



**RISER MILITARY ACADEMY
FRANKLIN COUNTY
SPECIAL AUDIT**

**FOR THE PERIOD
MAY 1, 1999 THROUGH FEBRUARY 29, 2000**



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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**RISER MILITARY ACADEMY
FRANKLIN COUNTY**

SCHEDULE OF GOVERNING BOARD MEMBERS

EXECUTIVE MEMBERS (A)

Darryl Riser, President and Founder

Marte Jones

James M. Chubb

Timothy McGuire

Dewey Ortiz

INCORPORATING MEMBERS

Myron Riser

Charles Addison

Nora Robbins

Abraham Riser, Jr.

Kelvin Riser

ADVISORY BOARD MEMBERS

(Advisory Board was not established)

- (A) There are no term limits. Removal from the Executive Committee can be made by the President or a quorum of the remaining executive members.

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Report of Independent Accountants

Mr. David Varda
Associate Superintendent of Finance and Accountability
Ohio Department of Education
25 South Front Street
Columbus, Ohio 43215-4183

Pursuant to your request, we have conducted a "Special Audit" of the Riser Military Alternative Educational Academy d.b.a. Riser Military Academy ("a Charter School"), and performed the procedures summarized below and detailed in our "Supplement to the Special Audit Report," which were agreed to by the Ohio Department of Education for the period May 1, 1999 through February 29, 2000 ("the Period"). These procedures were performed solely to determine whether all the Charter School's expenditures made during the Period were for a proper public purpose; whether expenditures were made in accordance with the Charter School's Community School Contract, By-Laws, and federal grant agreements; determine whether significant revenue sources during the Period were recorded in the Charter School's financial records and deposited in a school bank account; compile a fixed asset listing to determine the disposition of assets purchased with Charter School funds; review and schedule payments made to taxing authorities and to the State Teacher's Retirement System (STRS), and determine the existence of outstanding payroll tax liabilities and required pension contributions based on amounts remitted. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the users of the report. Consequently, we make no representation regarding the sufficiency of the procedures discussed below for the purpose for which this report has been requested or for any other purpose. The procedures we performed are summarized as follows:

1. We compiled, based on the availability of the Charter School's financial records, a listing of cash disbursements and reviewed the recorded disbursements made during the Period to determine whether they were for a proper public purpose and in accordance with the Charter School's Community School Contract, By-Laws, and applicable federal grant agreements.
2. We compiled, based on the availability of the Charter School's financial records, a listing of cash receipts to determine whether significant revenue sources during the Period were recorded in the Charter School's financial records and deposited timely into a school bank account.
3. We compiled a fixed asset listing based on the examination of invoices and supporting documentation available to determine the disposition of assets purchased with Charter School funds.
4. We reviewed and scheduled amounts withheld and payments made to taxing authorities and to the State Teacher's Retirement System (STRS) to determine whether the correct amounts were remitted to these entities.

5. On March 23, 2001 we held an exit conference with the following representatives from the Ohio Department of Education:

David Varda, Associate Superintendent of the Center for School Finance and Accountability
Krista L. Allison, Regional Consultant of the Office of School Options

These individuals were informed that they were provided five business days to respond to this special audit report. During the exit conference, these individuals indicated the Ohio Department of Education did intend to provide a formal written response to the report.

We contacted Mr. Riser to offer him the opportunity to have an exit conference; however, Mr. Riser declined.

Our detailed procedures and the results of applying these procedures are contained in the attached "Supplement to the Special Audit Report." Because these procedures do not constitute an examination conducted in accordance with generally accepted auditing standards, we do not express an opinion or limited assurance on any of the accounts or items referred to above. Also, we express no opinion on the Charter School's internal control system over financial reporting or any part thereof. Had we performed additional procedures, or had we conducted an examination of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you. This report relates only to transactions relating to the above procedures, and does not extend to any financial statements of the Charter School taken as a whole.

This report is intended for the use of the specified users listed above and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Reports by the Auditor of State are a matter of public record and use by other components of state government or local government officials is not limited.

Jim Petro
Auditor of State

January 31, 2001

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

BACKGROUND

Riser Military Academy was incorporated in Ohio on July 25, 1990 and recognized by the Internal Revenue Service as an organization exempt from federal income tax under Internal Revenue Code Section 501(C)(3), and by the State of Ohio as an organization registered to solicit charitable donations under the Charitable Solicitation Act. Its By-Laws state its objective is to implement a highly structured and innovative approach toward instructing students in a manner to achieve high academic standards and development of social skills in a quasi-militaristic environment.

On May 7, 1999, Riser Military Academy entered into a Community School Contract with the Ohio Department of Education (ODE) to establish a "Charter School". The contract period was for five years commencing July 1, 1999 and terminating June 30, 2004. On April 21, 1999, and prior to entering into a Community School Contract with ODE, Riser Military Academy applied for and received a federal start-up grant totaling \$50,000 from ODE. Classes began September 1999 and the Charter School closed on February 15, 2000.

Mr. Riser maintained three financial accounts for the Charter School during the Period. These accounts consisted of a general checking account used for operating activity, a zero balance account used for the clearing of employee payroll checks, and a Pruco Securities Investment Money Market Account. No significant financial activity involving Charter School funds occurred subsequent to February 29, 2000. Book balances in the general checking, zero balance, and Pruco Money Market accounts at February 29, 2000 were \$(28,067), \$0, and \$670, respectively.

