PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2002

Auditor of State
Betty Montgomery

PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Phoenix Community Learning Center
Hamilton County
7030 Reading Road
Suite 350
Cincinnati, Ohio 45237

To the Board of Directors:

We have audited the accompanying Balance Sheet of Phoenix Community Learning Center, Hamilton County, Ohio (PCLC), as of June 30, 2002, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the PCLC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Phoenix Community Learning Center, Hamilton County, Ohio, as of June 30, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2003, on our consideration of PCLC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying federal awards expenditures schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole

Betty Montgomery

Betty Montgomery
Auditor of State

February 6, 2003

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PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY

BALANCE SHEET
AS OF JUNE 30, 2002

Assets:	
Current Assets	
Cash	$ 245,205
Intergovernmental Receivable	237,675
Miscellaneous Receivable	1,427
Total Current Assets	484,307
Noncurrent Assets	
Security Deposit	15,000
Capital Assets net of depreciation	649,941
Total NonCurrent Assets	664,941
Total Assets	$ 1,149,248
Liabilities and Fund Equity:	
Current Liabilities	
Accounts Payable	$ 9,557
Intergovernmental Payable	23,899
Accrued Wages & Benefits	31,547
Capital Lease Payable	26,001
Total Current Liabilities	91,004
Noncurrent Liabilities	
Capital Lease Payable - Long-Term Portion	7,529
Total Liabilities	98,533
Fund Equity	
Retained Earnings	1,050,715
Total Liabilities and Fund Equity	$ 1,149,248

The accompanying notes to the financial statements are an integral part of this statement.

PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2002

Operating Revenues:	
State Foundation Payments	$ 1,988,704
State Grants - DPIA	277,646
Food Service Sales	5,666
Extracurricular Activities	843
Classroom Materials and Fees	3,282
Other Operating Revenues	15,964
Total Operating Revenues	2,292,105
Operating Expenses:	
Salaries	847,413
Fringe Benefits	267,636
Purchased Services	
Professional and Technical Services	57,917
Property Services	236,086
Contracted Craft or Trade Service	86,132
Travel	4,621
Pupil Transportation	3,740
Utilities	29,323
Communications	12,899
Other Purchased Services	944
Supplies and Materials	64,786
Depreciation	162,485
Other	6,269
Total Operating Expenses	1,780,251
Operating Income	511,854
Non-Operating Revenues:	
Federal Grants	
Federal Start Up	150,000
Restricted Federal Grants	231,194
Food Service Grant	76,433
State Grants	
Schoolnet	2,675
State Start Up	50,000
Total Non-Operating Revenues	510,302
Net Income	1,022,156
Retained Earnings at Beginning of Year	28,559
Retained Earnings at End of Year	**$ 1,050,715**

The accompanying notes to the financial statements are an integral part of this statement.

PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002

Increase (Decrease) in Cash:	
Cash Flows From Operating Activities:	
Cash Received from State of Ohio - Foundation	$ 1,790,076
Cash Received from State of Ohio - DPIA	277,646
Cash Received from Food Service Sales	4,323
Cash Received from Extracurricular Activies	843
Cash Received from Classroom Materials and Fees	3,282
Cash Received from Other Operating Activities	14,537
Cash Payments for Salaries and Fringe Benefits	(1,063,735)
Cash Payments to Suppliers for Goods and Services	(487,225)
Cash Payments to Vendor for Security Deposit	(15,000)
Net Cash Provided by Operating Activities	524,747
Cash Flows From Non-Capital Financing Activities	
Cash Received from State and Federal Grants	472,598
Net Cash Provided by Non-Capital Financing Activities	472,598
Cash Flows From Capital Financing Activities	
Payments for Acquisition of Capital Assets	(780,699)
Net Cash Used for Capital Financing Activities	(780,699)
Net Increase in Cash	216,646
Cash at Beginning of Year	28,559
Cash at End of Year	$245,205

Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Income	$ 513,857
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	$ 162,485
Changes in Assets and Liabilities	
Increase in Intergovernmental Receivable	$ (200,171)
Increase in Miscellaneous Receivable	(1,427)
Increase in Security Deposit	(15,000)
Increase in Accounts Payable	9,557
Increase in Intergovernmental Payable	23,899
Increase in Accrued Wages & Benefits Payable	31,547
Total Adjustments	10,890
Net Cash Used for Operating Activities	**$524,747**

Noncash investing, capital, and financing activities

Capital lease obligations of $33,530 were incurred when PCLC entered into leases for computer and printer equipment.

The accompanying notes to the financial statements are an integral part of this statement.

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1. DESCRIPTION OF PCLC AND REPORTING ENTITY

Phoenix Community Learning Center, Hamilton County, Ohio (PCLC), is a state nonprofit corporation established pursuant to Ohio Revised Code, Chapters 3314 and 1702, to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. PCLC qualifies as an exempt organization under Internal Revenue Code, Section 501(c)(3). PCLC, which is part of the State's education program, is independent of any school district. PCLC may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of PCLC.

