

**CLEVELAND ACADEMY OF MATH, SCIENCE, AND TECHNOLOGY  
CUYAHOGA COUNTY**

**SPECIAL AUDIT**

**FOR THE PERIOD JULY 1, 2002 THROUGH DECEMBER 15, 2003**



**Auditor of State  
Betty Montgomery**



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**CLEVELAND ACADEMY OF MATH, SCIENCE AND TECHNOLOGY  
CUYAHOGA COUNTY**

**GOVERNING AUTHORITY, BOARD MEMBERS AND RELATED INDIVIDUALS**

**GOVERNING AUTHORITY**

On July 19, 2002, the Ohio Department of Education (ODE) entered into contract with the Cleveland Academy of Math, Science and Technology (CAMST), to establish a community school. According to the Community School Contract (the Contract), the Governing Authority for CAMST was Shirley Haynes, Timothy Daniels, and Sandra Brown.

**BOARD MEMBERS**

During our review of CAMST documents, we found multiple Board Resolutions and other paperwork which included names of alleged Board members; however, CAMST did not provide us with a list of official members and terms for any dates during the audit period. The persons' names which were found on various CAMST documents as being Board members were as follows:

Shirley Haynes  
Timothy Daniels  
Sandra Brown  
Deborah Johnson  
Dr. A. L. Owens  
Shamar Young  
Kenneth Parker  
LaShonda Baker  
Gail Brown  
Shirley Bibbs

**RELEVANT INDIVIDUALS AND ENTITIES**

**Shirley Haynes, Treasurer**

Shirley Haynes was the Treasurer of CAMST while the school was in operation (July 2002 – November 2003). As Treasurer, Ms. Haynes was responsible for all financial activity of the school. During the Period, she was paid \$23,941. In addition to being CAMST's Treasurer, Ms. Haynes was also a member of the Governing Authority and a Board Member. She was the exclusive signatory on CAMST's bank accounts held at Bank One, and shared the ownership of CAMST's accounts at First Merit Bank with Mark Olds.

A background investigation of Ms. Haynes revealed her name along with 16 aliases and six different social security numbers.

**Entities Associated with Shirley Haynes:**

**The Haynes Group, Shirley Haynes, Owner**

The Haynes Group was registered in the state of Ohio on October 19, 2000, with Articles of Incorporation dated March 2000, by Shirley Haynes, Vice-President, Sandra Haynes, President, and Markisha Robinson, Secretary. Shirley Haynes was also the registered agent. According to an interview of Shirley Haynes, The Haynes Group allegedly provided support and janitorial services to CAMST; however, we were not provided with any contracts, invoices or other documents to verify the services provided. Additionally, the memo portions of the checks which CAMST issued to The Haynes Group included such comments as "Office Administration" and "Administrative Support." During the Period, CAMST made payments totaling \$24,400 to The Haynes Group. As of the date of this report, The Haynes Group was still registered as active in good standing with the Ohio Secretary of State.

**Academy Transport, Inc., Shirley Haynes, Owner**

Academy Transport Inc. was registered as a for-profit corporation in the state of Ohio on December 12, 2002. Shirley Haynes was both the incorporator and the agent. Students of CAMST were allegedly transported by Academy Transport; however, the Ohio Highway Patrol provided us with documentation to show that two of Academy Transport's busses did not pass inspection and the remaining three were not inspected at all. In the contract between CAMST and Academy Transport, dated December 16, 2002, Michael Robinson, Ms. Haynes' son, was listed as Academy Transport's President. During the Period, CAMST paid Academy Transport \$289,586. Ms. Haynes was the sole signatory on the Academy Transport bank accounts where the CAMST checks were deposited. The Academy Transport bank accounts were opened in January 2003. As of the date of this report, Academy Transport was still registered as active in good standing with the Ohio Secretary of State.

**Mark Olds, Developer**

In the New Community School Proposal submitted by CAMST to ODE on July 31, 2001, Mr. Olds was named the school's "contact/developer" and was listed as a member of the Development Team. On October 29, 2001, Mr. Olds faxed documents to ODE stating that he was planning to use his not-for-profit company, Community Resources, Inc., to govern the school. However, when ODE awarded the Preliminary Agreement in April 2002, and the Community School Contract in July 2002, Mr. Olds' name was not included in the list of developers. During the Period, Mr. Olds, along with Ms. Haynes, was listed as a signatory on CAMST's bank accounts held at First Merit bank. On one of the signature cards filed with First Merit, Mr. Olds signed as the President of CAMST.

**Entities Associated with Mark Olds:****New Opportunity Development and Management Services, Inc., Mark Olds, Owner**

Mark Olds was the owner of New Opportunity Development and Management Services, Inc. (New Opportunity), a management company which the school paid to oversee its operation. CAMST entered into contract with New Opportunity on May 14, 2002. According to its Articles of Incorporation, New Opportunity was an Ohio for-profit company, incorporated by Mark Olds on September 12, 2002<sup>1</sup>. During the Period, CAMST paid New Opportunity \$1,272,683. While conducting our audit, we sent two letters to Mark Olds at New Opportunity requesting support for certain payments issued by CAMST; however, we did not receive a response to either letter. As of the date of this report, New Opportunity was still registered as active in good standing with the Ohio Secretary of State.

**MCO Media Group, Inc., Mark Olds, Owner**

MCO Media Group (MCO) was incorporated in the state of Ohio in May 2000. According to its Articles of Incorporation, Mark Olds was the sole incorporator for the company. We were unable to find documentation describing MCO Media Group's purpose. During the Period, CAMST paid MCO \$8,150. As of the date of this report, MCO was still registered as active in good standing with the Ohio Secretary of State.

**Timothy Daniels**

Timothy Daniels was Chairman of the Board at CAMST when CAMST started in the fall of 2002. He also was a member of the Governing Authority, was one of the signers on the Community School Contract, and on a Board Resolution dated April 21, 2003, was listed as the School Superintendent. Mr. Daniels received payroll checks from CAMST beginning in February 2003 through September 2003, totaling \$15,494; however, we were not provided an employment contract to support that he was an employee of CAMST.

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<sup>1</sup> The paperwork we retrieved from the Ohio Secretary of State's webpage showed Mark Olds signed the paperwork to incorporate New Opportunity on August 1, 2002; however, the documents were not filed for official incorporation until September 12, 2002. The contract between CAMST and ODE was entered on July 19, 2002, and state funding for the school began in August 2002.

## **Entities Associated with Timothy Daniels:**

### **Curtis Enterprises, Timothy Daniels, Owner**

According to the Ohio Secretary of State's web site, Curtis Enterprises was not registered as a legal corporation in Ohio. The checks which CAMST issued to Curtis Enterprises, totaling \$101,000, and checks issued to Harry Curtis, totaling \$15,000, were endorsed by Mr. Daniels, and the bank account held in the name Curtis Enterprises was owned by Mr. Daniels. The Curtis Enterprise bank account was opened on August 27, 2002, by Mr. Daniels, using the same street address as New Opportunity and MCO Media Group.

### **Bright Ideas, Timothy Daniels, Contact Person**

On invoices provided by CAMST, this company was identified as "Bright Ideas Management and Consulting" from Phoenix, Arizona. Bright Ideas billed CAMST for 24 round-trip flights between Arizona and Cleveland, 72 nights lodging and 72 daily per diems for Mr. Daniels' consulting services. Bright Ideas Management and Consulting also invoiced CAMST for "school design," "school application," and "policies and procedures." The invoices for Bright Ideas Management and Consulting were the exact same format as the invoices from Curtis Enterprises. During the Period, CAMST paid Bright Ideas \$31,003.

In addition to the "management and consulting" company known as Bright Ideas, we discovered a community school in Phoenix, Arizona by the name "Bright Ideas Charter School," which lists Mr. Daniels and Beth Brantley as the contact person and school administrator, respectfully, on an Arizona public school web site. Through background investigations, we could not find that Bright Ideas Management and Consulting and Bright Ideas Charter School were incorporated in either Ohio or Arizona. Using a Bright Ideas invoice supplied by CAMST, we telephoned the number listed as their contact information and were told we had the wrong number. We sent a letter to the address on the invoice; however, we did not receive a response.

### **Beth Brantley**

As noted under "Bright Ideas" above, Beth Brantley was the administrator of Bright Ideas Charter School in Phoenix, Arizona. Additionally, in the CAMST records, there was a document entitled "Assurances for Federal Sub-grant Recipients," which Ms. Brantley signed, representing herself as the Chief Operating Officer (COO) of CAMST. However, in all the other CAMST records we were provided, Ms. Brantley's name did not appear as CAMST's COO.

