
Summary of the Program

Background:

Several programs provide financial assistance to construct or repair classroom facilities. The Ohio Facilities Construction Commission (OFCC) administers these programs. The most common programs are the Classroom Facilities Assistance Program (CFAP), Community School Classroom Facilities Grant Project, Expedited Local Partnership Program (ELPP), and Urban Initiative Program (i.e., applies to the following six city school districts: Akron, Cincinnati, Cleveland, Columbus, Dayton, and Toledo). Certain classroom assistance programs established by Ohio Rev. Code Chapter 3318 follow the basic guidelines of the CFAP. Guidance about these programs can be found on OFCC’s website: Maintenance Plan Guidelines and K-12 Schools.

Programs and Agreements:

Each project, regardless of the program, will be defined in the Project Agreement. Sample OFCC Project Agreements are located on OFCC’s website; however, auditors should obtain and review the school’s own Project Agreement for compliance testing. The Project Agreement (updated in July of 2022) is a contract that is signed by the Commission, the School Board President and Treasurer of the participating District. [Ohio Rev. Code § 3318.18(A)(5).] There can be many attachments to the Project Agreement and amendments to the Project Agreement. Some of the common attachments include schedules of the alternative funding sources for both the local portion for construction and/or the maintenance levy, and a Memorandum of Understanding (MOU) which sets forth the specific terms and conditions of the Locally Funded Initiative (LFI). The following sections of the updated Project Agreement for the CFAP (most common) define the Project and significant responsibilities and applicable compliance requirements:

- Scope of the Project (Section I) – provides the total budget for the project and the split between the State and Local share. In addition, if there’s Required Locally Funded Initiatives (LFIs) each will be included. Other LFI’s not specifically referenced in this section of the agreement will be described in Section VII. In addition, if Allowances are provided for the project each will be included. Allowances include: Demolition, Swing Space, Site Access Safety Improvements, Storm Shelter, Emergency Responder Radio Communications System, Enhanced ADA Playground Surface, and Abandoned Facilities.

- Ownership of the Project (Section II) – defines ownership of the Project from design and construction through completion. Until the Project is completed and a Certificate of Completion is issued both the School Board and the Commission share ownership according to their respective contributions defined in Section I of the Project Agreement. Once the Certificate of Completion is issued the Commission’s interest is considered transferred to the School District Board.
School District Board Share of Basic Project Cost (Section III) – defines how the District provided their share of the Project as a condition precedent to the execution of the Project Agreement. The funding options for a CFAP Project include:

- CFAP Bonds or Notes [Ohio Rev. Code §§ 3318.05, 3318.06, or 3318.062 and 3318.08(A)]
- Property Tax/Income Tax Levy [Ohio Rev. Code § 3318.052]
- Local Donated Contributions including federal grant monies, monies donated or granted, letters of credit, cash on hand, other bonds (non 3318), lease purchase proceeds, and contributions spent directly by a third party source.
- Credit – credit given for the District’s participation in the Expedited Local Partnership Program (ELPP), if applicable, will be documented in this section. [Ohio Rev. Code § 3318.36(E)(1).]

Maintenance of Completed Facilities (Section IV) - defines how the School District Board will provide for funding of the Maintenance Fund (USAS Fund 034), required approval of the maintenance plan, and allowable expenditures out of the fund. This fund should be classified as a governmental fund type, special revenue fund.

- A maintenance plan is required to be prepared in accordance with the Commission’s Maintenance Plan Guidelines and submitted to the Commission for approval prior to the expenditure of monies out of this fund.
  - Allowable uses include the maintenance and repair of the completed facilities, periodic repairs, and the replacement of facility components.
  - Unallowable uses include routine janitorial and utility costs, equipment supplies, maintenance staff salaries and personnel associated with the day to day housekeeping and site upkeep per normal and customary standards.
  - The Commission pre-approves the use the maintenance fund to pay for the cost of the development of the plan in accordance with the Commission’s Guidelines, and to support training of the School District’s building operator and maintenance staff via a Building Operator Certification Program or additional training specific to the District’s mechanical and control systems.