PCLC was approved for operation under a Community School Contract (Contract) with the Ohio State Board of Education (Sponsor) for a period of five years commencing July 1, 2001. PCLC began operations on July 1, 2001. The Sponsor is responsible for evaluating PCLC's performance and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

PCLC operates under a self-appointing, multi-member Board of Directors (the Board) consisting of seven (7) members. Exhibit III of PCLC's Community School Contract, specifies that vacancies arising on the Board may be filled by the appointment of successors by a majority of the then existing directors. The Board is responsible for carrying out the provisions of the Contract with the Sponsor which includes, but is not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. PCLC has one instructional/support facility staffed by teaching personnel, which provides services to 414 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PCLC's financial statements have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. PCLC also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The most significant of PCLC's accounting policies are described below.

A. BASIS OF PRESENTATION

Enterprise Accounting

PCLC uses enterprise accounting to account for those operations financed and operated in a manner similar to private business enterprises where the intent is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. BUDGETARY PROCESS

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code, Chapter 5705, unless specifically provided in a school's contract with its sponsor. The Contract between PCLC and the Sponsor prescribes a budgetary process for PCLC requiring the Superintendent, Business Manager/Treasurer, and the Board to review the financial statements on a monthly basis. In addition, PCLC is required to prepare an updated forecast on a monthly or quarterly basis.

D. CASH

All cash received by PCLC is maintained in demand deposit accounts. PCLC had no investments during the fiscal year.

E. CAPITAL ASSETS AND DEPRECIATION

PCLC capitalizes capital assets at cost (or estimated historical cost) and makes adjustments for additions and retirements during the year. PCLC made purchases during the year that warranted capitalization and depreciation. PCLC maintains a capitalization threshold of five hundred dollars ($500). The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend and asset's life are not capitalized.

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years. Improvements to capital assets are depreciated over the remaining useful lives of the fixed assets. PCLC's building, used to house its school, is leased and therefore, not listed as a capital asset. Improvements to the leased building are depreciated over the remaining life of the lease. PCLC does not posses any infrastructure.

F. INTERGOVERNMENTAL REVENUES

PCLC currently participates in the State Foundation Program and Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which PCLC must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to PCLC on a reimbursement basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PCLC also participates in the Federal Charter School Grant Program and the State Charter School Grant Program through the Ohio Department of Education. Under these programs, PCLC was awarded $200,000 and $50,000, respectively, to offset startup costs of PCLC. Revenue of $150,000 received from these programs is recognized as non-operating revenue in the accompanying financial statement. PCLC participates in other various federal programs through the Ohio Department of Education. These include the National School Lunch Program, Title II, Title VI, and Title VI-R.

G. USE OF ESTIMATES

In preparing financial statements, PCLC is sometimes required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. SECURITY DEPOSIT

PCLC entered into a lease for the use of building space for PCLC's administration. This lease required a security deposit of $15,000 to be paid at its signing. This amount is held by the lessor and will be returned to PCLC at the lease's expiration.

3. RETAINED EARNINGS - OPENING BALANCE – JULY 1, 2001

As of July 1, 2001, PCLC had a beginning retained earnings balance of $28,559. This was comprised of the following:

Federal Charter Start-up Grant received in April 2001	$ 50,000
Expenses in April, May, and June 2001	(21,441)
Balance at July 1, 2001	$ 28,559

4. DEPOSITS

At June 30, 2002, PCLC had a cash balance of $245,205. The bank balance was $286,464, of which $138,607 was covered through the Federal Depository Insurance Corporation (FDIC). The remaining $147,857 was uninsured and uncollateralized.

5. RECEIVABLES

Receivables at June 30, 2002, consisted of foundation and intergovernmental grants. All receivables are considered collectible in full given the stable condition of State programs and the current fiscal year guarantee of federal funds.

The principal items of intergovernmental receivables are as follows:

Program	Amount
State Foundation Payments	$ 198,628
Title I - Disadvantaged Children	36,027
Federal Lunch Program	1,343
School Net Professional Development	1,675
Total	$ 237,675

6. CAPITAL ASSETS

A summary of the fixed assets as of June 30, 2002, is as follows:

Leasehold Improvements - Building	$	665,771
Furniture and Equipment		84,632
Capital Lease (Computers)		68,352
Less: Accumulated Depreciation		(163,751)
Net Fixed Assets	$	655,004

7. RISK MANAGEMENT

A. Property Liability

PCLC is exposed to various risks related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2002, PCLC contracted with Market Finders Insurance Company for property and general liability insurance. The policy's general aggregate, personal and advertising injury, and each occurrence limit is $1,000,000 with a $250 deductible.

B. Workers' Compensation

PCLC pays the State Workers' Compensation System a premium for each employee's injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor calculated by the State.

