counsel, impact of untimely transmissions, outside counsel’s submission of resolution and settlement recommendations, Legal Operations’ review of recommendations, preparation of recommendation documents for Board of Education review, Board approval, Legal

Counsel notification to outside counsel, outside counsel's receipt of settlement checks, and Treasurer's receipt of settlement checks from outside counsel. The assessment will also look at risks associated with potential failure to ensure settlement recommendations submitted to the Board are the same as Board-approved legislation.

Process Owner: James Barnes, General Counsel

Implementation Date: June 30, 2020

Revenue - General

This recommendation is common among all internal audits reports received. Conducting a departmental-wide risk assessment is a goal/objective for the department as the department compiles all audit recommendations in the preparation of a work plan to address said recommendations. Part of the work plan will include: a) defining what "risk assessment" is, b) determining how to conduct a risk assessment, c) determining whether the risk assessment is to be system-wide or focused solely on this department, d) how the departmental risk assessment integrates with an organizational-wide risk assessment should there be one.

The Treasurer's Office will collaborate with other departments (e.g. Division of the Registrar) as they conduct assessments and develop procedures related to revenue billing and receivables.

Process Owner: Stan Bahorek, Treasurer

Implementation Date: September 30, 2020 to complete collaboration and create a plan to conduct a risk assessment.

Medicaid Cost Report, Medicaid Eligible Billed Services, NCH Billed Services, and Catastrophic Special Education Costs Revenue

The Department of Special Education will create an operational manual and perform risk assessment activities for all of the revenue generating activities examined to ensure the effectiveness of the procedures to mitigate any risks to the District. For each of the revenue sources identified as significant or likely, controls procedures will be built in.

Process Owner: Jill Lausch, Director of Special Education Administration and Policy

Implementation Date: September 30, 2020

Foster Care Tuition and Excess Special Education Costs Revenue

We will conduct a risk assessment to identify significant risks and review on an annual basis. Management will develop a plan to mitigate significant risks.

Process Owner: Dr. Mabelle Kline, Chief Accountability Officer

Implementation Date: August 15, 2020

Issue 2 – Business Objectives and Metrics Monitored. (High)

OIA considered the nature of the revenue generating activities examined and concluded the concepts of business objectives and metrics did not apply to all activities examined due to the infrequency of revenue transactions and relatively minor influence the actions of those within the activities have on the amount ultimately received by CCS. OIA concluded the concepts of business objectives and metrics applied to PILOTs, Medicaid eligible billed services, and NCH billed educational services. Management did not establish business objectives and identify relevant metrics related to those revenue generating activities.

Without business objectives and metrics, management has no assurance its activities align with CCS strategic goals and objectives and no method to measure and monitor its progress toward achieving business objectives and ultimately CCS strategic objectives.

Recommendation

2. We recommend management establish business objectives which align with CCS strategic objectives relative to the revenue generating activities identified and identify relevant metrics to measure progress toward achieving the established business objectives.

Management Responses, Process Owners, and Implementation Dates

Payments in Lieu of Taxes – Board of Revisions

Legal Operations will establish business objectives and develop metrics to measure those objectives. Those objectives will include, but not be limited to, the return on investment versus cost of retaining outside counsel, and set forth how appeals to the Board of Revision are designed to maximize the District revenue generating stream.

Process Owner: James Barnes, General Counsel

Implementation Date: October 30, 2020

Medicaid Eligible Billed Services and NCH Billed Services

The Department of Special Education will establish business objectives which align with CCS strategic objectives relative to the revenue generating activities identified and identify relevant metrics to measure progress toward achieving the established business objectives.

Process Owner: Jill Lausch, Director of Special Education Administration and Policy

Implementation Date: July 30, 2020

Issue 3 – Decentralization, Communication, and Monitoring. (Moderate)

For all the revenue generating activities examined, the Treasurer's Office received the activities' revenue directly. However, the revenue generating activities were decentralized throughout the District. In many instances those responsible for conducting or overseeing the revenue generating activities were unaware if, when, or how much revenue the Treasurer's Office received related to their activity. Additionally, in many instances neither the Treasurer's Office nor those responsible for conducting or overseeing the revenue generating activities appeared to monitor the financial results of the activities to ensure monies due were actually received or the amounts received were the correct amount.

As a result, those responsible for conducting and overseeing revenue generating activities do not have complete insight into their activities to assess whether they are meeting goals or objectives.

Recommendations

3. Those responsible for conducting or overseeing revenue generating activities should collaborate with the Treasurer's Office to routinely obtain relevant financial information which will help them guide, manage, and monitor their activities. Having such information will assist with developing business objectives and metrics which align with the organizational strategic objectives.
4. Additionally, we recommend both the Treasurer's Office and those responsible for conducting or overseeing revenue generating activities implement monitoring procedures of the activities' financial results to provide assurance monies due are actually received and amounts received are correct.