- The School District Treasurer is required to identify the source of funds to be used to fund the maintenance fund. The following sources are available:
  - Levy an additional tax² for the maintenance of the Project of at least one-half mill [Ohio Rev. Code §§ 3318.05(B), 3318.06(A)(2)(a) and (A)(3), and 3318.17.]
  - Earmarking from the proceeds of an existing permanent improvement tax levied under Ohio Rev. Code § 5705.21, an amount equivalent to the amount required in accordance with maintenance fund requirements described above.
  - Funding can also be satisfied by applying the proceeds of a property tax or the proceeds of an income tax, or a combination thereof [Ohio Rev. Code § 3318.052.]
  - The School Board may extend a previously approved tax of one-half mill for each dollar of valuation taxable value levied as a condition of participating in a previous

² The original regulations required a ½ mill levy, all of which was remitted to the State to repay project funding received. Later regulations still required the levy (or other funding), but provided that all or a portion would be retained by the district, to be used for maintenance of project facilities. All such funding is referred to as “maintenance funding” in this OCS Section. Some districts have entered into supplemental agreements which subject the district to the amended regulations.
state school building assistance program so the half mill will be collected for at least twenty-three years after the completion of the Project Agreement.

- Locally donated contributions as an offset of all or part of the district’s obligation to provide for the maintenance fund as described above [Ohio Rev. Code § 3318.084.]

- Regardless of the funding mechanism selected, the amount required to be deposited annually into Fund 034, the Maintenance Fund, should equal the amount that would be generated from a half mil levy.

- A district may deposit into its maintenance fund, annually for 23 years, an amount from other district resources equal to 1/2 mill of the district's tax valuation³, instead of levying the maintenance tax⁴. The district’s board must pass a resolution petioning the Ohio Facilities Construction Commission to approve the arrangement. [Ohio Rev. Code §§ 3318.05, 3318.051, and 3318.084.]

  - School Districts may not transfer money out of the 034 Fund and into other funds.
  - The district treasurer must annually certify to the OFCC and the Auditor of State that the amount required for the year has been transferred⁵ into the maintenance fund.

  - In order to satisfy the transfer certification requirement to the Auditor of State, districts can electronically submit the copy of the Auditor of State’s certification to OFCC@OhioAuditor.gov or carbon copy the Auditor of State regional offices on their certification to the Commission at maintenancecertification@ofcc.ohio.gov. See the Auditor of State website www.ohioauditor.gov (Contact Us/Regional Office Contacts) for regional office contact information.

  - The Auditor of State must “verify” the transfer as part of any audit of the district. If the Auditor of State finds that less than the required amount has been deposited, the Auditor must notify the district board in writing and require the board to deposit the necessary money within 90 days after the notice. If the district board fails to demonstrate to the Auditor's satisfaction that it has made the required deposit, the

³ Joint vocational school districts participating in a state facilities program, annually for 23 years, must deposit into a maintenance account an amount equal to 1.5% of the current insurance value of the acquired facilities. [Ohio Rev. Code § 3318.43.]

⁴ If a district board determines that it can no longer continue making the annual transfers, the act allows a district board to rescind its decision, but only if the district's voters approve the levy of a maintenance tax. The levy must be in effect for the remainder of the 23-year maintenance period (23 years minus the number of years that the district made transfers) and must be for not less than ½ mill for each dollar of district valuation. The act prescribes the ballot language to be used. A district electing to make the transfers authorized by the act is not relieved from its obligation to make annual deposits into its general "capital and maintenance fund," which applies to all districts under continuing law.