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Dr. Susan Tave Zelman  
Superintendent of Public Instruction  
Ohio Department of Education  
25 S. Front St., Mail Stop 707  
Columbus, Ohio 43215

We have conducted a special audit of the Cleveland Academy of Math, Science, and Technology (CAMST) by performing the procedures enumerated in the attached Supplement to the Special Audit Report for the period July 1, 2002 through December 15, 2003 (the Period), solely to:

- Identify the major sources of revenues received by CAMST;
- Determine whether certain expenditures were authorized and for a purpose related to CAMST operations; and
- Describe the procedures CAMST used to report enrollment data to the Ohio Department of Education (ODE), and if possible, identify weaknesses which may have contributed to inflated enrollment data.

This engagement was conducted in accordance with the Quality Standards for Inspections established by the President's Council on Integrity and Efficiency (March 1993). The procedures and associated findings are detailed in the attached Supplement to the Special Audit Report. A summary of our procedures and significant results is as follows:

1. We identified significant revenue sources and determined whether amounts received were deposited into a CAMST account.

Significant Results – During the Period ODE paid CAMST \$2,858,199 in school foundation payments, and the federal government paid \$336,775 in subsidies and grants. We were able to trace all of the state and federal payments to CAMST bank accounts. Based on our examination of the CAMST bank records, there were also deposits of \$160,784 from other sources. In total, CAMST deposited \$3,355,758 during the Period.

In addition to the amounts noted above, on April 30, 2002, prior to our audit period, ODE paid CAMST a "start-up" grant of \$50,000, which was awarded to all new community schools. This amount was deposited to a CAMST bank account. Subsequent to that deposit, CAMST paid MCO Media Group \$38,500, Timothy Daniels or Bright Ideas \$6,515, and Shirley Haynes \$2,650. We issued Findings for Recovery against Mark Olds and MCO Media Group, Mr. Daniels and Bright Ideas, and Ms. Haynes for these unsupported payments.

Aside from the \$50,000 start-up grant, there were no other state or federal revenues paid to CAMST outside the Period. The final federal grant payments were received by CAMST on December 12, 2003. After the deposit of those funds, Ms. Haynes issued herself unsupported checks totaling \$2,812, for which we issued a Finding for Recovery.

2. Using CAMST bank records obtained via subpoena we quantified all expenditures during the Period and reviewed certain transactions to determine whether the disbursements were for a purpose related to the operations of CAMST and were made in accordance with applicable laws, regulations, and contract provisions.

Significant Results – During the Period, CAMST had a total of \$3,349,097 in expenditures<sup>2</sup>. Of that amount, \$2,973,039 was spent on non-payroll items and \$376,058 was for payroll.

We issued Findings for Recovery in favor of ODE totaling \$1,608,864, as follows:

- a. Against Shirley Haynes for automated teller machine (ATM) withdrawals (\$10,160); checks issued to “cash” (\$4,756); a bank transfer into her personal account (\$30,000); payment of a personal credit card (\$2,315); and unsupported reimbursements (\$8,415).
- b. Against Shirley Haynes and Mark Olds, jointly and severally, for checks issued to “cash” (\$1,574).
- c. Against The Haynes Group (\$3,395), New Opportunity Development and Management Services, Inc., (\$2,882) and Shirley Haynes (\$6,877), jointly and severally, for debit card transactions unrelated to school operations.
- d. Against New Opportunity Development and Management Services, Inc., and Mark Olds, jointly and severally, for receiving an unsupported payment from CAMST used to purchase a building at 7115 Woodland Ave. which was later leased to CAMST (\$202,500); for CAMST payments which exceeded established lease agreements at 7115 Woodland Ave. (\$442,409); for excessive lease payments at 1881 East 71<sup>st</sup> Street (\$111,000); and for payments outside the scope of the management contract (\$5,536). We also referred the sale of the property at 7115 Woodland to the United States Attorney for further review.
- e. Against Academy Transport, Shirley Haynes, and Michael Robinson, jointly and severally, for payments in excess of the contract (\$162,266) and for miscellaneous expenses which were the responsibility of Academy Transport (\$21,555). We also referred these matters to the Ohio Ethics Commission as related party transactions and possible unlawful interests in public contracts.
- f. Against Timothy Daniels, Shirley Haynes, and Beth Brantley, jointly and severally, for unsupported payments to Bright Ideas, a company owned by Mr. Daniels (\$29,003) and for unsupported payments to Curtis Enterprises, another company owned by Mr. Daniels (\$41,500); against Beth Brantley and Shirley Haynes, jointly and severally, for unsupported payments to Bright Ideas and endorsed personally by Beth Brantley (\$2,000); and against Timothy Daniels and Shirley Haynes, jointly and severally, for unsupported payments to Curtis Enterprises (\$74,500). We also referred these matters to the Ohio Ethics Commission as related party transactions and possible unlawful interests in public contracts.
- g. Against The Haynes Group and Shirley Haynes, jointly and severally, (\$24,400); against Timothy Daniels (\$15,494); and against MCO Media Group and Mark Olds, jointly and severally, (\$8,150), for unsupported payments. We also referred the findings against Ms. Haynes and Mr. Olds to the Ohio Ethics Commission as related party transactions and possible unlawful interests in public contracts.

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<sup>2</sup> The CAMST accounts had a beginning balance of \$2,071, deposited revenues totaling \$3,355,758, processed expenditures totaling \$3,349,097, and had a balance in the account at December 15, 2003 of \$8,732.

- h. Against Cora Haynes and Shirley Haynes, jointly and severally (\$314) and against Markisha Robinson and Shirley Haynes, jointly and severally (\$498), for payments of personal credit cards.
- i. Against New Opportunity Development and Management Services, Inc., Mark Olds, Timothy Daniels, and Shirley Haynes, jointly and severally, for inflating the student enrollment in order to increase CAMST's budget; thereby, increasing the management fee paid to New Opportunity (\$403,642).

In addition to the Findings for Recovery, we issued Federal Questioned Costs of \$336,775, and three noncompliance citations. We also made referrals to the United States Department of Labor, the State of Ohio Department of Taxation, the School Employees Retirement System, and the State Teachers Retirement System for a potential liability of unpaid wages, retirement and taxes.

- 3. We obtained an understanding of CAMST's procedures for reporting its enrollment to ODE and, to the extent possible, we identified weaknesses which may have contributed to inflated enrollment data reported to ODE, resulting in over-funding CAMST.

Significant Results – Through a series of enrollment audits and site visits conducted by ODE officials, ODE determined that CAMST inflated its student population, resulting in an overpayment of school funding of \$1,626,779 in fiscal year 2003 and \$360,701 in fiscal year 2004. We issued a Finding for Recovery against CAMST and Shirley Haynes, jointly and severally, and in favor of ODE for the excess funding related to inflated enrollment totaling \$1,987,480. We also issued two noncompliance citations against CAMST for inaccurate reporting of enrollment and for failing to record and report student enrollment data in the state's Education Information Management System (EMIS).



**Betty Montgomery**  
Auditor of State

June 6, 2006

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## Supplement to the Special Audit Report

### Background

CAMST was incorporated with the Ohio Secretary of State in November 2001, by Shirley Haynes, Timothy Daniels, and Sandra Brown.

In April 2002, CAMST received preliminary approval from ODE to operate a community school within the Cleveland Municipal School District. In July 2002, the Community School Contract was signed by both ODE and CAMST officials. The school opened on September 30, 2002. ODE was CAMST's sponsor.

In a letter dated December 4, 2003, State Representative James Trakas requested a Special Audit of CAMST following a series of reports conducted by a Cleveland local news station regarding CAMST's suspension of operations, CAMST's financial difficulties, and alleged over-funding as a result of inaccurate enrollment reporting.

In a letter dated December 8, 2003, ODE also requested a Special Audit of CAMST. ODE's letter stated that ODE had conducted an FTE review of CAMST for the 2002-2003 school year and identified a significant overpayment in excess of \$1.4 million. ODE's letter also expressed concern that the overpayments may have extended into the 2003-2004 school year. Based on meetings ODE had with CAMST officials, ODE believed that CAMST expended the alleged overpayment and it was not available to repay ODE.

On December 9, 2003, the Auditor of State's Special Audit Task Force considered the requests from Representative Trakas and ODE, and on December 10, 2003, the Auditor of State initiated a Special Audit of CAMST, in lieu of a financial audit.<sup>3</sup>

CAMST voluntarily suspended its operations on November 20, 2003. CAMST received the last of the federal grant funds on December 12, 2003, totaling \$23,333. At the time this payment was deposited, the CAMST bank account had a negative balance of -\$14,515. Subsequent to the final deposit of ODE funds, Ms. Haynes issued checks to herself totaling \$2,812.