Management Responses, Process Owners, and Implementation Dates

Payments in Lieu of Taxes – Board of Revisions

Legal Operations will coordinate with the Treasurer's Office to establish a process whereby Legal Operations is notified when the Treasurer's Office receives the appropriate monies following the settlement of a case. Options to be explored may include input into MUNIS or e-mail notification.

Process Owner: James Barnes, General Counsel

Implementation Date: October 30, 2020

Revenue – General

Meetings are currently planned with other departments (specifically the Division of the Registrar re: tuition) to review revenue generating activities and establish the appropriate procedures, controls, and feedback processes. A complete review of the accounts receivable and billing function(s) is planned to be conducted during calendar year 2020. It is expected this review will identify/confirm significant/material sources of revenue (including those reviewed in this audit) and establish procedures to gather information,

submit invoices, and collect payments within the same system to provide for consistent tracking and control.

Process Owner: Stan Bahorek, Treasurer

Implementation Date: January 31, 2021 for implementation of a collaborative system using MUNIS.

Medicaid Cost Report, Medicaid Eligible Billed Services, NCH Billed Services, and Catastrophic Special Education Costs Revenue

Dr. Mabelle Kline, Chief Accountability Officer, has coordinated collaboration meetings to be held on a bi-monthly basis with Special Education, the Treasurer's Office and any other parties involved in revenue generating activities, until appropriate procedures have been established.

Process Owner: Jill Lausch, Director of Special Education Administration and Policy

Implementation Date: July 30, 2020

Foster Care Tuition and Excess Special Education Costs Revenue

Upon receiving the draft of this audit report on December 18, 2019, The Department of Accountability, Division of the Registrar, reached out to the Treasurer to begin our collaboration efforts. A meeting was held on December 19, 2019, with representatives of the Treasurer's Office to begin our process and procedures for continuous collaboration. On December 20, 2019, a meeting with representatives of the Special Education Department and the Department of Accountability was held.

A second meeting was held on January 14, 2020, with representatives of the Treasurer's Office and Department of Accountability to understand the processes of each area.

Collaboration meetings will be held on a bi-monthly basis with the Department of Accountability, Special Education Department, the Treasurer's Office and any other parties involved in revenue generating activities, until appropriate procedures have been established.

Process Owner: Dr. Mabelle Kline, Chief Accountability Officer

Implementation Date: April 30, 2021

Issue 4 – Governance – Written Operating Procedures and Contractual Agreements. (High)

Management of each of the revenue generating activities examined during the audit did not develop written operating procedures for the revenue generating activities for which they were responsible. Management used external legal counsel or third-party service providers for services related to PILOTs, abatement/revenue sharing, Win-Win, and Medicaid eligible billed services. Management was unable to produce signed contractual

agreements with any of the external parties. A service proposal obtained from one external counsel for FY 2019 was unsigned. A contract obtained from Healthcare Billing Services (HBS), the District's Medicaid service provider, was dated December 2003. PILOTs and abatement/revenue sharing revenue are governed by written agreements between CCS and property owners/developers. Management does not maintain signed copies of these written agreements.

Lack of written procedures increases risks of noncompliance, inconsistent treatment of like circumstances, inconsistent results, accusations of unfairness, ineffectiveness, inefficiency, poor service provider performance, fraud and abuse. Lack of written agreements with external counsel and service providers reduces accountability for inadequate performance or detrimental actions on CCS' behalf.

Recommendations

5. We recommend management prepare written operating procedures for revenue generating activities.
6. Additionally, we recommend management maintain signed agreements with external parties to ensure accountability for their performance in accordance with the agreements. For dated contracts for services such as the current one with HBS, we recommend management evaluate the provisions of the contract to ensure it represents the current circumstances and relationship and fairly serves both parties.

Management Responses, Process Owners, and Implementation Dates

Payments in Lieu of Taxes – Board of Revisions

Outside counsel is retained to represent the District for PILOTs activities. Legal Operations will coordinate with the Treasurer's Office to ensure that appropriate written operating procedures are in place regarding the assignment of outside counsel. Legal Operations will also coordinate with the Treasurer's Office to ensure all contracts and engagement letters are signed by all parties and copies are retained; and the District retains a copy of all settlement agreements.

Process Owner: James Barnes, General Counsel

Implementation Date: October 30, 2020

Revenue – General

Management will review existing agreements identified herein and obtain signed agreements as needed. Agreements will be reviewed for timeliness and scope and updated as needed.

As for written procedures, the work addressing Issue 3 is expected to generate written procedures for revenue areas such as Medicaid annual cost report preparation and submission, Medicaid eligible services billed claims, Nationwide Children's Hospital (NCH) billed educational services, excess special education costs billed tuition, catastrophic special education costs application, and foster care general and special education billed

tuition. Property tax abatement/revenue sharing projects are generally unique but do follow a generalized process of review and board consideration which will be outlined. Almost all Win-Win agreements are expiring soon or likely not to be renewed. They represent a unique set of circumstances often driven by provisions of state law, and are a process of ad hoc negotiations with individual school districts and their legal counsel; therefore, management's position is that this source of revenue does not lend itself to written procedures.