According to the Charter School's contract with ODE, the organization was to operate under a 22 member Governing Board divided into three groups; Executive Members; Incorporating Members; and Advisory Members. Although five executive members and five incorporating members were named, no advisory members were established. In addition, terms for the executive members were unlimited. Removal as an executive member could only be made by the President, Darryl Riser, or a quorum of the remaining executive members.

At the beginning of the 1999-2000 school year, student enrollment was 300 and decreased to 230 students at December 21, 1999. After numerous reports of financial difficulty, a representative from the Auditor of State's Office met with Mr. Riser in December 1999 to review the condition of the Charter School's records. ODE terminated Riser Military Academy's Community School Contract on January 6, 2000 effective July 5, 2000 pursuant to Ohio Revised Code Section 3314.07, and Articles VIII and IX of the Community School Contract. The Charter School closed February 15, 2000. On February 29, 2000, the Auditor of State Special Audit Committee voted to initiate a special audit of Riser Military Academy.

Mr. Riser filed for Chapter 7 bankruptcy on August 25, 2000.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Issue No. 1 - Cash Disbursements

We compiled, based on the availability of the Charter School's financial records, a listing of cash disbursements and reviewed the recorded disbursements made during the Period to determine whether they were for a proper public purpose and in accordance with the Charter School's Community School Contract, By-Laws, and applicable federal grant agreements.

Procedures:

1. We reviewed the Charter School's Community School Contract, By-Laws, and federal agreements which authorized the expenditures of the Charter School.
2. Using cancelled checks, we scheduled the cash disbursements of the Charter School. We reviewed the cancelled checks to determine whether they were signed by an authorized signatory, whether the payee's names corresponded to those on invoices or other supporting documentation, and whether the checks were endorsed by the payees.
3. We reviewed each disbursement to determine whether it was for a proper public purpose, allowable in accordance with the Charter School Contract and By-Laws, and applicable grant agreements, properly approved, and supported by invoices and/or other documentation. We also compared the amounts on the invoice and/or other documentation to the cancelled check to ensure the amounts agreed and that the computations prior to payment were correct.

Results

1. A. We reviewed the Charter School's Community School Contract pursuant to Ohio Rev. Code Section 3314, between the Governing Authority of the Riser Military Academy, and its sponsor, the Ohio Department of Education. As part of the contract, the Charter School's By-Laws are also included in this document.

Exhibit 2 - "Financial Program", Financial Records Section 2.5 of the Community School Contract states that the Superintendent must approve all purchases. The approval will authorize immediate acquisition. The report, receipt, and all invoices will be presented to the Board of Directors for their review. A purchase order is then forwarded to the vendor for processing. The Office Manager will verify the quality and quantity of supplies and materials purchased. The original invoice is matched up with the purchase order and is entered into the computer system for payment.

- B. We obtained and reviewed ODE's sub-grant program application for the Charter School's federal "Start-Up Grant" (CFDA #84.282). The application identified the following allowable activities which the grant can be used:

- Costs incurred to produce educational, fiscal, governance, accountability plans
- Related Research
- Related Travel
- Professional development of teachers and other staff who will work in the community school
- Informing the community about the school
- Acquiring necessary equipment and educational materials and supplies
- Acquiring or developing instructional materials
- Renovations of facility to meet building codes for a school
- Attendance at USDE sponsored annual charter school conferences
- Other initial operating costs that cannot be met from state or local sources

On April 21, 1999, ODE approved the \$50,000 application as submitted by Riser Military Academy.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

2. Our review of the cancelled checks indicated that all of the checks were signed by Mr. Riser as the authorized signatory and all checks were endorsed by the payee on the check. We agreed the payee names on the checks to those on invoices and/or other documentation for all but 32 checks. These 32 checks were not supported by invoices or other documentation. Please see result No. 3A below.
3. A. Our review of the Charter School's regular operating account noted 32 disbursements which were not supported by invoices or other documentation. Please see Appendix A on pages 21 and 22 for a list of these disbursements. We will issue a management comment related to this issue.

Check No. 143 for \$3,870 was written to Mr. Riser for a "Reduction of Receipt." This check was endorsed by Mr. Riser and deposited in his personal checking account. According to Mr. Riser, the reason for requesting reimbursement was that he believed he paid multiple vendors totaling \$3,870 from his personal account; however, neither Mr. Riser nor Trimble, Julian & Grube, Inc., the Charter School's accountant at the time, were able to provide invoices or other documentation to identify who the vendors were or the amounts paid. Because Mr. Riser was not able to provide documentation to support that these were school related expenses, we will issue a Finding for Recovery.

All other disbursements from this account were supported by invoices and/or other documentation. We noted no instances where expenditures were made for an improper public purpose or not allowable in accordance with the Charter School Contract, By-Laws and applicable grant agreements. Except for instances where partial payments were made, we noted no instances where the invoice and/or documentation amounts did not agree to the cancelled check. We noted no instances where payments were improperly computed. We did note that the Charter School did not utilize purchase orders as required by the Community School Contract. As a result, we were unable to determine whether any of the purchases were approved prior to the disbursement of funds. We will issue a noncompliance citation with the Community School Contract regarding this issue.