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<sup>3</sup> This Special Audit was the only audit conducted of CAMST since its inception. The school was due for its first financial audit for the year ended June 30, 2003; however, the Special Audit was declared to address concerns raised.

## Supplement to the Special Audit Report

### NONCOMPLIANCE WITH OHIO DEPARTMENT OF EDUCATION CONTRACT

The Community School Contract (Contract) between ODE and CAMST dated July 19, 2002, required compliance with certain contractual provisions, the following of which CAMST violated during the Period:

#### Financial:

Article III, Part B, states the Governing Authority shall maintain the financial records of CAMST in the same manner as are financial records of school districts, pursuant to rules of the Auditor of the State, and audits shall be conducted in accordance with section 117.10 of the Ohio Rev. Code.

Exhibit 2 states that inventory systems will be maintained in accordance with Generally Accepted Accounting Principles (GAAP). All items over \$50 will be coded and accounted for on an annual inventory. The school will maintain its records in accordance with GAAP and USAS (Uniform School Accounting System), as well as those items required by the Auditor of the State of Ohio.

Exhibit 3 states the Treasurer will keep adequate and correct accounts of assets and liabilities, receipts, disbursements, gains and losses, and upon the expiration of his or her term, shall turn over to the successor or to the Board, all property, books, papers and money of the school. The Treasurer or anyone responsible for handling the fiscal matters of the school shall be bonded in accordance with Ohio Rev. Code Section 3314.011.

Financial records and fixed asset records were not maintained and CAMST was declared "unauditable" by the Auditor of State. Additionally, CAMST did not provide us with any documentation to show the Treasurer was bonded.

#### Governance:

Exhibit 2 states the school will operate under the direction of the Board of Trustees/Developers (the Board). The school's management will prepare and submit annual budgets and monthly financial reports to the Board for approval. The Board will meet the third Wednesday of each month. At the regular Board meetings, the Board will review the financial records in detail.

Exhibit 3 states that CAMST will comply with the Sunshine Law governing public records and open meetings, pursuant to Ohio Rev. Code Sections 121.22 and 149.43. The Board shall be comprised of 5 members. The following committees will be established by the Board: Finance, Marketing, Human Resources, Curriculum, Nominating, and Disciplinary Review.

Exhibit 3 also states the Secretary shall keep minutes of all proceedings of the Board, and shall make a proper record of the same which shall be attested by them, and keep a record of all Board members, showing the time when they became members of the Board.

CAMST provided incomplete documentation which did not substantiate the Board's activity. Board minutes were incomplete, terms were not provided, and there was no evidence that committees were established.

#### Administrative:

Article III states the Governing Authority agrees to establish policies and employee handbooks on or before August 1, 2002.

Exhibit 3 states that a policy and procedure manual will be available by August 1, 2002.

CAMST did not provide evidence that policy and procedures manuals were created.

## Supplement to the Special Audit Report

### Issue No. 1 – Review of Revenues

#### PROCEDURES

1. We examined available governing authority minutes<sup>4</sup>, interviewed school and ODE officials, and reviewed available financial records to identify and quantify the significant sources of CAMST's revenue.
2. We obtained and examined supporting documentation for certain receipts and wire transfers. Where appropriate, we used third party confirmations (e.g., State Distribution Transaction Listing and Federal Subsidy Schedule) to substantiate actual revenue deposited with CAMST's financial institutions.

#### RESULTS

1. During the Period, \$3,355,758 was deposited into CAMST bank accounts. Of that amount, \$2,409,578 was deposited during fiscal year 2003 and \$946,180 was deposited from July 1, 2003 through December 15, 2003.

CAMST's major sources of revenues included funding from:

<u>Source</u>	<u>Amount</u>
ODE	\$2,858,199
Federal Grants	336,775
New Opportunity <sup>5</sup>	100,000
Other, Miscellaneous Sources	60,784
<b>Total</b>	<b><u>\$3,355,758</u></b>

2. We were able to confirm that the amounts received from ODE and the federal grants were deposited into a CAMST bank account.

#### FINDINGS FOR RECOVERY

##### 1.1 Mark Olds, Timothy Daniels, Shirley Haynes – Miscellaneous payments: \$47,665

CAMST received a \$50,000 start-up grant in April 2002. Although this was outside the Period, we traced the grant to a deposit into a CAMST bank account. Following the deposit, CAMST issued checks to MCO Media totaling \$38,500, to Timothy Daniels or Bright Ideas totaling \$6,515, and to Shirley Haynes totaling \$2,650, all of which were unsupported. The checks were issued by Ms. Haynes.

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 Shirley Haynes and in favor of ODE in the amount of \$2,650; and against Mark Olds and MCO Media Group, jointly and severally, in the amount of \$38,500, against Timothy Daniels and Bright Ideas, jointly and severally, in the amount of \$6,515, and against Shirley Haynes, jointly and severally, in the amount of \$45,015 and in favor of ODE.

##### 1.2 Shirley Haynes – Miscellaneous payments: \$2,812

CAMST voluntarily suspended operations on November 20, 2003; however, the final federal grant payment was issued on December 12, 2003. We traced the deposit to a CAMST account and found Ms. Haynes then issued herself checks totaling \$2,812, all of which were unsupported.

<sup>4</sup> We were provided with an incomplete record of the Board's minutes. The Contract stated the Board would meet each month; however, we were not provided with minutes for each month within the Period.

<sup>5</sup> The deposits from New Opportunity were noted in the memo portion of the checks as "loan." CAMST paid New Opportunity \$90,927 during the Period, and indicated on those checks that the payments were for repayment of loans received.

## Supplement to the Special Audit Report

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 Shirley Haynes and in favor of ODE in the amount of \$2,812.

### NONCOMPLIANCE CITATIONS

#### Accounting and Reporting Records

Ohio Administrative Code (OAC) Section 117-2-02(A) states, "All local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code."

OAC Section 117-2-03(B) requires all community schools to report, but not necessarily account, on a Generally Accepted Accounting Principles (GAAP) basis. Additionally, the Community School Contract between ODE and CAMST dated July 19, 2002, required that CAMST maintain financial records in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State, and audits shall be conducted in accordance with section 117.10 of the Ohio Rev. Code.

OAC Section 117-2-02(D) goes on to state that accounting records should include a cash journal, receipts ledger and appropriations ledger. In addition, local public offices should maintain or provide reports for payroll records . . . and fixed asset records.

CAMST did not maintain an accounting system or sufficient records to substantiate the receipt and expenditure of state and federal funding. Financial statements were not prepared as required. Receipt books and revenue ledgers were not used.

#### School Budgets

The Community School Contract between ODE and CAMST dated July 19, 2002, required the Treasurer to make a presentation of the monthly budget at board meetings, as well as make requests for spending. A quarterly statement of finances was to be issued in writing as well.

CAMST was unable to present evidence that budget presentations were given to the board and spending requests were approved by the board. Quarterly statements of finances were not provided for our review.

#### Bonding Requirements

Ohio Rev. Code Section 3314.011 provides that every community school shall have a designated fiscal officer. "The Auditor of State may require by rule that the fiscal officer of any community school, before entering upon duties as fiscal officer of the school, is required to execute a bond in an amount and with a surety to be approved by the governing authority of the school, payable to the state, conditioned for the faithful performance of all the official duties required of the fiscal officer. Any such bond shall be deposited with the governing authority of the school, and a copy thereof, certified by the governing authority, shall be filed with the county auditor."

Ohio Administrative Code Section 117-6-07 requires that the fiscal officer of a community school execute a bond prior to entering upon the duties of fiscal officer.

Additionally, Exhibits II and III of the Financial Plan in the Community School Contract between ODE and CAMST dated July 19, 2002, required that the Treasurer be bonded in accordance with ORC 3314.011. Specifically, Section 3.2, Officers of the Board, Part G, Treasurer, states "The Treasurer or anyone responsible for handling the fiscal matters of the school shall be bonded in accordance with Ohio Rev. Code 3314.011."

CAMST provided no evidence that Shirley Haynes, Treasurer, was bonded.

## Supplement to the Special Audit Report

### MANAGEMENT COMMENTS

#### Feasibility Studies

For certain community schools seeking a community school contract, ODE pays the school \$50,000 in a start-up grant to conduct administrative tasks necessary to open a new school. The House Bill legislation governing the start-up grant states the funds are to be used “to defray planning and initial start-up costs.” However, there are no guidelines to specifically identify what is or is not a valid planning or start-up cost. The developers and/or the Governing Authority of the proposed school are not required to submit any type of reconciliation or accounting of how the funds were spent. Additionally, if the funds were used for purposes other than start-up or planning, there is no requirement to repay the grant to ODE.