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

PCLC contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statement and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and PCLC is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll; for the year ended June 30, 2002, 5.46 percent was the portion used to fund pension obligations. PCLC required contribution for pension obligations to SERS for the fiscal year ended June 30, 2002 was $31,154 and 100 percent has been contributed for fiscal year 2002.

B. State Teachers Retirement System

PCLC contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statement and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and PCLC is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. PCLC required contribution for pension obligations to STRS for the fiscal year ended June 30, 2002 was $86,601 and 100 percent has been contributed for fiscal year 2002.

9. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

All employees receive 10 sick days and 2 personal days per school year. Employees are not permitted to carry over balances at year end; therefore, there is no liability for accrued compensated absences.

B. Employee Medical and Dental Benefits

PCLC has purchased insurance from United Health Care and Dental Care Plus respectively to provide employee medical/surgical and dental benefits. PCLC pays 85 percent of the premium amount.

10. POST EMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. The STRS Board currently allocates employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For PCLC, this amount equaled $38,653 during the 2002 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001 (the latest information available) net health care costs paid by STRS were $300,772,000 and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at $12,400. For PCLC, the amount to fund health care benefits, including surcharge, equaled $48,729 during the 2002 fiscal year.

The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were $161,439,934 and the target level was $242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefit of $315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

11. OPERATING LEASE

PCLC leases its building from the Allen Temple Real Estate Foundation. The lease is for a period of five years beginning July 1, 2001. The following is a schedule of the minimum future lease payments remaining under this operating lease as of June 30, 2002, based on 37,223 square footage of rental space:

Lease Year	Rent/ Sq. ft.	Annual Rent	Monthly Rent
2	$ 5.50	$ 204,781	$ 17,065
3	6.00	223,398	18,617
4	6.50	242,015	20,168
5	7.00	260,631	21,719
Total		$ 930,825	

12. CAPITALIZED LEASES - LESSEE DISCLOSURE

During fiscal year 2002, PCLC entered into capital leases for the cost of computer equipment. The lease terms are for 24 months and the amounts paid represent more than 90% of the equipment's fair market value. The terms also provide options to purchase the computers at the end of the term. These leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital leases have been recorded at the present value of the future minimum lease payments as of the inception date.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2002.

Fiscal Year Ending	Lease Payments
2003	$ 29,061
2004	7,529
Total Minimum Lease Payments	$ 36,590
Less: Amount Representing Interest	(3,060)
Present Value of Minimum Lease Payments	$ 33,530

13. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "…the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient…". The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

14. CONTINGENCIES

A. GRANTS

PCLC received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of PCLC. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of PCLC at June 30, 2002.

B. PENDING LITIGATION

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. The effect of this suit, if any, on Phoenix Community Learning Center is not presently determinable.

C. STATE FUNDING

The Ohio Department of Education conducts reviews of enrolment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The review resulted in the overpayment to the school in the amount of $12,047. This amount is being deducted from school foundation payments in fiscal 2003, and is recorded in the Intergovernmental Payable liability.

15. RELATED PARTY TRANSACTIONS

PCLC awarded Superintendent/Board Member Dr. Glenda Brown's sister, Ms. Geraldine Latham a contract for $50,000 a year to be a Lead Mentor Teacher.

PCLC hired Dr. Glenda Brown's niece and Ms. Geraldine Latham's daughter, Ms. Jevelyn Latham Hubbard, as a Literacy Consultant at a rate of $120 per hour.

PCLC hired Dr. Glenda Brown's sister-in-law, Ms. Viola Brown, as a consultant for PCLC's startup for $1,000.

PCLC's Business Manage/Assistant Treasurer beginning in fiscal year 2003 is Ms. Linda Brown, who is Board Member Mr. Caleb Brown's wife.

Mr. Ben Nwankwo, the project manager for Megan Construction's contract for PCLC's renovation, became a board member after the contract was approved but not completed. Total paid to Megan Construction was $640,771.

From April 17, 2001 through October 9, 2001, Dr. Glenda Brown and Mr. Luther Brown were the sole members of PCLC's governing authority. On April 17, 2001, PCLC approved the following: Mr. Luther Brown to perform start-up services for $2,000; to perform financial start-up services for $6,000; Viola Brown to perform marketing start-up services for $1,000; and Glenda Brown to perform various start-up services for $10,000.

Mr. Anthony Robinson, PCLC board member, is employed by Key Bank. He opened PCLC's account with Keybank when PCLC switched from Fifth Third Bank.

PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED June 30, 2002

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE					
Passed Through Ohio Department of Education:					
Nutrition Cluster:					
Food Distribution Program		10.550	$0		$0
National School Lunch Program	N/A	10.555	$ 76,433		$ 76,433
Special Milk Program		10.555			
Total U.S. Department of Agriculture - Nutrition Cluster			**76,433**	**-**	**76,433**
U.S. DEPARTMENT OF EDUCATION					
Passed Through Ohio Department of Education:					
Special Education Cluster:					
Special Education Grants to States (IDEA Part B)		84.027			
Special Education - Preschool Grant		84.173			
Total Special Education Cluster			-		-
Adult Education- State Grant Program		84.002			
Bilingual Education		84.003			
Grants to Local Educational Agencies (ESEA Title I)	CS-S1	84.010	189,467		178,613
Career Education		84.049			
Title II	MS-S1	84.281	4,316		-
Drug-Free Schools Grant		84.186			
Federal Start-Up	CH-S1	84.282	200,000		200,000
Title VI	C2-S1	84.298	605		-
Title VI-R	CR-S1	84.340	777		-
Total Department of Education			**395,165**		**378,613**
Totals			**$ 471,598**	**$ -**	**$ 455,046**

The accompanying notes to this schedule are an integral part of this schedule.

PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY

NOTES TO THE FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the PCLC's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B--FOOD DISTRIBUTION

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

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INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Phoenix Community Learning Center
Hamilton County
7030 Reading Road
Suite 350
Cincinnati, Ohio 45237

To the Board of Directors:

We have audited the financial statements of Phoenix Community Learning Center, Hamilton County, Ohio (PCLC), as of and for the year ended June 30, 2002, and have issued our report thereon dated February 6, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States

Compliance

As part of obtaining reasonable assurance about whether PCLC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2002-10431-001 through 2002-10431-010.

We also noted an immaterial instance of noncompliance that we have reported to the management of PCLC in a separate letter dated February 6, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PCLC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect PCLC's ability to record, process, summarize and report financial data with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2002-10431-011 through 2002-10431-0015.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2002-10431-011 through 2002-10431-013 to be material weaknesses.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of PCLC in a separate letter dated February 6, 2003.

This report is intended for the information and use of the audit committee, management, Board of Directors, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

February 6, 2003

Auditor of State
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INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Phoenix Community Learning Center
Hamilton County
7030 Reading Road
Suite 350
Cincinnati, Ohio 45237

To the Board of Directors:

Compliance

We have audited the compliance of Phoenix Community Learning Center, Hamilton County, Ohio (PCLC), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2002. PCLC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of PCLC's management. Our responsibility is to express an opinion on PCLC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about PCLC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on PCLC's compliance with those requirements.

As described in item 2002-10431-016 in the accompanying schedule of findings and questioned costs, PCLC did not comply with requirements regarding allowable expenditures that are applicable to its Title I Federal Program. Compliance with such requirements is necessary, in our opinion, for PCLC to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, PCLC complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. The results of our auditing procedures also disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2000-40431-017.

Internal Control Over Compliance

The management of PCLC is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered PCLC's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect PCLC's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 2002-10431-018.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended for the information and use of the audit committee, management, Board of Directors, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

February 6, 2003

PHOENIX COMMUNITY LEARNING CENTER
HAMILTON COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2002

SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Title I: CFDA# 84.010 Federal Start-Up: CFDA# 84.282
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: N/A Type B: > $100,000
(d)(1)(ix)	Low Risk Auditee?	No

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2002-10431-001

Finding for Recovery

In fiscal year 2002, the Business Manager/Treasurer, Ms. Gwendolyn Smith, scheduled a conference that included two round trip airplane tickets to Milwaukee, WI. For conference travel, Gwendolyn Smith charged two airfare tickets to PCLC's Fifth Third debit card on June 13, 2002. On June 14, 2002, Ms. Smith prepared an expense report and executed a manual check written to herself paying for the conference expenses that included the following:

Description	Amount
Advance for Meals	$ 250
Hotel Advance	600
Airfare/Delivery Charge	194
	$ 1,044

There was no supporting evidence for the conference attended except for the notation of National Charter School Conference on Ms. Smith's expense report. No approved purchase order or check request was issued for conference travel and expenses. The reimbursement check was signed by Ms. Smith and Dr. Brown's signature was signed by Ms. Andrea Allen who has no written authority to sign for Dr. Brown.

The per diem advance of $250 ($50 per day meals expense) was not properly supported by restaurant receipts for meals consumed and there was no evidence of remaining money reimbursed to PCLC.

The hotel advance of $600 was not properly supported by a hotel invoice. There was no evidence of remaining advance money reimbursed to PCLC.

The airfare/delivery charge was debited to PCLC's debit card and was also reimbursed to Ms. Smith. Therefore, PCLC paid for the same airfare twice. The $165 airplane ticket charged by Ms. Smith to PCLC's debit card was not supported with proper documentation. PCLC could not provide an explanation for the additional plane ticket or for whom the ticket was purchased.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Ms. Gwendolyn Smith, Dr. Glenda Brown, Ms. Andrea Allen, and MFI Bonding Co., and in favor of Phoenix Community Learning Center in the amount of one thousand forty-four dollars ($1,044).