- B. In addition to the Charter School's general checking and payroll checking accounts, we noted that the Charter School had a Pruco Securities Investment Money Market Account. This account was opened in December of 1999 with an initial deposit of \$5,000 which was transferred from the Charter School's general checking account. We reviewed expenditures made from this account and determined that, except for account fees and service charges, the disbursements from this account were not supported by invoices or other documentation. Please see Appendix B on page 23 for a list of these disbursements. We will issue a management comment related to this issue. Credits to this account included dividends of \$48 and an additional deposit of \$483 made by Mr. Riser on February 28, 2000. At the end of our audit period the balance in this account was \$670.
- C. We noted Mr. Riser authorized five disbursements totaling \$31,676 to himself from the Charter School's regular operating account for reimbursement of expenses that he paid from his personal accounts. Mr. Riser provided documentation to support \$8,244 in personal expenses which he claimed to be on behalf of the Charter School. These receipts were for such items as cleaning supplies, office supplies, uniforms, and other general expenses. Although documentation was provided for office supplies and cleaning supplies, due to their nature, we could not determine whether any of these supplies were for Mr. Riser's personal use.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Mr. Riser claimed the remaining \$23,432 consisted of refunds to parents for school related fees and a loan to the Charter School for \$9,000. Review of Mr. Riser's and the Charter School's bank statements indicated a check for \$9,000 cleared Mr. Riser's personal account on November 9, 1999. On November 5, 1999, a \$9,000 deposit was recorded in the Charter School's general checking account. In regards to the refunds, Mr. Riser provided lists of parents who he provided refunds for school fees from his personal account totaling \$12,138. Each of the amounts on these lists were traced and agreed to Mr. Riser's personal bank statements, without exception. In addition, we randomly selected 23 parents/guardians on the lists and confirmed that they received a refund of fees from Mr. Riser, without exception. Mr. Riser provided a handwritten list of expenses which included payee names and/or purposes totaling \$1,794; however, he did not provide invoices or other documentation for these expenditures. Review of the list indicated the expenditures did not appear personal in nature. Disbursement(s) equaling the remaining \$500 were not included on the lists by Mr. Riser.

- D. On May 5, 1999 the Charter School received the \$50,000 it applied for as start-up funding and deposited it into the zero balance account. Also on May 5, 1999, Mr. Riser withdrew \$45,000 from the Charter School's zero balance account and deposited it into his personal bank account. Of this amount, \$38,000 was for a consulting fee based on a contract between Mr. Riser and the Charter School, \$5,000 was for a deposit on the building lease for the Alum Creek Drive facility, and \$2,000 was to pay for Board travel expenses to visit other charter schools located in Washington D.C. and Texas. According to Mr. Riser, the remaining \$5,000 was used to open the Pruco Investment Money Market Account in December 1999. The check to open the Pruco Money Market Investment Account came from the general checking account. During the period, federal funds were commingled in the zero balance account with other receipts and deposits and transfers from the zero balance account to the general checking account occurred. As a result, we were unable to determine whether the remaining \$5,000 federal start-up grant funding was actually transferred to the general checking account for the purpose of opening the Pruco Investment Money Market Account or whether it was spent from the zero balance account.

We reviewed guidelines for the Charter School's Start-Up Grant which indicated that the funds were allowed to be used to plan and implement a Charter School. Except for the \$5,000 transfer to the Pruco Investment Account, it would appear that all other expenditures would be allowable under the grant agreement and guidelines. As noted above, we were unable to determine whether federal funds were used to open this account.

Mr. Riser provided a list of Board travel expenses totaling \$2,257 which he stated he paid from his personal funds for which he sought reimbursement of \$2,000 as noted above. However, Mr. Riser was not able to provide invoices or other documentation to support \$1,289 as being for school related Board travel expenses. As a result, we will issue a Finding for Recovery for \$1,289.

FINDINGS FOR RECOVERY

Mr. Riser wrote a check for \$3,870 to himself and deposited it in his personal bank account. Neither Mr. Riser nor Trimble, Julian & Grube, Inc., the Charter School's accountant at the time, were able to provide invoices or other documentation to support that these were school related expenses.

In accordance with the foregoing facts pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery is hereby issued against Darryl Riser, the former President, Founder, and Superintendent of the Riser Military Academy for monies illegally expended in the amount of \$3,870, and in favor of the former Riser Military Academy.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

On May 5, 1999, the Charter School received and deposited a \$50,000 federal Community School Start-Up Grant into the Charter School's account. On that same day, Mr. Riser withdrew \$45,000 from the Charter School's bank and deposited it into his personal checking account. Of this amount, \$38,000 was a consulting fee which was authorized by the Governing Authority on January 28, 1999, \$5,000 was for a deposit on the building lease for which he wrote a check out of his personal account for this amount. Mr. Riser was not able to provide invoices or other documentation to support \$1,289, for which he claimed reimbursement, as being for school related Board travel expenses.

In accordance with the foregoing facts pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery is hereby issued against Darryl Riser, the former President, Founder, and Superintendent of the Riser Military Academy for monies illegally expended in the amount of \$1,289, and in favor of the former Riser Military Academy.

NON-COMPLIANCE - COMMUNITY SCHOOL CONTRACT

Accounting and Reporting

Ohio Rev. Code Section 3314.03 (A)(8) requires the contract between the Sponsor and the Governing Authority of the Charter School include a requirement that the community school maintain financial records in the same manner as all public school districts in the State of Ohio. Therefore, community schools are required to use the Uniform School Accounting System (USAS) as prescribed in the Ohio Administrative Code Chapter 117-2 (which has since been amended, now see Ohio Administrative Code Chapter 117-6).