We recommend ODE establish guidelines, record-keeping, and reporting requirements related to the start-up grants in the community school contracts it awards. Additionally, since these start-up grants are typically awarded prior to the school’s opening, and therefore, prior to the school’s first annual financial statement audit, we recommend the school’s sponsor review the expenditures of the start-up grant and alert ODE and the Auditor of State of any unusual expenditures.

## Supplement to the Special Audit Report

### Issue No. 2 – Review of Expenditures

#### PROCEDURES

1. We examined available expenditure ledgers, check registers, bank statements, payroll disbursement journals, and other disbursement records and quantified all expenditures.
2. For non-payroll disbursements, we obtained and examined available supporting documentation to determine whether the disbursements were for a purpose related to the operations of CAMST and were made in accordance with applicable laws, regulations, and contract provisions<sup>6</sup>. For significant non-payroll disbursements where supporting documentation was not available from CAMST, we attempted to contact vendors to request copies of invoices, sales receipts, and contracts which supported the disbursement.
3. For payroll disbursements, we obtained and examined available supporting documentation to determine whether payroll disbursements were authorized, at amounts in accordance with valid contracts, and in accordance with applicable laws, regulations, contract provisions, and CAMST's policies governing the disbursement of funds.<sup>7</sup> We also determined whether payroll withholdings were remitted to the appropriate agencies.

#### RESULTS

1. During the Period CAMST had total expenditures of \$3,349,097. Of that amount, CAMST issued checks to vendors and payroll checks to employees totaling \$2,903,262, incurred debit card transactions totaling \$27,852, processed automatic teller machine (ATM) cash withdrawals totaling \$10,160, issued checks to cash totaling \$6,330, and incurred other withdrawals (such as wire transfers, stop-payment fees, and electronic funds transfers) totaling \$401,493.
2. Of \$2,973,039 in non-payroll expenditures, payments totaling \$1,570,316 were supported by third party invoices<sup>8</sup>. The remaining \$1,402,723 was for payments made to vendors, suppliers, and individuals for which original third party invoices were not provided for our review.
3. Payroll transactions totaled \$376,058. Of that amount, \$273,994 was supported by time sheets, payroll registers, and electronic funds transfers to CAMST's payroll processing company. The remaining payroll expenditures, \$102,064, were unsupported.

CAMST records did not include a complete roster of employees or any employment contracts. Additionally, the minute records of the Board of Trustees meetings did not record the names, positions, or annual salary/wages of the employees. During interviews former employees stated that employment contracts did not exist. The employees also stated that CAMST did not pay any salaries during the last three weeks the school was operating and withheld employees' first paychecks; thereby, potentially incurring a liability for unpaid wages, retirement and taxes. We referred this matter to the United States Department of Labor, the State of Ohio Department of Taxation, the School Employees Retirement System, and the State Teachers Retirement System.

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<sup>6</sup> CAMST did not provide any policy/procedure manuals or any employment contracts.

<sup>7</sup> See Footnote No. 6.

<sup>8</sup> Although supported by invoices, not all payments were for purposes related to operations of a charter school. See "Findings For Recovery" for more information.

## Supplement to the Special Audit Report

### FINDINGS FOR RECOVERY

#### **2.1 Shirley Haynes – ATM withdrawals: \$10,160**

One of CAMST's bank accounts included the use of a debit card. The records provided to us from the financial institution documented that Shirley Haynes was the only signatory on the debit/ATM card. During the Period, the debit card was used to withdraw cash at automated teller machines (ATM) totaling \$10,160. There was no documentation to substantiate these funds were used for school-related purposes.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for illegal expenditure of public money is hereby issued against Shirley Haynes, Treasurer, in the amount of \$10,160, and in favor of ODE.

#### **2.2 Shirley Haynes – Checks to cash: \$6,330**

During the Period, checks were issued to cash totaling \$6,330. CAMST did not provide any evidence to substantiate that these funds were used for a purpose related to CAMST operations. Checks to cash totaling \$4,756 were issued from CAMST bank accounts for which Shirley Haynes was the only signatory. One check to cash for \$1,574 was issued from an account for which Ms. Haynes and Mark Olds were joint signatories.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for illegal expenditure of public money is hereby issued against Shirley Haynes, Treasurer, in the amount of \$4,756, and against Shirley Haynes and Mark Olds, jointly and severally, in the amount of \$1,574, and in favor of ODE.

#### **2.3 Shirley Haynes – Debit card transactions: \$6,877**

During the Period, CAMST's debit card was used to make purchases totaling \$27,852. Of that amount, we determined \$6,877 was for transactions whose purposes were unrelated to the operation of a charter school and included, among other things, computers delivered to The Haynes Group (\$3,395), a fish aquarium, leather furniture and a computer desk delivered to New Opportunity (\$2,882), and other expenditures (\$600).

The only debit card which existed for CAMST was held at Bank One. The records provided to us from the bank documented that Shirley Haynes was the only signatory on the account.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for illegal expenditure of public money is hereby issued against The Haynes Group for \$3,395, New Opportunity Development and Management Services, Inc. for \$2,882, and against Shirley Haynes, in the amount of \$6,877, jointly and severally, and in favor of ODE.

#### **2.4 New Opportunity Development and Management Services, Inc. – Property purchase: \$202,500**

A purchase agreement for property located at 7115 Woodland Avenue, dated August 1, 2002, was included in the records of CAMST. The terms of the agreement stated that the building was to be sold by Fairfax-Trinity for \$200,000, and the buyer, New Opportunity, had until October 1, 2002 to complete the purchase.

On September 12, 2002, the same day that New Opportunity was incorporated in the state of Ohio, CAMST issued a payment to New Opportunity in the amount of \$202,500, which was identified in the memo portion of the check as payment for "construction/renovation." CAMST issued this check on the same date it received a payment from ODE totaling \$327,388.

The property was officially sold to New Opportunity<sup>9</sup>, and the title transferred on September 18, 2002. On July 6, 2004, the building was sold by New Opportunity to North Coast Real Estate Management Ltd., for a purchase price of \$560,000, netting a profit for New Opportunity of \$360,000.

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<sup>9</sup> New Opportunity issued three checks for the property purchase: \$10,000 on August 1, 2002 (earnest money); \$40,000 on September 5, 2002 (additional escrow deposit), and \$150,516 on September 14, 2002 (as final payment). Each of these checks was issued from the New Opportunity account where CAMST's \$202,500 was deposited.

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CAMST did not provide us with any contracts to support the \$202,500 payment for alleged construction. Additionally, although the title to the property was never in the name of CAMST, it appears New Opportunity used CAMST funds to purchase the property, and may have received the gain on the sale of the property illegally. This matter was referred to the United States Attorney.

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 New Opportunity Development and Management Services, Inc., and Mark C. Olds, jointly and severally, and in favor of ODE in the amount of \$202,500.

### **2.5 New Opportunity Development and Management Services, Inc. – Property lease: \$442,409**

There were two versions of a property lease for 7115 Woodland Avenue found in the CAMST records, neither of which was complete. Lease A, which was missing the last page (the signature page) of the contract, was for the period August 2003 through July 2007, for 25,500 square feet of space, at a cost of \$20,000 per month. Lease B included the last signature page dated August 29, 2003; however, it was unsigned. Lease B had a term of September 2003 through June 2004, included 12,000 square feet, and cost \$20,000 per month. Lease B had Shirley Haynes' handwriting on the front page, "Note: School started late; not at 7115".

Both leases stated that major mechanical systems would be repaired by the landlord and that utilities would also be the landlord's responsibility. According to the last page of Lease B, "improvements" to the building were to be paid by the tenant, CAMST.

CAMST began using the building in September 2003. However, they made lease payments beginning in November 2002, prior to the beginning term of the lease. These payments totaled \$50,000. Additionally, payments were made to New Opportunity (\$197,250) and other vendors (\$192,780) toward the repair of major mechanical systems (e.g., plumbing, heating). CAMST also issued payments for utilities, which the lease stated were included in the lease payment and would be payable by the landlord. The utility payments totaled \$2,379.

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 New Opportunity Development and Management Services, Inc., and Mark C. Olds, jointly and severally, and in favor of ODE in the amount of \$442,409.