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Ms. Gwendolyn Smith and MFI Bonding Co., her bonding company, and in favor of Phoenix Community Learning Center in the amount of one hundred sixty-five dollars ($165).

FINDING NUMBER 2002-10431-002

Finding for Recovery

According to PCLC Board Meeting minutes of November 11, 2001, the board voted unanimously not to pay for the Business Manager/Treasurer, Gwendolyn Smith's portion of SERS. However, according to the Paychex journals, PCLC paid her employee portion of SERS from August 2001 to February 2002, which totaled $2,429.

The Board realized that PCLC had been paying Ms. Smith's portion of SERS and required her to repay this amount to PCLC. Ms. Smith began paying back this amount in equal installments of $112.50 through payroll deductions beginning with pay period ending February 15, 2002. The pay period ending August 31, 2002 was Ms. Smith's final pay period as a PCLC employee. As of this date, Ms. Smith had repaid a total of $2,025, which results in an unpaid balance of $414.

In accordance with foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for unapproved SERS pickup is hereby issued against Ms. Gwendolyn Smith and MFI Bonding Co., her bonding company, jointly and severally, and in favor of Phoenix Community Learning Center in the amount of four hundred fourteen dollars ($414).

FINDING NUMBER 2002-10431-003

Finding for Recovery

During fiscal year 2002, while Ms. Gwendolyn Smith was the Business Manager/Treasurer, receipts posted to the system exceeded amounts deposited with the bank by $367. Ohio Rev Code Section 9.39 states all "public officials are liable for all public money received or collected by them or by their subordinates under color of office."

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money collected but not accounted for is hereby issued against Ms. Gwendolyn Smith, Business Manager/Treasurer, and MFI Bonding Company, her bonding company, jointly and severally, and in favor of Phoenix Community Learning Center, in the amount of three hundred sixty-seven dollars ($367).

FINDING NUMBER 2002-10431-004

Noncompliance – Record Retention

Ohio Rev. Code, Section 149.351, provides that no public record shall be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under Ohio Rev. Code, Section 149.38 to 149.42.

PCLC was either missing or had mis-filed many documents. The change of Business Manager/Treasurer might have been a contributing factor. For example, PCLC was unable to locate the following:

- FY 2002Title I Grant application (Auditor obtained copy from third-party, ODE);
- FY 2002 Food Service Contract with "Angie's Place";
- Contracts for 38% of employees;
- State Tax Form for 17% of employees;
- Certifications for 24% of teachers;

FINDING NUMBER 2002-10431-004
(Continued)

- October EMIS student enrollment report;
- Parent Center Coordinator's contract.

We recommend that PCLC retain all source documents and organize them so that important records are secure, organized and accessible to management.

FINDING NUMBER 2002-10431-005

Noncompliance – Payroll Withholdings

26 U.S.C., Section 3402, requires every employer to deduct and withhold from each employee's compensation a federal tax. Ohio Rev. Code, Section 5747.06, requires every employer to deduct and withhold from each employee's compensation a state income tax. Furthermore, 26 CFR 61(a)(1), states that, except as otherwise provided in subtitle A of the Internal Revenue Code of 1986, gross income includes compensation for services, including fees, commissions, fringe benefits, and similar items. Ohio Rev. Code, Section 3314.10, subjects community schools to either Chapter 3307 or 3309. Ohio Rev. Code, Sections 3307.26 and 3309.47, STRS and SERS respectively, require schools to withhold from the employees' wages, or pay on behalf of the employees, a certain percentage of earned wages as defined and to pay over to the appropriate system the amounts withheld, matched with an appropriate percentage of employer matching contributions.

Forty (40) checks totaling $29,515 were issued to various teachers for supplemental pay for after-school programs and substitute teaching that were not included in the payroll processing. This results in a liability of $4,132 for the PCLC's employer portion of the STRS and SERS withholdings. This amount has been accrued in the financial statements.

Processing these checks outside the payroll cycle resulted in no deductions being withheld for Federal, State, and Local Taxes, as well as for SERS and STRS. This includes both the employer and employee portions. The failure to withhold these deductions could lead to PCLC and each employee being required to remit the proper amounts to the various governmental agencies.

Therefore, we recommend PCLC contact these various governmental agencies to determine any necessary action to correct this situation.

FINDING NUMBER 2002-10431-006

Noncompliance – Budget

PCLC's Charter, Exhibit II – Financial Plan – Sources of Revenues and Expenditures (pg 1 of 17), specifies that rent is estimated at $11,000 per month and not to exceed $132,000 per year. The building lease was approved at a graduated scale starting at $5.00 per square foot (based on 37,233 square feet), which totals $15,514 per month and $186,165 per year and increasing each year by $0.50 per square foot. The renovation costs were estimated at no more than $400,000. However, the actual renovation project cost was $640,771. Exceeding the Financial Plan amounts could result in deficits.