⁵ Districts electing to make the transfers, instead of levying the maintenance tax, may not receive the new state maintenance equalization payments. (The Ohio Department of Education is required to pay an equalized subsidy to city, exempted village, and local school districts participating in state-assisted facilities programs and have tax valuations per pupil below the statewide average. The subsidy equalizes to the statewide average the per pupil amount each eligible district raises from its 1/2-mill maintenance levy.) [Ohio Rev. Code § 3318.18.]
Auditor must notify the Ohio Department of Education. Upon that notice, the Ohio Department of Education must withhold 10% of the district's state operating funds for the current fiscal year, until the Auditor notifies the Ohio Department of Education that the Auditor is satisfied that the board has made the required transfer. [Ohio Rev. Code § 3318.051(B).]

- **Note:** Auditors should consult with the Auditor of State’s Legal Division if noncompliance is identified. The Auditor of State Legal Division will prepare the written notification to the school district board and to the Ohio Department of Education, if necessary. IPA’s should notify the Auditor of State’s Center for Audit Excellence if noncompliance is identified. The Auditor of State Center for Audit Excellence will then consult with the Auditor of State Legal Division as appropriate.

- **State Share of Project Cost (Section V)** – defines the Commission’s responsibility for funding their share of the Project and the conditions the District must meet preceding each draw.
  - The Commission will not transfer monies to the District until quarterly draw reconciliations are completed by the School District Treasurer and approved by the Commission.
    - Note - the monitoring performed by designated CPA firms over the required quarterly reconciliations replaces the Agreed-Upon Procedures (AUPs) engagements previously completed by designated CPA firms on behalf of the Commission. No AUPs have been completed/released since December of 2019 and the monitoring procedures became effective for the quarter end date of September 30, 2021.
  - The School District funds and the Commission’s funds are required to be spent concurrently throughout the life of the project in amounts proportional to the State and School District Board’s share of the project cost.

- **The Project Construction Fund (Section VI)** – defines the responsibility of the School District to establish the Fund (USAS Fund 010), allowable uses of the Fund, required use of the Ohio Administrative Knowledge System-Capital Improvements (OAKS-CI), provides guidance on the accounting for interest earnings and its allowable uses, and sets a schedule for required reconciliations.
  - Transactions from the Fund are restricted to: 1) payments for professional design, owner-agent or other administration services, 2) payments to contractors who have performed work on the Project, 3) purchases related to the Project, and 4) any transactions authorized necessary or appropriate for establishing and administering investment accounts.
    - Note – all expenditures out of the Fund require Commission approval prior to payment.
  - The School District is required to separately account for interest earned on the State and Local Share of the required contributions within the Project Construction Fund.
    - The School District Board may, in accordance with Ohio Rev. Code § 3318.12(B)(2), and by a duly adopted resolution, choose to use all or part of the investment earnings from the investment of Local Share to pay the cost of classroom facilities or portions or components of classroom facilities that are not
included in the School District’s basic project cost but are related to the School District’s project.

- Note – if the School District chooses to use any or all of the investment earnings in this manner, and, subsequently, the cost of the project exceeds the amount in the Project Construction Fund, the School District is required to restore the Project Construction Fund the full amount of investment earnings used under Ohio Rev. Code § 3318.12(B)(2) before any additional state moneys are released for the project.

- If interest earnings remain in the Project Construction Fund after the project has been completed, at the discretion of the School District Board the remaining local interest can be:
  - retained in the Project Construction Fund for future projects;
  - transferred to the School District’s Maintenance Fund (Fund 034) and used solely for maintaining the classroom facilities included in the project;
  - transferred to the School District’s permanent improvement fund.

- Any interest earnings related to the Commission’s contribution is required to be transferred to the Commission for expenditure pursuant to sections 3318.01 to 3318.20 or sections 3318.40 to 3318.45 of the Revised Code. [Ohio Rev. Code § 3318.12(C)(2).]

  - The Treasurer is required to work with the Commission’s Designee to review and reconcile the fund transactions and balances with records maintained by the Commission’s Designee on a monthly basis. In addition, quarterly reconciliations are due along with updates to the draw tool by dates specified on the Commission’s website, https://ofcc.ohio.gov/Resources/For-Treasurers.