### **2.6 New Opportunity Development and Management Services, Inc. – Property Lease: \$111,000**

On September 26, 2002, CAMST entered into a lease agreement with New Opportunity for the lease of property located at 1881 East 71<sup>st</sup> Street where classes were held during the 2002-2003 school year. The site was owned by Second Ebenezer Baptist Church. It is unclear why CAMST entered into lease of the property with New Opportunity when New Opportunity was not the owner of the property. The lease was signed by Mark Olds for New Opportunity and by Timothy Daniels for CAMST. The lease called for monthly payments of \$14,000 and a security deposit of \$10,000.

During the Period, CAMST paid New Opportunity the security deposit and made nine monthly lease payments for a total of \$136,000. Our review of New Opportunity's bank records disclosed nine monthly payments and a security deposit were paid by New Opportunity to Second Ebenezer, referencing a lease, in the amount of \$2,500 each, totaling \$25,000, resulting in a mark-up of \$111,000.

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 New Opportunity Development and Management Services, Inc., and Mark C. Olds, jointly and severally, in the amount of \$111,000.

### **2.7 New Opportunity Development and Management Services, Inc. – Other payments: \$5,536**

In addition to the irregularities noted above for payments to New Opportunity, CAMST also issued two payments, the first on December 2, 2002 for \$736, had "school business reimbursement" written in the memo portion of the check; and the memo portion of the second check, issued on August 28, 2003 for \$4,800, was blank. These payments were not supported by receipts or invoices and were made in addition to the monthly management fees paid by CAMST.

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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 New Opportunity Development and Management Services, Inc., and Mark C. Olds, jointly and severally, and in favor of ODE in the amount of \$5,536.

### **2.8 Academy Transport – Contracted services: \$162,266**

During an interview the Transportation Agent at Cleveland Municipal Schools stated that Cleveland Municipal Schools did not provide transportation for the students at CAMST because their bus routes had already been established and they did not want to re-create their routes to include the CAMST children. Instead, Cleveland Municipal School District provided CAMST with Regional Transit Authority (RTA) tickets for the students. However, CAMST made the decision not to use the RTA passes and to enter into contract with Academy Transport instead.

We were provided a contract between CAMST and Academy Transport, Inc., for bus service. Academy Transport was incorporated by Shirley Haynes. The contract stated each bus would cost \$900 per week for the period January 2003 through June 2003, and \$1,500 per bus per week beginning in September 2003. The number of busses for which CAMST paid increased as well, paying for two busses prior to June 2003 and for five busses after September 2003.

Invoices issued by the transportation company did not follow the fee schedule as defined in the contract. During the Period, CAMST paid Academy Transport \$289,586. Based on the provisions of the contract, the total payments should have been \$127,320, resulting in an overpayment totaling \$162,266.

For comparative purposes, we analyzed CAMST payments to Rent-A-Bus, another transportation company used during the Period. We determined Rent-A-Bus was being paid \$6,300 per month. Academy Transport was used for 7 ½ months. Had CAMST continued using Rent-A-Bus at \$6,300 per month, the school would have paid \$47,250, instead of the \$127,320 CAMST paid within the contract, or \$289,586 CAMST paid in total.

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 Academy Transport, Shirley Haynes, Incorporator, and Michael Robinson, President, jointly and severally, and in favor of ODE in the amount of \$162,266.

In addition to the Finding for Recovery we referred this matter to the Ohio Ethics Commission as a related party transaction and possible unlawful interest in a public contract.

### **2.9 Academy Transport – Miscellaneous expenses: \$21,555**

There was no documentation to support that CAMST owned any busses for the transportation of students, nor any known contractual provision that would render CAMST responsible for the repair and insurance of busses. The school relied on the services of Rent-A-Bus, Yellow Cab, and Academy Transport. Although CAMST did not own any busses, payments were made for bus repairs totaling \$8,425 and insurance payments on vehicles totaling \$12,788. We were provided copies of insurance policies for two of the busses; the loss payee on those documents listed The Haynes Group.

In addition to the expenditures related to Academy Transport busses, CAMST also made utility payments on behalf of Academy Transport totaling \$342.

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 Academy Transport, Shirley Haynes, Incorporator, and Michael Robinson, President, jointly and severally, and in favor of ODE in the amount of \$21,555.

In addition to the Finding for Recovery, we referred this matter to the Ohio Ethics Commission as a related party transaction and possible unlawful interest in a public contract.

### **2.10 Shirley Haynes – Bank transfer: \$30,000**

On October 21, 2002, Shirley Haynes issued a bank transfer of \$200,000 from the school's general account. Of this amount \$150,000 was transferred to another CAMST account and \$50,000 was transferred to a personal account held in the name Shirley Haynes.

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After processing the transfer, Ms. Haynes issued checks to her relative, Sanford Haynes, for \$4,000, to Jermaine Jackson, who also received checks from Academy Transport, for \$1,000, and checks to cash totaling \$15,800. Also, on November 7, 2002, Ms. Haynes issued a bank check in the amount of \$20,000 to CAMST, which was deposited into CAMST's account.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for illegal expenditure of public money is hereby issued against Shirley Haynes, and in favor of ODE in the amount of \$30,000.

### **2.11 Shirley Haynes – Personal credit card payments: \$2,315**

During the Period, CAMST issued checks to Bank Card Services, Capital One, and Orchard Bank for credit card payments in the amount of \$2,315. We contacted each financial institution and were informed the credit card accounts were held in the name of Shirley Haynes. CAMST did not provide any documentation to support these expenditures were for a purpose related to school operations.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for illegal expenditure of public money is hereby issued against Shirley Haynes, and in favor of ODE in the amount of \$2,315.

### **2.12 Shirley Haynes – Miscellaneous payments: \$8,415**

During the Period, Shirley Haynes issued seven checks to herself totaling \$8,415 for various reimbursements, none of which was supported by documentation to verify the purpose of the expense, nor was there any documentation to show the expenditures were approved by anyone other than Ms. Haynes.

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 Shirley Haynes, and in favor of ODE, in the amount of \$8,415.

### **2.13 The Haynes Group, Inc. – Miscellaneous payments: \$24,400**

Nine payments totaling \$24,400 were issued to The Haynes Group Inc., a company owned by Shirley Haynes. CAMST did not provide any evidence or documentation to substantiate that the payments were for a purpose related to the operations of CAMST.

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 The Haynes Group, Inc., and Shirley Haynes, jointly and severally, and in favor of ODE in the amount of \$24,400.

In addition to the Finding for Recovery, we referred this matter to the Ohio Ethics Commission as a related party transaction and possible unlawful interest in a public contract.

### **2.14 Bright Ideas – Miscellaneous payments: \$31,003**

During the Period CAMST issued five checks totaling \$31,003 to Bright Ideas Management and Consulting, located in Phoenix, Arizona. A background search of "Bright Ideas" noted it was a charter school in Arizona, operated by Timothy Daniels and Beth Brantley. In CAMST's charter school application with ODE, Ms. Brantley's signature is on an "Assurances for Federal Sub-grant Recipient" form, representing herself as CAMST's Chief Operating Officer.

Bright Ideas began billing CAMST for services in January 2001. CAMST was not incorporated until November 2001 and had not received preliminary approval from ODE until April 2002.

CAMST provided 11 invoices from Bright Ideas; however, only one invoice reconciled to a CAMST payment. That invoice, for \$18,000, was for "interactive software including service for early intervention." The remaining invoices were labeled as being for school design, consulting fees, and the design of policy and procedure manuals, none of which were provided to us by CAMST, and the remaining payments were not supported by invoices.

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Another invoice for \$4,003 from Guaranteed Door Services was provided by CAMST. The billing address on that invoice was Cleveland Academy at Mr. Daniels' home address in Gilbert, Arizona. Guaranteed Door Services holds its corporate office in Arizona and according to the invoice has four satellite offices in Arizona. The invoice was marked in Shirley Haynes' handwriting, "Pd 1-3-03 cashier check." Ms. Haynes issued a bank counter check to Bright Ideas for \$4,003 three days after the date of the Guaranteed Door Services invoice.

The structure of the Bright Ideas invoices was virtually identical to that of Curtis Enterprises/Harry Curtis. We mailed a request for information supporting CAMST's payments to Bright Ideas; however, a response was not received.

Of the five checks issued to Bright Ideas, four were either endorsed "for deposit only" or "Bright Ideas." The fifth, for \$2,000 was endorsed by Beth Brantley.

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 Beth Brantley and Shirley Haynes, jointly and severally, and in favor of ODE in the amount of \$2,000, and against Timothy Daniels, Beth Brantley, and Shirley Haynes, jointly and severally, and in favor of ODE in the amount of \$29,003.

In addition to the Finding for Recovery, we referred this matter to the Ohio Ethics Commission as a related party transaction and possible unlawful interest in a public contract.