The Charter School did not use the Uniform School Accounting System (USAS) as prescribed in the Ohio Administrative Code Chapter 117-2. The Charter School did not maintain cash receipts or cash disbursement ledgers.

Governing Authority

Exhibit 3 - "Governance and Administration Plan" Section 3.1, 3.1.1, and 3.1.2 of the Community School Contract states that the governance and administration of the Riser Military Academy shall consist of 22 individuals which represent the Governing Authority. The Governing Authority is divided into three categories: a) 6 Executive Members, b) 5 Incorporating Members, and c) 11 Advisory Members.

During the Period, the Executive Members did not appoint Advisory Members to the Board.

Purchase Orders

Exhibit 2 - "Financial Program", Financial Records Section 2.5 of the Community School Contract states that the Superintendent must approve all purchases. The approval will authorize immediate acquisition. The report, receipt, and all invoices will be presented to the Board of Directors for their review. A purchase order is then forwarded to the vendor for processing. The Office Manager will verify the quality and quantity of supplies and materials purchased. The original invoice is matched up with the purchase order and is entered into the computer system for payment.

All purchases of goods and services should be evidenced by an approved written request and an approved purchase order. Invoices should be matched to the purchase order as to price and quantity, and verified as to the delivery of the goods or completion of services. Requests for payment for these goods and services should be evidenced by a complete voucher package to include the approved purchase order and related invoice.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

We noted that purchase orders were not used and there was no evidence that expenditures had been approved prior to the disbursement of funds. Also, there was no evidence in the Charter School's Board minutes that a report, receipts, or any invoices were presented for the Board's review. As a result, unnecessary or unauthorized expenditures may have occurred.

MANAGEMENT COMMENTS

Facility

Although the Charter School entered into a lease agreement to secure a facility at 1030 Alum Creek Drive Columbus, Ohio on June 2, 1999, this facility required a significant amount of renovation and remodeling to ensure that the facility was ready for use in the upcoming 1999/2000 school year. The City of Columbus' issued a temporary occupancy permit dated October 1, 1999 which allowed the Charter School to open. ODE officials stated that they visited the Alum Creek facility prior to it opening for classes and also visited the facility in October, November, and December 1999 to discuss, among other items, health and safety concerns due to continuous construction. We reviewed correspondence dated November 13, 1999 from Mr. Riser to the landlord of the building. Mr. Riser was concerned that parents were withdrawing their children because of the safety hazards of the building construction. He stated numerous concerns about major demolition and construction taking place while school was in session and continuous water leaks within the building. Due to the condition of the facility at the time classes started and the facility not being ready for its intended use, ODE should not have allowed the Charter School to open for the 1999/2000 school year.

Internal Controls

Management and the Governing Authority of the Charter School are responsible for the design and implementation of an internal control process that provides reasonable assurance of the integrity of its financial reporting, the safeguarding of its assets, the efficiency and effectiveness of its operation and its compliance with applicable laws, regulations, and contracts.

In designing the internal control process, management should consider policies and procedures that provide for the following:

- Appropriate authorization and approval of transaction
- Adequately designed records to facilitate classification and summarization of financial transactions
- Security of assets, and financial records
- Segregation of incompatible duties
- Periodic reconciliations of account balances
- Periodic verification of existing assets

The absence of these policies and procedures contribute to the lack of segregation of duties, monitoring controls, and other possible control deficiencies. We noted that Mr. Riser performed all fiscal and administrative duties and responsibilities for the Charter School. These are incompatible functions within the Charter School and represent a serious lack of segregation of duties. The absence of review and monitoring procedures by the Governing Board also increased the risk that fraud could have occurred and not been detected in a timely manner.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Cash Disbursements and Supporting Documentation

Mr. Riser wrote checks to himself and to vendors without supporting documentation. These checks were not submitted for the Governing Board's approval. The Charter School's checks only required one signature and Mr. Riser performed all fiscal responsibilities. By requiring only one signature, the risk of writing checks for improper expenditures increases. The Governing Board did not monitor the overall operations of the Charter School. The Governing Board did not require financial reports, bank statements, and account reconciliations be prepared and submitted for their review on a monthly basis. Because there were no accounting records kept and there was no monitoring of operations by the Governing Board, a condition exists that there is no controls over financial accountability and no fiscal management over the operations of the Charter School which increases the risk of theft or misappropriation of assets.

In addition, proper source documentation was not provided for expenditures to support the validity of the expenditure. There was no documentation or evidence that the expenditures were authorized before payment and no formal approval of expenditure reports in the Governing Board's minutes. By not having a formal approval process, a condition exists which increases the risk of expenditures being made that are not for proper public purpose.

Building Lease

On April 30, 1999, Mr. Riser wrote a letter to ODE requesting that the Charter School's Community School Contract be amended to include four changes. One of these changes was to change the location from 2817 Winchester Pike Columbus, Ohio to the new location at 215 Capital Street Columbus, Ohio. The letter also referenced attached amendments to the original budget information, 5-year projections, and assumptions. Although Mr. Riser's letter referred to the attachments as amendments; according to officials at ODE's Office of School Options, there was no budget information, 5-year projections, or assumptions prior to the April 30, 1999 correspondence. The April 30, 1999 financial information attached to Mr. Risers letter indicated that, in year one, the Charter School would have receipts in excess of disbursements of \$4,080. Because the Capital Street facility was a commercial building rather than a school facility, some renovations to the facility would have been necessary; however, Mr. Riser's amended budget information, 5-year projections, and assumptions did not disclose any estimated renovation costs.