- Note - as described above, designated CPA firms have been hired by the Commission to perform quarterly monitoring procedures over the required reconciliations beginning with the quarter end date of September 30, 2021. The reconciliations and the completed monitoring procedures, with no unexplained variances, are required to be completed and approved by the Commission prior to the release of the Commission’s share of the Project through monthly draws.

- Locally Funded Initiatives (LFI) (Section VII) – a School District Board may elect to add to the scope of any project and separately fund a scope of work (“local initiative”), which involves improvements to all or part of a project funded through the Commission. The School District Board may request the Commission to approve the incorporation of design and construction of the LFI into the overall project.

  - Whenever a LFI will be purchased through contracts that are subject to the Commission’s approval, a Locally Funded Initiative Budget Summary will be executed by the School District and the Commission, setting forth the budgeted and committed LFI amounts subject to the terms and conditions of the Project Agreement.
  - The School District Board will assume all the financial responsibility for the LFI and establish a LFI Fund or special cost center in a fund other than the Project Construction Fund, Fund 010.

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6 These monies shall be used solely for maintaining the classroom facilities included in the project.
The sections of the Project Agreement described above relate to the Classroom Facilities Assistance Program (CFAP) which is the most utilized program of those offered by the Commission. The Project Agreement is the key document for all Programs offered by the Commission and the elements described above are commonly defined in each Project Agreement for each Program. If the district participates in other programs, auditors should review the terms of the agreement and identify those requirements which may be material. Other prevalent Programs available through the Commission include:

- **Expedited Local Partnership Program (ELPP) [Ohio Rev. Code §§ 3318.36 and 3318.364]**
  - ELPP is designed to give districts not yet participating in the CFAP the opportunity to move ahead with portions of their project. The program allows school districts to pass a resolution to enter ELPP. The Commission then performs an assessment of the district’s facilities and enters into an agreement with the district on a Facility Master Plan that covers the entire needs of the district. The district then chooses a “distinct portion” of their Master Plan to fund through local efforts. When the district’s turn later arises in the Classroom Facilities Program, the money spent by the district on the distinct portion is credited against the local share of the entire Master Plan projects.

- **Alternative Facilities Assistance Program (AFAP) [Ohio Rev. Code § 3318.39]**
  - Under this program, also known as the 1:1 School Facilities Option Program, the Commission provides a reduced portion of projected state funds to assist eligible districts in constructing acquiring, reconstructing or making additions to any feature of a classroom facility consistent with the Master Facilities Plan (MFP) and that meets the design standards of the Ohio School Design Manual (OSDM). In consideration for the reduced state share, the district has more flexibility to create its own reduced scope for the project.

- **Vocational Facilities Assistance Program (VFAP) [Ohio Rev. Code § 3318.40]**
  - This program allows the Commission to provide assistance to Joint Vocational School Districts (JVSDs) for the acquisition of classroom facilities suitable to their vocational education programs. Current law requires the Commission to begin with the lowest ranked JVSD in terms of the three year average property valuation per pupil and provide funding for the entire district’s needs. The projects are funded by a combination of state and local funds. State law prohibits the Commission from providing assistance for any space that will be used exclusively for an adult education program, the operation of a drive training school, or for any other space not used for education programs of the JVSD.

- **Community Schools Classroom Facilities Grant**
  - In June 2015, Ohio lawmakers authorized the creation of the Community School Classroom Facilities Grant Program. In the first three rounds of the program, a total of $31.7 million in grants were awarded to nineteen high-performing schools. Due to fiscal impacts related to the COVID-19 pandemic, the Round 3 Community Schools Classroom Facilities grant solicitation has been cancelled. OFCC plans on

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7 The schools approved for grants in round 1 are listed here ([ODE 2016-2017 Annual Report.pdf](#)), and round 2 are listed here ([OFCC Awards Community School Facility Grants.pdf](#)), and round 3 grants are listed here ([Round 3 Awards](#)). Round 3 grants: 133 GA H.B. 481, Section 237.40 appropriated funding for such, however solicitation was subsequently cancelled due to fiscal impacts related to the COVID-19 pandemic; round 3 will likely occur in the future.
conducting a third round at some point in the future, when there is fiscal certainty for the program’s funding.