### **2.15 Curtis Enterprises – Miscellaneous payments: \$116,000**

CAMST issued five checks totaling \$101,000 to Curtis Enterprises and one check for \$15,000 to Harry Curtis. None of the five payments to Curtis Enterprises was supported by an invoice or other documentation to show the expenditure was related to school activities. The only check which was supported by an invoice was the one issued to Harry Curtis for \$15,000 for a down-payment on the installation of computer wiring. The Curtis Enterprises/Harry Curtis invoice was compared to the invoices of Bright Ideas and we noted the formats were identical.

A search of the Ohio Secretary of State's web page revealed that Curtis Enterprises was not incorporated in the State of Ohio.

On the CAMST checks issued to Curtis Enterprises and Harry Curtis one check was endorsed with a handwritten "Curtis Enterprises" signature, two were stamped by the bank, "credit to account of within named payee," one was endorsed by Mr. Daniels and assigned to Beth Brantley of Bright Ideas, and one was endorsed by Mr. Daniels. The check to Harry Curtis was endorsed as "Harry Curtis pay to Bright Ideas."

We issued a subpoena for the bank records of Curtis Enterprises and noted the account was owned by Mr. Daniels. In addition to the CAMST payments to Curtis Enterprises, New Opportunity also paid Curtis Enterprises \$143,000 during the Period.

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 Timothy Daniels, Beth Brantley, and Shirley Haynes, jointly and severally, and in favor of ODE in the amount of \$41,500, and against Timothy Daniels and Shirley Haynes, jointly and severally, and in favor of ODE in the amount of \$74,500.

In addition to the Finding for Recovery, we referred this matter to the Ohio Ethics Commission as a related party transaction and possible unlawful interest in a public contract.

### **2.16 Timothy Daniels – Miscellaneous payments: \$15,494**

During the Period CAMST paid Timothy Daniels \$15,494. Of that amount, \$10,945 was noted as payroll on the memo portion of the check. For the remaining \$4,549, the memo portion of the checks indicated the purposes as a "heating adjustment" of \$2,500, "payroll contributions" of \$1,862 and "15% reimbursement" for \$187.

CAMST did not provide any documentation to substantiate that Mr. Daniels had an employment contract or to document the purpose of the payments to him.

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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 Timothy Daniels and in favor of ODE in the amount of \$15,494.

### **2.17 MCO Media Group, Inc. – Miscellaneous payments: \$8,150**

CAMST issued three checks to MCO Media Group totaling \$8,150. MCO Media Group is owned by Mark C. Olds, the owner of CAMST's management company, New Opportunity. CAMST did not provide any documentation to substantiate that the payments were for a purpose related to the operations of CAMST.

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 MCO Media Group, Inc., and Mark C. Olds, jointly and severally, and in favor of ODE in the amount of \$8,150.

In addition to the Finding for Recovery, we referred this matter to the Ohio Ethics Commission as a related party transaction and possible unlawful interest in a public contract.

### **2.18 Cora Haynes – Visa payment: \$314**

During the Period, Shirley Haynes issued two payments totaling \$314 to Capital One Bank for a Visa credit card. Capital One revealed the account holder's identity to be Cora Haynes. There was no evidence these payments were for a purpose related to the operations of CAMST.

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 Cora Haynes and Shirley Haynes, jointly and severally, and in favor of ODE in the amount of \$314.

### **2.19 Markisha Robinson – Master Card payment: \$498**

During the Period, Shirley Haynes issued one check in the amount of \$198 to Capital One Bank for a Master Card credit card and one payment of \$300 to Bank Card services for another credit card. Each bank revealed the account holder's identity to be Markisha Robinson, a suspected relative of Shirley Haynes. There was no evidence these payments were for a purpose related to the operations of CAMST.

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 Markisha Robinson and Shirley Haynes, jointly and severally, and in favor of ODE in the amount of \$498.

### **2.20 New Opportunity Development and Management Services, Inc. – Management Fee: \$403,642**

New Opportunity entered into contract with CAMST to provide management services for the school, effective May 14, 2002. The contract was signed by Mark C. Olds for New Opportunity, and Timothy Daniels on behalf of CAMST. Appendix D of the contract stated that New Opportunity was to be paid 10% of the total expenditure budget of the school and the fee amount would be adjusted each year based on actual expenditures.

According to ODE, CAMST submitted Charter School Average Daily Membership numbers between 200 and 700 students each month; however, the number of students CAMST reported to the Cleveland Municipal Schools was between 100 and 200. By inflating the number of students reported to ODE CAMST received greater funding, which inflated the budget and resulted in compensating their management company at a higher rate.

Management companies of other charter schools often receive their fees in the same manner, as a percentage of the school's revenues, expenditures, or overall budget. However, using a percentage method instead of a specific amount could encourage management companies to artificially inflate the school's budgets in order to receive a larger fee.

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ODE determined CAMST was overpaid \$1,626,779 in fiscal year 2003 and \$360,701 in fiscal year 2004. CAMST recorded a total of \$3,355,758 in revenue for the Period. When we reduced that revenue by the amount of overpayment from ODE, the balance was \$1,368,278. The New Opportunity management contract was based on a percentage of expenditures; however, those expenditures would be limited by revenue. If CAMST's enrollment had not been inflated, their expenditures for the Period could not have exceeded \$1,368,278. Ten percent of that amount is \$136,828. New Opportunity was paid \$540,470, resulting in an overpayment of \$403,642. Each of the checks paid to New Opportunity were issued by Shirley Haynes.

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 New Opportunity Development and Management Services, Inc., Mark C. Olds, Timothy Daniels, and Shirley Haynes, jointly and severally, and in favor of ODE in the amount of \$403,642.

### FEDERAL QUESTIONED COSTS

The Office of Management and Budget Circular A-87, *Cost Principals for State, Local and Indian Tribal Governments*, requires grantees and sub-grantees to maintain records which adequately identify the source and application of federal funds expended. Circular A-87 also provides guidelines for identifying costs for federal grants. Attachment A, Section C (1) (j) of this Circular provides that for a cost to be allowable, the expenditure must be adequately documented.

When administering federal grant awards, it was the responsibility of CAMST to create and implement control policies and procedures to provide reasonable assurance that only eligible expenses were paid using federal grants, and that the information reported to ODE was accurate and complete. In order for CAMST to ensure and verify controls over federal grants operated efficiently, it was imperative that appropriate supporting documentation was maintained for all amounts reported to ODE. Each expenditure should have been supported by a voucher package containing all pertinent information relating to the expense, and it should have been readily accessible for review and reference.

CAMST failed to establish separate funds to record the receipt and expenditure of federal funds. Because all funds were commingled, all financial activity was required to follow the established federal guidelines. There were limited invoices, no purchase orders, or other supporting documentation; therefore, all federal funds received and spent by CAMST have been classified as Federal Questioned Costs.

Missing reports and documentation increase the risk that amounts and other information reported to the federal grantor agencies may not reflect actual program activities. Without consistently obtaining or maintaining the required documentation on file, CAMST was unable to support or verify payments were made only for the purpose of the grant.

<b>Program</b>	<b>2003</b>	<b>2004</b>
Public Charter School Subsidy, CFDA 82.282	\$300,000	
School Breakfast, CFDA 10.553	3,644	\$8,219
National School Lunch, CFDA 10.555	9,908	15,004
<b>Total</b>	<b>\$313,552</b>	<b>\$23,223</b>

**Total Federal Questioned Costs: \$336,775**

## Supplement to the Special Audit Report

### NONCOMPLIANCE CITATIONS

(Note: These noncompliance citations apply to both Issue No. 1 and Issue No. 2.)

#### Records Retention

Ohio Rev. Code Section 149.43 states that “all public records shall be promptly prepared and made available for inspection to any member of the general public at all reasonable times during regular business hours.” “Record” for purposes of the public records law, means any document, device, or item, regardless of physical form or characteristic, created, received by, or coming under the jurisdiction of any public office which serves to document the organization, functions, policies, decisions, procedures, operations, or other activities of the public office. In addition, Ohio Rev. Code section 3314.03(A)(8) requires all community schools to maintain financial records in the same manner as all public school districts in the State of Ohio.

For this Special Audit, CAMST officials provided us with four boxes of records. The records were unorganized and were not reconciled to revenue and expenditure ledgers or purchase orders. Receipts and invoices were not provided. In total, CAMST officials were unable to provide supporting documentation for 641 checks and debit card purchases out of 1,379 transactions during the Period. Although we issued additional records requests in writing, CAMST did not respond to any of our requests for additional documentation.