Appendix 5, Schedules A-F, "Expenditure Line Items" for a facility lease were amended to include revised projected lease payments for the new facility for the next five years as follows:

<u>Year</u>	<u>Annual Lease Payments</u>
1 st	\$165,000
2 nd	198,000
3 rd	220,000
4 th	236,000
5 th	<u>252,000</u>
Total	<u>\$1,071,000</u>

The Charter School contract which was entered into between ODE and the Charter School on May 7, 1999 included budget information which indicated, in year one, the Charter School would have receipts in excess of disbursements of \$10,055.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

On June 1, 1999, Mr. Riser wrote a letter to ODE requesting that the Charter School's Community School Contract be amended for two changes. One change was to request a change in location from 216 Capital Street Columbus, Ohio to a new location at 1030 Alum Creek Drive Columbus, Ohio. Unlike the April 30, 1999 letter mentioned, this correspondence did not include any reference to attachments of amended budget information, 5-year projections, and assumptions. According to officials of ODE's Office of School Options, they did not receive any amended budget information, 5-year projections, or assumptions which took into account increases in lease payments and capital renovation costs as a result of moving the location from the Capital Street facility to the Alum Creek Drive facility. ODE Inter Office correspondence dated July 7, 1999 indicated that a copy of the building lease was provided to them by Mr. Riser.

On June 2, 1999, Mr. Riser entered into a lease agreement for the Alum Creek Drive facility. As a result of the agreement, required minimum lease payments for the next five years commencing August 1, 1999 and terminating July 31, 2004 were as follows:

<u>Year</u>	<u>Monthly Amount</u>	<u>Annual Amount</u>
1 st	\$28,181	\$338,175
2 nd	\$32,356	388,275
3 rd	\$37,575	450,900
4 th	\$39,663	475,950
5 th	\$43,837	<u>526,050</u>
Total		<u>\$2,179,350</u>

Mr. Riser also spent approximately \$268,000 to renovate the Alum Creek Drive facility for its intended use as a school facility.

According to Resource Guide for Community Schools in Ohio published by ODE, community school legislation identifies four broad functions of a community school sponsor, one of which is frequent and ongoing monitoring of the community school with respect to accountability for fiscal and learning outcomes. As demonstrated by the financial information attached to the April 30, 1999 correspondence to ODE and the Charter School contract signed May 7, 1999, the margin of receipts in excess of disbursements could not absorb the doubling of lease payments and renovation costs. As the Charter School's sponsor, ODE should have requested and reviewed the amended budget and 5-year projection information, as well as, the lease payment amounts for the Alum Creek Drive facility, and been aware that the required lease payments, which were twice the original planned amount, and necessary capital renovations placed a financial strain on the Charter School and would force the Charter School into bankruptcy midway through the year. ODE also should not have allowed the Charter School to enter into the lease for the Alum Creek Drive facility and should not have allowed the Charter School to open without a viable financial plan in place. Based on discussions with ODE officials of the Division of School Finance, they stated they were not required to review amended budget information or the terms of the lease.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Ohio Department of Education - Fiscal Monitoring

We noted that ODE has monitoring procedures in place to assess a community school's educational progress. However, as noted in the previous comment, one of the functions of the community school sponsor is frequent and ongoing monitoring of the community school with respect to accountability for fiscal outcomes. The Department did not have monitoring procedures in place to assess the Charter School's financial condition on a regular and continual basis. During the Period, the Department did not request financial information from the Charter School in order to monitor its financial condition. The Charter School experienced financial difficulties for some time prior to its eventual closure. Had such financial monitoring procedures been established, ODE may have been able to address the difficulties and work with the Charter School to alleviate or minimize the effects of the financial stress.

We recommend ODE develop and implement fiscal monitoring procedures of community schools so that ODE can identify, on a timely basis, community schools which are faced with financial difficulties. These procedures should include evaluation of the community school's financial condition on a regular basis, evaluation of the record keeping practices employed by community schools, and evaluation of continued compliance with fiscal operations and record keeping requirements contained in the Community School Contract. We further recommend that ODE prepare its Community School Contracts to include provisions which permit the Department to require immediate remedial action by community schools which do not adhere to record keeping requirements or sound fiscal practices.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Issue No. 2 - Cash Receipts

We compiled, based on the availability of the Charter School's financial records, a listing of cash receipts to determine whether significant revenue sources during the Period were recorded in the Charter School's financial records, and deposited timely into an authorized school bank account.

Procedures

1. We reviewed the Charter School's Community School Contract, By-Laws, and grant agreements to determine the Charter School's significant revenue sources.
2. We obtained the state distribution transaction listings covering the Period and identified the significant revenue sources.
3. We interviewed former personnel and donors to determine whether monies collected from fund raising and student activities were properly accounted for and deposited timely in an authorized school bank account.
4. We identified authorized bank accounts, obtained monthly bank reconciliations from the Charter School and its accountant, prepared the February 2000 bank reconciliation, scheduled bank transfers, and prepared a proof of cash for known bank accounts to determine that receipts and expenditures were properly recorded.