We recommend that PCLC comply with their charter and not exceed the designated amounts for rent and renovations.

FINDING NUMBER 2002-10431-007

Noncompliance – Purchase Orders

PCLC's Charter, Exhibit II – Financial Plan – Record Keeping (pg 3 of 17), specifies that all disbursements other than payroll require a purchase order or check request signed by the Superintendent and the Business Manager/Treasurer. PCLC failed to execute a purchase order for fifty-five percent (55%) of the expenditures tested. Failure to execute and approve purchase orders for all expenditures could result in improper or unnecessary expenditures.

We recommend PCLC execute a purchase order for all potential expenditure. We also recommend the Superintendent and Treasurer review all purchase orders to ensure the expenditures are proper and necessary.

FINDING NUMBER 2002-10431-008

Noncompliance – Encumbering

PCLC's Charter, Exhibit II – Financial Plan – Record Keeping (p. 3 of 17), specifies that outstanding purchase orders will be recorded as encumbrances in the financial records. PCLC failed to record the outstanding purchase orders as encumbrances in the financial records for fiscal year ending June 30, 2002. Failure to record and monitor encumbrances could result in PCLC's incurring liabilities in excess of available cash.

We recommend PCLC record encumbrances as they are incurred to ensure there are adequate resources to cover the expenses when they become due.

FINDING NUMBER 2002-10431-009

Noncompliance – Disbursements

PCLC's Charter, Exhibit III – Governance and Administrative Plan (p. 7 of 26), states that the Superintendent will execute all expenditures as authorized or approved by the Board of Directors. Furthermore, Exhibit III – Governance and Administrative Plan (p. 10 of 26), specifies that any person having check signing authority or who handles PCLC money will be bonded in accordance with Ohio Rev. Code, Section 3314.011.

Four percent (4%) of checks tested were not signed by the Superintendent. The Superintendent's signature was signed and initialed by the following employees: "ADA" (Andrea Allen, Secretary), "SS" (Shawn Scott, Administrative Assistant), and "MB" (Melissa Brown, Teacher). Neither the Board nor the Superintendent gave official authorization for others to sign checks on the Superintendent's behalf.

The Superintendent and the employees signing her name were not bonded. All employees who handle cash or have the authority to disburse funds are required by the above to be bonded. A bond should be obtained from an insurance company, and should guarantee that it will make up any loss to an employer that is caused by dishonesty on the part of the bonded employee.

We recommend the Superintendent not delegate her check signing authority. We recommend PCLC obtain a bond for each employee who signs checks and handles money.

FINDING NUMBER 2002-10431-010

Noncompliance – Background Checks

PCLC's Charter requires the following:

- PCLC shall request a criminal record check to be completed by the Bureau of Criminal Identification and Investigation (BCI & I) for each newly elected and/or appointed board member. If one of the board members fails to pass the criminal records check, his or her appointment to the board shall be void.

- PCLC shall request the superintendent of the BCI & I to conduct a criminal records check with respect to any applicant who has applied to PCLC for employment in any position as a person responsible for the care, custody, or control of a child pursuant to section 3319.39 of the Ohio Revised Code.

- PCLC shall not hire a person for any position responsible for the care, custody, or control of a child until it receives a favorable criminal records check for the person from the BCI & I.

We noted the following:

- Thirteen percent (13%) of employees and board members did not have a BCI & I background check performed.

- Eighty-seven percent (87%) of employees and board members had a BCI & I background check performed after he or she was hired or appointed to the board.

Failing to provide background checks for all who are employed by PCLC could potentially expose students to persons with unfavorable backgrounds, who should not be responsible for the welfare of children, or responsible for the accounting function or custody of assets.

We recommend that PCLC obtain BCI & I background checks for all Board Members and all employment applicants prior to his or her employment as a person responsible for the care and custody of children.

FINDING NUMBER 2002-10431-011

Material Weakness/Reportable Condition – Expenditures

The existence of effective internal controls over the expenditure process is an important and necessary part of ensuring that only proper and authorized expenditures are made on behalf of PCLC. Internal controls over purchasing were not in place and not operating effectively for the audit period. The following errors were noted during testing of expenditures:

- 58% of expenditures tested did not have a purchase order;

- 76% of the purchases orders did not have Superintendent or Business Manager/Treasurer's signature;

- 68% of the invoices were not marked "Paid";

- 30% of expenditures were not adequately supported by proper documentation.

- Four (4) checks totaling $390,500 were made payable to "cash". The purpose of these checks was to transfer money from one bank account to another;

FINDING NUMBER 2002-10431-011
(Continued)

- Checks were not issued in sequential order. All checks issued were manual checks, not using the USAS computer system to generate the check.