#### Fund Accounting

The contract between ODE and CAMST required CAMST to maintain the financial records in the same manner as financial records of other school districts, pursuant to rules of the Auditor of State. Ohio Administrative Code Section 117-6-01 requires schools to employ the uniform school accounting system (USAS). The Code states, “To demonstrate legal compliance and to facilitate sound management, school districts shall maintain financial records on a fund basis.” Minimum reporting requirements for receipts are fund (3 digits), receipt code (2 digits), and when required by a funding agent, special cost center (4 digits).

CAMST did not maintain its records in accordance with USAS. Ledgers were not created to allow for separate fund accounting. All revenue received was commingled and not accounted for in separate funds. Additionally, financial statements that were prepared were incomplete and general in nature.

#### Internal Control Environment

Ohio Administrative Code Section 117-2-01, Internal Controls, states, “All public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices in certain categories.”

Additionally, the Community School Contract between ODE and CAMST dated July 19, 2002, states that CAMST agreed to comply with policies and procedures regarding internal financial controls, including but not limited to the establishment of policies and employee handbooks, both of which document management’s expectation of the internal control environment.

Internal control consists of the following five interrelated components:

- Control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure;
- Risk assessment, which is the entity’s identification and analysis of relevant risks to the achievement of its objectives, forming a basis for determining how the risks should be managed;
- Control activities, which are policies and procedures that help ensure management directives are carried out;
- Information and communication, which are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities; and
- Monitoring, a process that assesses the quality of internal control performance over time.

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CAMST failed to design and implement an effective system of internal controls. Specifically:

- CAMST failed to ensure that accounting records were properly designed;
- CAMST failed to ensure that all transactions were properly authorized in accordance with the community school contract with ODE;
- CAMST failed to ensure the collection and compilation of the data needed for the preparation of complete financial statements in accordance with GAAP;
- CAMST failed to provide monthly financial statements to its governing board;
- CAMST failed to provide documentation that bank accounts were reconciled on a regular basis;
- CAMST failed to maintain detailed expenditure ledgers for the Period;
- CAMST failed to follow the community school contract with ODE which stated records would be maintained in accordance with GAAP;
- CAMST failed to receive board approval for expenses;
- CAMST failed to establish and follow a purchasing policy; and
- CAMST failed to maintain documentation to support expenditures (e.g., purchase orders and invoices).

### MANAGEMENT COMMENTS

#### Procedures for Closed Schools

When a charter school closes, procedures should be in place for the distribution of assets and fund balances and the resolution of outstanding liabilities. Ohio Rev. Code Section 3314.074 provides requirements for the distribution of funds for closed schools; however, during the Period, ODE did not have any procedures in place to implement this requirement. Consequently, there is no knowledge of how CAMST assets were distributed.

In May 2006, ODE updated its web site to include "Community School Closing Procedures Guidance." It is critical that the Sponsor of a community school oversee the activities of the Governing Board when it is in the process of closing a school.

## Supplement to the Special Audit Report

### Issue No. 3 – Reporting Enrollment to Ohio Department of Education

#### PROCEDURE

We interviewed CAMST's former Operations Director and ODE officials to obtain an understanding of the process and procedures in place to accumulate and report enrollment data to ODE. To the extent possible, we identified weaknesses which may have contributed to inflated enrollment data reported to ODE resulting in over-funding CAMST.

#### RESULTS

##### General Funding Provisions

Community schools receive funding from the state through the per pupil funding allocation. As with all public schools, community schools may seek additional funds through grants, as well as other government and private sources. However, unlike city and local school districts, community schools have no tax base from which to draw funds.

Each month community schools enter student data into the Charter School Average Daily Membership (CSADM) web site, an internet application which is maintained by ODE. The community schools have until the 15<sup>th</sup> of each month to enter and update all necessary student information. Between the 16<sup>th</sup> and 23<sup>rd</sup> of each month the residential public districts in which the students live are supposed to verify the student information provided by the community schools for accuracy. After the 23<sup>rd</sup> of the month the CSADM is frozen and ODE calculates the community school foundation payment for the next month.

In addition to the CSADM data the school is responsible for entering student information into an Education Management Information System (EMIS). The CSADM system requires six data entries per student (name, birth date, identification number, grade, school name, and effective date of enrollment), while the EMIS system requires 48 entries per student. Because of all the required data in the EMIS system as compared to the CSADM system, it is much more difficult to have incorrect and incomplete information on the EMIS.

The foundation amount is comprised of a base amount multiplied by the cost-of-doing business factor of the resident district for each student multiplied by the full time equivalence (FTE) of each student. FTE is the portion of the school year the student was enrolled and it is determined by the limited data in the CSADM system. The EMIS system, while much more thorough and detailed is used only for data aggregation, and not for funding.

School foundation payments are made monthly with a year-end adjustment for final FTE numbers.

##### Guidelines for ODE Enrollment Audits

ODE conducts initial enrollment audits on all new charter schools to verify the existence of students for which the school is receiving funds. Rather than using the CSADM numbers upon which ODE funding is based, the initial enrollment audit uses an Enrollment List generated by the school, then ODE officials select a sample of 12.5% of those students. Attendance records and grade books are reviewed to verify the students were in attendance. If the initial audit verified the sample population was enrolled within a 5% error rate, the audit is considered compliant and the foundation payments are supported. If errors are found in the initial 12.5% sample, additional samples are reviewed. ODE did not perform any comparisons between the CSADM numbers, the Enrollment Lists, and the funding amounts to reconcile that student population was consistent among the various documents.

After the initial enrollment audit is complete and found satisfactory, ODE then schedules the charter schools for enrollment audits every five years, with two exceptions. First, 20% of charter schools are selected for enrollment audits outside the five year rotation. Second, schools that received a positive or negative adjustment of greater than 10% of funding in the previous year are also audited for enrollment.

## Supplement to the Special Audit Report

### FINDING FOR RECOVERY

#### Inflated Enrollment and Funding: \$1,987,480

During the Period, CAMST reported student population ranging from 85 to 681 FTE, as shown:

Report Date	FTE	Report Date	FTE
June 24, 2002	303	April 24, 2003	364
July 24, 2002	672	May 26, 2003	381
August 26, 2002	664	June 24, 2003	431
September 24, 2002	681	July 24, 2003	434
October 24, 2002	681	August 25, 2003	490
November 25, 2002	380	September 24, 2003	423
December 24, 2002	380	October 24, 2003	218
January 24, 2003	339	November 24, 2003	217
February 24, 2003	356	December 24, 2003	162
March 24, 2003	358	Final	85

The initial enrollment audit at CAMST was conducted by ODE in the spring of 2003 and should have been based upon approximately 356 FTE for which CAMST was receiving funding at the time. However, the ODE representative did not take any information with him regarding the funding amounts or number of students for which CAMST was being paid. Upon arrival at CAMST, the ODE representative requested that CAMST print the Enrollment List for him to audit in accordance with ODE's community schools enrollment audit procedures. He was presented with a list of only 126 names. Using that list, the audit was performed and ODE's conclusions were within the 5% margin of error, which was considered compliant.<sup>10</sup> However, when the final monthly foundation payment was processed for CAMST ODE noted the amount was less than 90% of its original monthly funding, resulting in the need for another enrollment audit.

In August 2003, ODE visited CAMST for another enrollment audit. Using the May 2003 CSADM number, CAMST was receiving foundation payments for 381 FTE. When ODE employees requested a student roster from CAMST officials for the enrollment audit, Ms. Haynes was unable to provide a listing with 381 FTE. Instead, her list included only 127 names. During the August 2003 enrollment audit, ODE employees made a site visit at CAMST's school building and concluded it was not large enough to house the number of students for which CAMST was being paid. At the time, CAMST was receiving funding for 434 FTE; however, the ODE Area Coordinator believed the building could hold no more than 100 students and there were not more than 80 students present on that day. After that visit, the ODE Area Coordinator requested that ODE withhold CAMST's monthly foundation payments until the enrollment issues could be resolved; however, ODE continued to fund the school into December 2003.

On September 26, 2003, ODE notified CAMST that due to the inflated enrollment, the school had been over-funded by nearly \$1.5 million for the 2003 fiscal year. Upon completion of all enrollment audits and a review of payments issued, ODE determined the exact amount of overpayment was \$1,626,779 in fiscal year 2003 and \$360,701 in fiscal year 2004.

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 CAMST, and Shirley Haynes, jointly and severally, and in favor of ODE in the amount of \$1,987,480.

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<sup>10</sup> Since the time of the CAMST enrollment audit, ODE has implemented new procedures to ensure its enrollment auditors have funding information and student enrollment numbers with them as they perform the enrollment audits.