Results

1. The Charter School's Community School Contract, By-Laws, and federal grant agreements disclosed the following types of significant revenue sources that the Charter School would receive.

Federal Public Charter School Grant - CFDA #84.282

ODE awarded the Charter School a \$150,000 Community School Grant on April 21, 1999. Grant funds were to be disbursed in three \$50,000 payments through September 30, 2000. During the Period, the Charter School received two \$50,000 payments totaling \$100,000 from this grant. One of these two \$50,000 payments was the Start-Up Grant funds referred to in the Background information and Issue No. 1, Result 1B of this report. Mr. Riser deposited \$33,000 of the second \$50,000 payment into the general checking account with the remaining \$17,000 deposited into the zero balance account. ODE did not disburse the third \$50,000 scheduled payment.

Student Fees (Activity, Boot Camp, and Uniform Fees)

1. annual student activity fee was \$100 per pupil per school year
2. annual boot camp fee was \$80 per pupil
3. uniform fee was \$120 for the purchase of three uniforms

During the Period, the Charter School received approximately \$114,830 from student fees and other miscellaneous revenue. We performed a reasonableness test by multiplying the number of students and staff at the beginning of the year, 336, by the fee amount, \$300, and comparing the product to the amount deposited. Staff were required to pay the same fees as students. The variance indicated that Mr. Riser deposited more money than the amount which should have been collected for student and staff fees.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

State Foundation Payments from ODE

ODE funded the Charter School under a Combined Basic and Unit Formula which is calculated based on an estimated number of students who will attend the Charter School. At the beginning of fiscal year 1999-2000, funding from State Foundation payments based on 300 students was estimated at \$1,450,211. The Charter School received monthly payments from ODE of \$120,851 for the months of July 1999 through and including January 2000. As of February 11, 2000, ODE estimated that School Foundation payments totaling \$332,283 were owed back to ODE because of a decline in enrollment. ODE, through its School Finance Division, funded the Charter School on the basis of an annual amount of \$4,834 per student which consisted of a state foundation payment plus a cost of doing business factor for Columbus.

2. We obtained a state distribution transaction listing from the Ohio Auditor of State's Warrant Department covering the Period and identified the following revenue sources the Charter School received via a State warrant:

Federal Public Charter School Grant Monies

<u>Issued Date</u>	<u>Warrant Number</u>	<u>Warrant Amount</u>
05/03/99	4741336	\$50,000
11/30/99	4606781	<u>50,000</u>
Total		<u>\$100,000</u>

State Foundation Payments from ODE

<u>Issued Date</u>	<u>Warrant Number</u>	<u>Warrant Amount</u>
07/27/99	4220484	\$120,851
08/09/99	4261591	120,851
09/08/99	4362495	120,851
10/07/99	4446347	120,851
11/05/99	EFT0675	120,851
12/09/99	EFT0525	120,851
01/06/00	EFT0858	<u>120,851</u>
Total		<u>\$845,957</u>

These payments were received and deposited into the Charter School's authorized bank account without exception.

3. The Community School contract authorized the Charter School to conduct fund raising events to raise money to support activities performed by the Charter School. We noted no fund raising records were available to determine whether any fund raising events had occurred during the Period. As a result, we interviewed former personnel to determine whether monies collected from fund raising and student activities were properly accounted for and deposited timely in an authorized school bank account.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

On August 10, 2000, we spoke with Ms. Tonya Fields, former office manager. Ms. Fields identified two fund raising activities sponsored by the Charter School to raise money; a school dance which raised approximately \$300 and a carnival which raised approximately \$600. Ms. Fields also indicated that a former teacher, Lemarr Williams was in charge of the dance. We were unsuccessful in attempting to contact Mr. Williams. However, we contacted the two former teachers who were in charge of the carnival and they both confirmed that approximately \$600 was raised from this activity. Both individuals stated that they counted the money jointly and turned over the cash to Mr. Riser in a locked steel box. Neither could verify whether the money was deposited into a Charter School bank account. We contacted Mr. Riser who indicated that the \$600 raised from the carnival was not deposited into the Charter School's accounts but rather used as petty cash funds.

We spoke with four former teachers who stated that the parents of one student had donated a Jet Ski to be raffled off to raise monies for the Charter School. None of the four could confirm whether tickets were sold for this raffle. According to Mr. Riser, the Jet Ski was never raffled off and the Jet Ski was returned to the family that donated it. We were unable to contact the parents who donated the Jet Ski to confirm that it was returned to them.

4. We identified two school bank accounts with Fifth Third Bank; a general checking account and a zero balance checking account. We also identified a money market investment account with Pruco Securities Corp., a subsidiary of the Prudential Insurance Company of America.

We obtained and reviewed monthly bank reconciliations prepared by Trimble, Julian, & Grube, Inc., and Riser Military Academy for the period May 1999 through January 2000. We prepared the February 2000 monthly bank reconciliation. We scheduled bank transfers between accounts and prepared a proof of cash for known bank accounts and the investment account. We noted no discrepancies from these procedures.

MANAGEMENT COMMENT

Foundation Payments

ODE funded the Charter School through State Foundation payments based on an estimated enrollment of 300 students. Based on this estimate, the Charter School received monthly payments of \$120,851 from ODE for July 1999 through and including January 2000. Although enrollment figures declined from the initial estimated enrollment, ODE did not adjust the Charter School's monthly funding amount for the decline in enrollment. Failure to adjust the State Foundation payments in a timely manner lead to a large overpayment to the Charter School. In this instance, as of February 11, 2000, ODE estimated that School Foundation payments totaling \$332,283 were owed back to ODE.