- The law permits the Commission to provide grants for the purchase, construction, reconstruction, renovation, remodeling, or addition to classroom facilities to (1) "eligible high-performing community schools" and (2) newly established community schools that are implementing a model that has a track record of high quality academic performance. Further details about this program can be found on the OFCC site: https://ofcc.ohio.gov/Services-Programs/Grants/Community-School-Classroom-Facilities-Grants-Round-3, or ODE site: http://education.ohio.gov/Topics/Community-Schools/Community-Schools-Classroom-Facilities-Grants

- **Note:** This is a relatively new program and is likely to qualify as direct and material for any school that receives it. Procedures should be included as necessary in accordance with the grant agreement.

Upon Completion of Project, the Commission or their designee will work with the District as well as the Construction Manager or the equivalent, depends on the construction model, to reconcile the Project. Once the Project is reconciled and all parties sign off on the Closeout Calculator, the reconciliation, the Commission will provide notice to the District and the Construction Manager or the equivalent the Project is officially closed. This notification will include instructions on how the remaining funds should be distributed.

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**POSSIBLE NONCOMPLIANCE RISK FACTORS:**

*Note:* In assessing the risk of noncompliance, auditors should consider whether the District has a process in place to record interest earned on the Local and State funds (if material). In addition, the District should have internal controls in place to ensure the Maintenance Fund is funded in accordance with the Project Agreement and expenditures out of the Maintenance Fund are allowable.

Additionally, based upon the control process/procedures performed at the OFCC-level (quarterly reconciliation process, approval of disbursements prior to payment, etc. described above), there should be a reduced risk of noncompliance at the District-level over project disbursements. Auditors may consider documenting these controls and testing their implementation within the control section below if information to support their implementation is available from the District. In these cases substantive tests of disbursements would still be required but would not need to be extensive.

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Suggested Audit Procedures - Compliance (Substantive) Tests:

Project Funding

1. Scan the accounting records to determine if the proper activities are being recorded in the project activities fund (USAS 010). Determine if the District/STEM school is accounting for the following four revenue streams separately: (1) Local Revenue, (2) Interest on Local Funds, (3) State Revenue – aka “drawdowns”, and (4) Interest on State Revenue.

2. Determine if the District/STEM school deposited the local share funds required by the Project Agreement into fund 010 for both the original contribution and any amendments.

3. Select contracts and related contract expenditures and determine through inspection, vouching, or other such means that contracts were awarded using competitive bidding procedures.

4. Vouch a few transactions from fund 010 for allowable cost as defined in the agreements. We are not opining on this program, so we do not require a high level of assurance. Testing high dollar transactions and scanning other selected transactions should suffice. Review the supporting documentation to determine if the expenditure was:
   a. allowed under the terms of the Project Budget Policy (OFCC policy number: OP-FI-02, rev. Dec. 2017);
   b. if it was processed in OAKS CI;
   c. if it excludes any costs for a locally funded initiative;
   d. if the amount paid agrees with the invoice and
   e. if it is recorded in the correct amount in the correct fund.
   f. If the District did not properly segregate transactions into a project construction fund (i.e., did not establish fund 010), report noncompliance accordingly. Auditors should also consider reporting a finding for adjustment. See the OCS Implementation Guide for guidelines pertaining to Findings for Adjustments.

5. Scan interfund activity in fund 010. Determine whether material transfers or advances were properly approved and/or allowable under Ohio Rev. Code. If an advance is repaid out of fund 010, request the District/STEM school provide the approval letter from the OFCC which authorized the reimbursement.

Interest Accounting and Allocation (if material)

6. If the District has an active project with the Commission, review the financial activity recorded in the Project Construction Fund (Fund 010) and determine if the School District separately accounted for interest earned on the State and Local contributions.