Process Owner: Stan Bahorek, Treasurer

Implementation Date: January 31, 2021

Medicaid Cost Report, Medicaid Eligible Billed Services, NCH Billed Services, and Catastrophic Special Education Costs Revenue

The Department of Special Education will compile an operations manual to capture all revenue generating functions for which the Department is responsible. The expected completion of the manual is the Summer of 2020. Once completed, the manual will be reviewed annually and updated as appropriate.

The Department of Special Education will work with HBS to update the current agreement in collaboration with CCS legal department. This agreement will be reviewed and updated annually as needed and signed by both parties at the beginning of each school year. Special Education will retain a copy of the signed agreement.

Process Owner: Jill Lausch, Director of Special Education Administration and Policy

Implementation Date: July 30, 2020

Foster Care Tuition and Excess Special Education Costs Revenue

In early December 2019 the Division of the Registrar (Department of Accountability) began compiling an operations manual to capture all revenue generating functions for which the Division is responsible. Once completed, the manual will be reviewed annually and updated utilizing information discovered in the risk assessment outlined in Issue No. 1. and/or as otherwise appropriate.

Process Owner: Dr. Machel Kline, Chief Accountability Officer

Implementation Date: August 15, 2020

Issue 5 – Design and Implementation of Internal Control Procedures. (High)

Management has not designed and implemented internal controls relative to the following revenue generating activities: PILOTs; property tax abatement/revenue sharing; Medicaid eligible billed services; and NCH billed educational services.

Relative to foster care tuition revenue, while management designed and implemented control procedures, occurrence of the control procedure was not consistently evident. For

instance, an employee reviews student information ensuring another employee has applied the appropriate custody flag in Infinite Campus; however, the second employee's review is not evidenced in any manner to provide management assurance the control procedure occurred.

Without internal controls all risks related to the activity are elevated and likely unmitigated. Additionally, management has no assurance its activities achieve organizational objectives. Without some form of evidence, management has no assurance a designed control procedure occurred.

Recommendation

7. We recommend management design and implement internal controls relative to the significant risks associated with the identified revenue generating activities. The design of the control procedures implemented should include some form of evidence the control procedure occurred.

Management Responses, Process Owners, and Implementation Dates

Payments in Lieu of Taxes – Board of Revisions

Legal Operations will coordinate with the Treasurer's Office to design and implement internal controls to eliminate or reduce the risks associated with PILOTs activities. Those risks will be through the risk assessment set forth in response to Issue No. 1. The internal controls will also include the monitoring of outside counsel.

Process Owner: James Barnes, General Counsel

Implementation Date: October 30, 2020

Revenue - General

This will be part of the response activities outlined in the Management Responses to recommendations 1 – 6.

Process Owner: Stan Bahorek, Treasurer

Implementation Date: January 31, 2021

Medicaid Eligible Billed Services and NCH Billed Services

The Department of Special Education in collaboration with the Treasurer's Office will design and implement internal controls for the identified revenue generating activities.

Process Owner: Jill Lausch, Director of Special Education Administration and Policy

Implementation Date: July 30, 2020

Foster Care Tuition

Management will take steps for the various controls that are in place to document the execution of the control.

Process Owner: Dr. Machele Kline, Chief Accountability Officer

Implementation Date: August 15, 2020

Issue 6 – Medicaid Service Provider – Negative Revenue. (High)

During FY 2019 management recorded 12 disbursements totaling \$562,934 paid to a vendor for services rendered as negative revenue rather than an expenditure.

Since not recorded as expenditures the transactions were not supported by purchase orders which contained the treasurer's certification of available funds. According to management, these expenditures were not included in the budget and as such not appropriated by the board of education when passing the budget. This results in likely noncompliance with Ohio Revised Code budgetary provisions related to certification of available funds and expending funds which have not been appropriated. Additionally, recording expenditures as negative revenue does not comply with generally accepted accounting principles leading to understated revenues and understated expenditures. This practice has been in place at least since the implementation of the MUNIS accounting system for FY 2013.

Recommendation

8. We recommend management cease the practice of recording payments to the vendor as negative revenue and record the transactions as expenditures in accordance with generally accepted accounting principles. These transactions should be considered when completing the annual budget and the expenditures should be appropriated by the board of education. The transactions should be supported by purchase orders which will include the required certification of available funds by the Treasurer.

Management Response: Steps have been taken effective January 1, 2020 to record these transactions as expenditures.

Process Owner: Stan Bahorek, Treasurer

Implementation Date: January 1, 2020