State Foundation payments should be based on actual student enrollment figures. We recommend ODE develop procedures to obtain and review actual, rather than estimated, enrollment figures on a monthly basis. Adjustments should be made on a monthly basis to the State Foundation payments for changes in student enrollment to accurately fund schools based on the actual number of students enrolled.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Issue No. 3 - Disposition of Charter School Assets

We compiled a fixed asset listing based on the examination of invoices and supporting documentation available to determine the disposition of assets purchased with Charter School funds.

Procedures:

1. We identified fixed assets which were purchased with federal, state, and other funds.
2. We determined whether fixed assets were disposed in accordance with laws, regulations, and grant agreements.

Results:

1. Based on review of available invoices, the Charter School purchased the following equipment during the Period. Since the Charter School did not use the USAS chart of accounts and there were no cash receipts or disbursements journals, we could not determine the funding source from which these assets were purchased (i.e. state or federal).

<u>Date</u>	<u>Description</u>
08/10/99	100 Assembled Desks
09/17/99	330 Stack Chairs
09/17/99	80 Building Desks & Tops
09/17/99	3 Computers
09/28/99	11 Two-Way Radios
10/07/99	14 Chalk Boards
10/07/99	13 Bench (Lunch) Tables
11/05/99	165 Storage Lockers
11/30/99	10 Watt Megaphone
01/13/00	Telephone System
01/02/00	12 Computers/Monitors ¹

¹These computers were returned to Micro-Center before the public auction.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

2. On March 22, 2000, a public auction was held at 1031 Alum Creek Drive, Columbus, Ohio to auction all property, equipment, and consumable inventory of the former Riser Military Academy. The auction was conducted by auctioneer, Randy Maynard, and all proceeds minus expenses incurred as a result of the auction were turned over to the State of Ohio, Attorney General's Office. The Ohio Attorney General is currently holding proceeds from the sale totaling \$4,714.37. We could not determine whether assets were purchased with federal funds; therefore, we could not determine whether these assets were disposed of in accordance with federal grant agreements.

We obtained the final settlement of the auction and agreed equipment that was sold at public auction to the equipment listing in Result No. 1 of this Issue. Except for the following discrepancies, equipment in Result No. 1 of this Issue agreed to the final settlement of the auction:

<u>Asset</u>	<u>Quantity Purchased</u>	<u>Quantity Sold</u>	<u>Difference</u>
Lunch Tables	13	17	-4
Stack Chairs	330	324	6
Computers	3	10	-7
Desks	180	13	167
Two-Way Radios	11	0	11

We contacted Mr. Riser who indicated that the desks remained at the Alum Creek Drive facility and the two-way radios were sold at the public auction. Review of the final settlement of the auction did not include the sale of any two-way radios.

Because the Charter School did not maintain asset records, we could not determine whether additional property and equipment acquired which was also auctioned was actually owned by the Charter School. Except for the purchases identified in Result No. 1 of this Issue, we could not determine whether any additional property and equipment sold at the public auction was donated or abandoned by the former tenants of the building.

MANAGEMENT COMMENTS

Fixed Asset Management

The Charter School did not maintain a comprehensive fixed asset management system. There were no fixed asset records to account for its fixed asset balances, purchases, and disposals. In addition, the Charter School did not tag its fixed assets for identification.

Fraud and misappropriation of assets may occur as a result of not maintaining complete and detailed fixed asset records.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Issue No. 4 - Liabilities and Payments to Taxing Authorities and State Teacher's Retirement System

We reviewed and scheduled amounts withheld and payments made to taxing authorities and to the State Teacher's Retirement System (STRS) to determine whether the correct amounts were remitted to these entities.

Procedures:

1. We prepared a payroll reconciliation and agreed amounts to employee payroll records.
2. We agreed amounts paid to employees based on salary contracts for 6 of the 13 pay periods.
3. We scheduled amounts for payroll taxes and pension contribution amounts withheld and accrued. We scheduled tax deposits and pension contributions remitted. We compared the amounts withheld to the amounts remitted and calculated amounts due.

Results

1. We prepared a payroll reconciliation for the period August 1, 1999 through December 31, 1999 and agreed amounts to payroll records and the 1999 Form W-2's. We noted that employee Christmas bonuses for 15 employees totaling \$1,500 were not included in the Charter School's payroll records, and not included on the employees' Form W-2's or reported to the IRS.

We also prepared a payroll reconciliation for January 2000 and agreed amounts to payroll records and noted that the following payments were disbursed as the final employee's payroll checks from the Pruco Investment Account; however, they were not included in the Charter School's payroll records. Payroll taxes and retirement amounts were not withheld and remitted on these amounts. We could not calculate these amounts because the records for this pay period were not available.

<u>Date</u>	<u>Employee</u>	<u>Net Payroll</u>
02/22/00	Carla Brown	\$900.14
02/22/00	James Coleman	621.41
02/22/00	Steven Stevens	1,038.51
02/24/00	Roger Humphries	<u>1,097.22</u>
		<u>\$3,657.28</u>

2. We obtained payroll reports prepared by Trimble, Julian & Grube, Inc. for the period August 9, 1999 through November 26, 1999, and payroll reports prepared by ADP Easy Pay for the period November 27, 1999 through February 4, 2000.