- Six (6) blanket purchase orders were not used properly by either failing to state an estimated amount to be expended for the period and/or issue the blanket purchase order for an improper period. One blanket purchase order was opened for a 2 year period and stated $120 an hour but not an estimated amount to be expended for the period.

These control weaknesses could result in errors or misstatements in the financial records, the unauthorized purchase of goods or services, or the misappropriation of PCLC assets. Proper documentation is necessary to ensure that monies were disbursed for a proper public purpose and for management to determine if monies were disbursed consistent with its wishes. The processing of non-payroll disbursements should include, but is not limited to:

- Requiring and maintaining documentation to support expenditures by maintaining, for every expenditure, a voucher packet. This would include the purchase order, copy of the check, original invoice, or receipt.

- Using a secure method of transferring funds. Options include writing a check payable to the Bank funds are being transferred to, or using wire transfer services that banks offer. Wire transfers are a secure, fast, and reliable way to send funds to other banks or vendors. Checks made payable to cash could be lost or stolen before the customer reaches the bank. Any person in possession of the check could easily cash the item.

- Using checks in sequential order. This is a simple but effective internal control to ensure that missing checks can be identified in a timely manner. Limiting the use of manual checks ensures that the check information (date, amount, and payee) matches the check register. Manual checks are also more susceptible to alterations that might go undetected.

- Using blanket purchase orders in order to properly budget and monitor expenditures by estimating the amount encumbered for the expenditure. Also blanket purchase orders should only be issued for the current fiscal period to encumber expenses to the proper period. Not using blanket purchase orders properly can lead to inability to control and monitor spending to avoid the risk of exceeding budgeted amounts.

FINDING NUMBER 2002-10431-012

Material Weakness/Reportable Condition – Payroll Expenditures

The following were noted relating to payroll:

- PCLC does not document a reconciliation of hours employees worked and their respective pay rates included on PCLC's payroll records and time/sign-in sheets to Paychex payroll reports.

- At the beginning of the school year, PCLC used time sheets for individuals. In October, PCLC changed to a school-wide sign in/out sheet for each week, which does not keep track of leave hours taken, day, or pay period.

- The Superintendent did not approve fifty-five percent (55%) of employee time sheets reviewed.

- The time-sheets did not consistently indicate which pay period each sheet represented.

- The Board did not review or approve any payroll activity.

**FINDING NUMBER 2002-10431-012
(Continued)**

- PCLC does not use leave request forms for sick leave and vacation. Leave is sometimes recorded on the time sheet, notebook paper, or spreadsheet. There is no consistent or detailed format for recording leave balances.

- A check for $32,123 to cover payroll expenditures was returned because of insufficient funds.

- PCLC did not maintain complete personnel files. The following items were missing from employee files:

  - Employment contracts were missing for 38% of employees.

  - Federal W-4 forms were not on file for 6% of employees.

  - State IT-4 forms were missing for 17% of employees.

  - SERS or STRS forms were not on file for 6% of employees.

  - Teacher certifications were missing for 24% of teachers.

Failure to establish a favorable control environment could result in a material misstatement, overpayment, or unauthorized payment relating to payroll expenditures. The following procedures should be applied to ensure that a favorable control environment is in place to identify misstatements either as they occur or through the review process:

- Approve payroll summaries sent to Paychex.

- Reconcile PCLC payroll summaries of employee hours worked and his or her respective pay rates to the Paychex reports that include the rate and number of hours for which an employee was paid.

- Approve each time-sheet as set by PCLC policy.

- Identify on each time-sheet which pay period it represents.

- Obtain Board approval of monthly payroll expenditures.

- Establish and follow a policy for recording employee leave.

- Monitor bank balances to ensure adequacy of funds for payment.

- Obtain employee contracts, W-4 forms, IT-4 forms, retirement forms, and teacher certifications and retain them in each employee's file.

FINDING NUMBER 2002-10431-013

Material Weakness/Reportable Condition – Budgetary/Financial Reporting

The existence of effective controls over the budgetary and financial reporting processes is essential to ensure that management's desires are implemented. Timely and accurate reconciliations are an effective tool to help management determine the completeness and accuracy of recorded transactions. The following conditions were noted at PCLC:

- The Business Manager/Treasurer did not present the Board with financial information on an adequate and consistent basis;
- PCLC did not accurately reconcile bank statements to the book balances for January, February, and May of 2002;
- PCLC had negative cash fund balances throughout the fiscal year.

Board or management review of incorrect or insufficient information could lead to poor assumptions and decision making. Without complete and accurate monthly bank reconciliations, the school's internal control is significantly weakened, which could hinder the detection of errors or irregularities by PCLC's management in a timely manner. Providing the Board with timely fiscal information is vital to the continued operations and decision making process of the school as well as management's ability to manage operations.