7. Vouch a few receipts to determine if the interest earned on Local and State funds is correctly posted to the Local and State special cost centers.

8. For active projects, scan Fund 010 to determine if the District transferred all or part of the local interest earnings out of the Fund in accordance with Ohio Rev. Code § 3318.12(B)(2). If the District transferred interest verify the School Board approved this transfer by Board resolution.

If the District did make a transfer in accordance with Ohio Rev. Code § 3318.12(B)(2), and, subsequently, the cost of the project exceeds the amount in the Project Construction Fund (over budget),
determine the School District restored to the Project Construction Fund the full amount of investment earnings used before any additional state moneys are released for the project.

9. For projects completed during the fiscal year under audit with interest remaining in the Project Construction Fund determine the following:

   • The remaining local interest has been: 1) retained in the Project Construction Fund for future projects, 2) transferred to the School District’s Maintenance Fund (Fund 034), 3) transferred to the School District’s permanent improvement fund.
   • The remaining interest related to the Commission’s contribution remains in the Project Construction Fund and returned to the Commission upon completion of the Closeout Calculator and final instructions regarding distribution of remaining funds by the Commission.

**Maintenance Funding and Expenditures**

10. Inquire with the client or review capital asset records to determine if the District/STEM school ever had an OFCC project. If so, determine whether the project maintenance fund (USAS Fund 034) has received the required ½ mill in accordance with the approved maintenance plan for the entire 23 years. **Note:** If they are using the alternate maintenance obligation see procedure number 11 below.

11. Determine whether the school district/STEM school has elected to use the new alternative mechanism for meeting its maintenance obligation. If so, obtain the district’s annual certification to the Commission and determine if the school district carbon copied the Auditor of State regional office that the amount required for the year has been transferred into the maintenance fund.

12. Vouch a few disbursement transactions from Fund 034. We are not opining on this program, so we do not require a high level of assurance. Testing high dollar transactions and scanning other selected transactions should suffice. Determine whether expenditures were only for maintenance of the funded project facilities in accordance with the district’s approved maintenance plan. (If the District/STEM school did not segregate transactions related to project maintenance (i.e. did not establish Fund 034), report noncompliance accordingly. As noted above, the only allowable expenditures out of Fund 034 prior to the completion of the project are for the costs associated with the development of the maintenance plan.

13. Determine whether the school district made any illegal transfers out of the 034 Fund into other funds.

**Locally Funded Initiative (LFI)**

14. If applicable, review accounting records and related documents and determine if the district/STEM school established a separate fund, or special cost center in a fund other than Fund 010, to track receipts and expenditures related to a locally funded initiative.

15. Vouch selected disbursement transactions from the LFI fund/special cost center. We are not opining on this program, so we do not require a high level of assurance. Testing high dollar transactions and scanning other selected transactions should suffice. Determine whether expenditures were: (1) processed in OAKS CI, (2) in agreement with the vendor invoice, and (3) in compliance with the

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8 The following is sample annual certificate language: “The undersigned Treasurer of the Board of Education of the XYZ District, YYY County, Ohio hereby certifies that a resolution was duly passed by the Board of Education of said School District on MM/DD//YYYY to transfer $XX,XXX from the General Fund to the OFCC Facility Maintenance Special Revenue Fund.”

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district’s/STEM school’s approved Memorandum of Understanding with the OFCC. If the district/STEM school did not segregate transactions related to LFI (i.e. did not establish a separate fund or a separate special cost center in a fund other than Fund 010), report noncompliance accordingly.

**Other**

16. If the Project was completed during the fiscal year and officially closed out by the Commission, verify the remaining funds in the Project Construction Fund were distributed in accordance with the instructions provided by the Commission.

**Community School Grants:**

17. If material grant revenues were received:
   - Determine if there were related expenditures made during the audit period, and test them for compliance with significant grant agreement provisions.

**Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):**