We selected six of the thirteen bi-weekly payroll reports and compared the amount paid to the amounts in the employees' contracts. We noted two discrepancies, \$100 and \$200, respectively, whereby employees were compensated more than their contract amount. We also noted thirteen discrepancies ranging from \$66 to \$322; whereby employees were compensated less than their contract amount. Based on discussions with Mr. Riser, these discrepancies were due to employees receiving bonuses or having their pay docked at the discretion of Mr. Riser. There were no employee attendance records to support time worked or not worked.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

3. Based on the availability of the payroll records, we scheduled payroll tax liabilities on amounts that were reported as payroll for the period August 9, 1999 through February 4, 2000. Federal income tax and Medicare taxes withheld totaled \$29,674 and \$6,551, respectively. The total amount of Federal income tax and Medicare taxes which were remitted to the taxing authorities totaled \$26,665 and \$5,952, respectively. The Charter School has a liability outstanding to the Internal Revenue Service totaling \$3,608. In addition, Columbus city income taxes withheld totaled \$5,358 and the total amount remitted to the City of Columbus totaled \$5,339 leaving an outstanding balance due of \$19.

On January 30, 2001, we confirmed with the State Teachers' Retirement System that based on the employer payroll reports filed with STRS, the Charter School has a liability outstanding for employee and employer contributions totaling \$11,509. However, because employee Christmas bonuses and the four payroll payments from the Pruco Investment Account were not reported to STRS, the Charter School may have an additional liability related to these payments.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

APPENDIX - A

We identified the following expenditures from the Charter School's general checking account were not supported by invoices or other documentation:

<u>Date</u>	<u>Check No.</u>	<u>Payee</u>	<u>Amount</u>	<u>Description</u>
12/29/99	101	Hondaman Automotive	\$50.00	Refund
12/29/99	102	Ralph Norris	40.00	Trash Removal
12/23/99	103	Sharon Spatt	200.00	Refund
12/29/99	105	Lowe's	27.92	Keys/Flashlight
12/30/99	110	Attorney John Waddy	2,000.00	Retainer
01/02/00	115	Sam's Club	344.94	Supplies
01/03/00	119	Janet Johnson	400.00	Refund
12/13/99	139	April Martin	19.00	Reimbursement
12/20/99	140	Crososn-Teepe	100.00	Back flow
12/21/99	142	Fed Ex	15.75	Shipping Charge
12/29/99	173	Tracie Chambers	80.00	Refund
12/29/99	174	Tawndrea Owens	100.00	Refund
12/29/99	175	Norven Thomas	70.00	Refund
01/17/00	183	New York Cleaners	26.00	Beret Cleaning
01/18/00	186	Staples	102.44	Office Supplies
01/19/00	188	Rickenbacker	25.50	Name Tags
01/19/00	189	Sharon Spatt	120.00	Refund
01/21/00	190	Sharon Spatt	80.00	Refund
01/22/00	191	New York Cleaners	25.00	Beret Cleaning
01/22/00	192	Rickenbacker	31.75	Clothing
01/24/00	193	New York Fashions	60.00	Boots
01/25/00	198	Jack Ruff	170.00	Refund
01/06/00	199	Ashland University	378.00	Special Education
01/26/00	200	Staples	80.20	Office Supplies
02/01/00	209	Cameron Miller	600.00	Spec Ed Multi Factor Eval
02/01/00	210	David Miller	600.00	Spec Ed Multi Factor Eval
02/03/00	211	Waste Management	252.08	Trash Removal
02/06/00	224	Staples	102.83	Office Supplies

(Cont'd)

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

10/07/99	130	Hotline Tech Communications	510.00	Telephone System
10/21/99*	143	Darryl Riser	3,870.00	Reduction of a Receipt
10/28/99	154	W.W. Rolloff	570.00	Trash Removal
11/08/99	165	Comp Dent	<u>255.14</u>	Dental Coverage Plan
			<u>\$11,306.55</u>	

* This amount represents a payment directly to Mr. Riser for which there is no supporting documentation of its purpose. Consequently, we will issue a Finding for Recovery for \$3,870. Please see result 3 A on page 7 for further details.

SUPPLEMENT TO THE SPECIAL AUDIT REPORT

APPENDIX - B

We identified the following disbursements from the Charter School's Pruco Securities Investment Money Market Account which were not supported by invoices or other documentation.

<u>Date</u>	<u>Payee</u>	<u>Amount</u>
02/04/00	The Supply Room	\$260.15
02/07/00	The Supply Room	81.00
02/07/00	IRA Green, Inc.	41.85
02/10/00	The Supply Room	18.00
02/10/00	The Supply Room	44.75
02/22/00	The Supply Room	68.80
02/22/00 *	Carla Brown	900.14
02/22/00 *	James Coleman	621.41
02/22/00 *	Steven Stevens	1,038.51
02/23/00	Earth Temple, Inc.	230.00
02/24/00 *	Roger Humphries	1,097.22
02/29/00	(No Payee)	<u>310.61</u>
		<u>\$4,712.44</u>

* According to Mr. Riser, these expenditures were final payroll checks to teachers. These payments are included in Issue 4.



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RISER MILITARY ACADEMY

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 5, 2001**