We recommend that each month, as part of the review of the minute records, the Board review and approve the following financial information:

- Monthly bank reconciliations, which includes a comparison of the bank balance to the general ledger balance, a list of all reconciling items, and any supporting documentation;
- Fund balances, so that the Board can monitor each fund's activities to avoid negative balances;
- Receipts, disbursements and bills paid list;
- Budget-to-actual data for revenues and expenditures.

FINDING NUMBER 2002-10431-014

Reportable Condition – Advance/Reimbursement Policy

PCLC does not have a policy related to employee advances and reimbursement.

The Business Manager/Treasurer advances or reimburses money to employees to cover travel expenses for those attending seminars or to purchase items for the school without purchase order approval, receipts or supporting documentation. Without proper approval and documentation, employees could expend funds for inappropriate or unnecessary items.

We recommend PCLC establish a policy regarding employee advances and reimbursements. This policy should include the following:

- Requiring employees to complete advance or reimbursement forms that indicate the reasons for the disbursement;
- Requiring receipts for all purchases made. For advances, this would also include the amount of the advance, the total spent, and any amount due back to PCLC;

FINDING NUMBER 2002-10431-014
(Continued)

- Approval from an appropriate authority authorizing the reimbursement.

FINDING NUMBER 2002-10431-015

Reportable Condition – Collateralization of Deposits

As of June 30, 2002, deposits belonging to PCLC consisted of $286,484; however, Federal Deposit Insurance Corporation (FDIC) covered only $138,607. This results in $147,857 of deposits being uninsured and uncollateralized. Insurance and/or collateralization of public deposits through pledging of appropriate securities by depositories are the only way to fully guarantee the safety of such deposits. If a bank fails, PCLC could seize the collateral or collect the insurance in lieu of the amount deposited.

We recommend PCLC consider obtaining insurance or collateral to cover any deposits in excess of the FDIC coverage.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

1. Title I – Allowable Expenditures – Questioned Costs

Finding Number	2002-10431-016
CFDA Title and Number	Title I, CFDA# 84.010
Federal Award Number / Year	C1-S1 / Fiscal Year 06/30/2002
Federal Agency	Department of Education
Pass-Through Agency	Ohio Department of Education

NON-COMPLIANCE CITATION

The Consolidated Local Plan (CLP) identifies a total of $38,125 as allowable expenditures of Title I funds for capital outlay and remodeling; however, the PCLC paid $65,514 in Title I funds to Megan Construction for capital outlay and remodeling that included carpeting, painting, wiring and drywalling.

The CLP and ODE's CLP Description Table does not include language to allow for the expenditure of Title I funds for electric expenses; however, the PCLC paid $3,215 in electric bills with Title I funds.

Lack of proper expenditures of federal funds can lead to loss of funding, reimbursement of federal fines and fines or penalties.

We recommend that PCLC follow all guidelines and requirements associated with grant monies.

2. Title I – Contracts

Finding Number	2002-10431-0017
CFDA Title and Number	Title I, CFDA# 84.010
Federal Award Number / Year	C1-S1 / Fiscal Year 06/30/2002
Federal Agency	Department of Education
Pass-Through Agency	Ohio Department of Education

NON-COMPLIANCE CITATION

44 C.F.R., Section 13.35, requires an entity to ensure that vendors have not been debarred or suspended when entering into contracts that will be paid from federal funds. PCLC could not provide us with documentation verifying that it obtained a certification for Megen Construction that it was not debarred. The failure to require certification from companies with whom PCLC is contracting that the company is eligible to receive federal contracts could lead to questioned costs.

We recommend PCLC verify that all potential contractors receiving federal funds through PCLC have not been debarred or suspended before entering into a contract. This is possible by reviewing the List of Parties Excluded From Federal Procurement or Nonprocurement Programs, issued by the General Services Administration.

3. Start-Up and Title 1 Expenditures

Finding Number	2002-10431-018
CFDA Title and Number	Title I, CFDA# 84.010 Start-Up, CFDA# 84.282
Federal Award Number / Year	C1-S1 / Fiscal Year 06/30/2002 CH-S1 / Fiscal Year 06/30/2002 and 2001
Federal Agency	Department of Education
Pass-Through Agency	Ohio Department of Education

INTERNAL CONTROLS – REPORTABLE CONDITION

The Start-up and Title I expenditures of $200,000 and $178,613 respectively are processed in the same cycle as other non-payroll and payroll expenditures. Therefore, the weaknesses described in Finding Numbers 2002-10431-007 through 2002-10431-009, 2002-10431-011 and 2002-10431-012 may also adversely affect Title I and Start Up Grant expenditures.

Lack of proper implementation of internal controls could lead to loss of Federal funding.

We recommend that PCLC implement appropriate internal control procedures as detailed in Finding Numbers 2002-10431-007 through 2002-10431-009 and 2002-10431-011 through 2002-10431-012 above.

Auditor of State
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PHOENIX COMMUNITY LEARNING CENTER

HAMILTON 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
MARCH 13, 2003