## Supplement to the Special Audit Report

### NONCOMPLIANCE CITATIONS

#### Reporting of Enrollment

Ohio Rev. Code Section 3314.08(B)(2) requires, in part, that the governing authority of each community school annually report the number of students enrolled in grades one through twelve and the number of students enrolled in kindergarten in the school, as well as the number of students who are or are not receiving special education and related services pursuant to an Individualized Education Plan (IEP).

CAMST officials repeatedly reported inflated enrollment numbers, resulting in funding which exceeded their entitlement.

#### Education Information Management System (EMIS)

Ohio Rev. Code Section 3314.17 states each community school shall participate in the statewide education management information system established under Section 3301.07.14 of the Rev. Code.

Ohio Rev. Code Section 3301.07.14 provides for ODE to establish guidelines for a statewide Education Management Information System (EMIS).

Section A prescribes:

- Standards identifying and defining the type of data in the system;
- Procedures for annually collecting and reporting the data;
- Procedures for annually compiling the data;
- Procedures for annually reporting the data to the general public;

Section B prescribes guidelines for the required data in the EMIS including:

- Student participation and performance data, including the average student grades in each subject in grades nine through twelve, academic achievement levels as assessed by the testing of student achievement, number of students designated as having a handicapping condition, and the attendance rates/average daily attendance for the year;
- Personnel and classroom enrollment data;
- Student demographic data, including information regarding the gender ratio, racial make-up, and number of limited English proficient students in the district; and
- Any data required to be collected pursuant to federal law.

Section C requires EMIS to include cost accounting data for each district as follows:

- Administrative costs for the school as a whole, and for each building in the district;
- Instructional services costs for each category of instructional service provided directly to student; and
- Support or extracurricular services costs for each category of service directly provided to students.

Section D prescribes guidelines which require information about individual students, staff members, or both.

Section E prescribes:

- Guidelines which describe any and all special reports which may be required.

CAMST failed to meet the reporting and record keeping requirements as outlined above. CAMST officials did not file consistent and accurate EMIS reports.

## Supplement to the Special Audit Report

### MANAGEMENT COMMENTS

#### Frequency of Enrollment Audits

ODE officials perform enrollment audits on all new charter schools; then, at intervals of five years. Additionally, when a school is selected for audit, ODE representatives contact the school to schedule a day and time to perform the enrollment audit.

By only performing enrollment audits once every five years, it may be possible for schools to inflate enrollment data during non-audit years, resulting in the receipt of excess state foundation payments. If ODE only audits enrollment once every five years, they may never discover problems with enrollment data on non-audit years. Also, by contacting the school in advance to schedule the enrollment audit, ODE allows the school officials time to make changes to their records or to ensure there are students present to support the numbers for which funding is received.

Until a school has consistently demonstrated that it is effectively and accurately reporting and monitoring enrollment data, we recommend ODE continue with annual or more frequent enrollment audits.

We also recommend ODE consider unscheduled enrollment audits; thereby, not alerting the schools to their arrival and not allowing schools to dictate what they feel would be an appropriate day and time.

#### Reconciliation of CSADM and EMIS

Shirley Haynes entered student data into the Charter School Average Daily Membership (CSADM) system as well as the Education Management Information System (EMIS), both of which were internet applications maintained by ODE. The EMIS system required more detailed information as compared to the CSADM; however, ODE used the CSADM for funding purposes. There was no reconciliation between the numbers on the CSADM versus the EMIS reports and there was no verification process to ensure the same student name was not being used at multiple schools.

We recommend ODE establish a method of reconciling the information provided in the CSADM and EMIS systems within each charter school. Additionally, ODE should develop a method to verify the same student is not listed on enrollment rosters at multiple schools.

## Supplement to the Special Audit Report

<b>Appendix 1 – The Money Trail</b>
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During the Period, CAMST received revenues totaling \$3,355,758. We followed the expenditure of funds from each of the CAMST accounts to related parties or companies<sup>11</sup>, as described:

CAMST Related Party Expenditures	
New Opportunity (Mark C. Olds)	\$1,272,683
Academy Transport (Shirley Haynes)	289,586
Curtis Enterprises (Timothy Daniels)	116,000
Direct Transfer from CAMST to Shirley Haynes	30,000
Shirley Haynes (unsupported payroll and reimbursements)	32,352
Bright Ideas (Timothy Daniels)	29,003
The Haynes Group (Shirley Haynes)	24,400
Timothy Daniels	15,494
MCO Media Group (Mark C. Olds)	8,150
Total CAMST Related Party Expenditures	<u>\$1,817,668</u>

After verifying the payments above we analyzed each related party bank account for the disposition of CAMST funds as follows:

New Opportunity Related Party Expenditures	
Checks to Curtis Enterprises (Timothy Daniels)	\$143,000
Checks to The Haynes Group (Shirley Haynes)	7,565
Checks to Timothy Daniels	825
Total New Opportunity Related Party Expenditures	<u>\$151,390</u>
Academy Transport Related Party Expenditures	
Checks to New Opportunity (Mark C. Olds)	\$35,383
Total Academy Transport Related Party Expenditures	<u>\$35,383</u>
MCO Media Group Related Party Expenditures	
Checks to The Haynes Group (Shirley Haynes)	\$8,472
Total MCO Media Group Related Party Expenditures	<u>\$8,472</u>

Through the creation of CAMST and inflated enrollment reporting the founders of the school personally benefited in totals noted below, which is the sum of direct payments from CAMST to the individuals and their companies, adjusted for related party payments among New Opportunity, Academy Transport, and MCO Media Group shown above:

Mark C. Olds	\$1,156,354
Shirley Haynes	356,992
Timothy Daniels	304,322
Total	<u>\$1,817,668</u>

<sup>11</sup> The related-party accounts had multiple cash withdrawals which we were unable to trace.

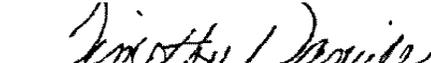
## Supplement to the Special Audit Report

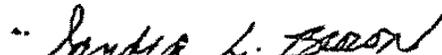
### Appendix 2 – Signatures

During our examination of all the documents received from CAMST, ODE, the Ohio Secretary of State web site, and various financial institutions, we discovered several variations on the signatures of key individuals involved in CAMST operations.

CAMST's original Articles of Incorporation on file with the Ohio Secretary of State included three individuals as the incorporators: Shirley Haynes, Timothy Daniels and Sandra Brown. Their signatures on the Articles of Incorporation are as follows:

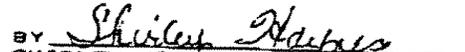
  
Shirley Haynes

  
Timothy Daniels

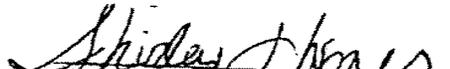
  
Sandra L. Brown

Shirley Haynes' signature was also found on Articles of Incorporation for The Haynes Group and Righteous Men Ministries, neither of which matched her signature found on the numerous CAMST records including all checks she issued from the CAMST accounts as well as her endorsements on checks deposited to her personal account. Those signatures were as follows:

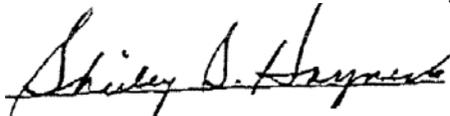
From the Articles of Incorporation for The Haynes Group:

BY   
SHIRLEY HAYNES, INCORPORATOR

From the Articles of Incorporation for Righteous Men Ministries:

  
Shirley Haynes

From the CAMST records and Ms. Haynes' endorsements on checks deposited to her account:

  
Shirley S. Haynes

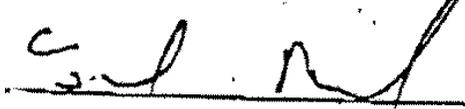
Timothy Daniels' signature was also found on Articles of Incorporation for Righteous Men Ministries, as well as a contract with CAMST, and on the endorsement of checks issued to Curtis Enterprises. Those signatures were as follows:

From the Articles of Incorporation for Righteous Men Ministries:

  
Timothy Daniels

## Supplement to the Special Audit Report

From the New Opportunity contract with CAMST; Mr. Daniels signed as the President of CAMST:



From the endorsement of a Curtis Enterprise check:



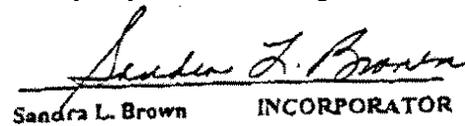
Sandra Brown's signature was found on the Articles of Incorporation for Righteous Men Ministries and Brown & Brown Insurance Agency as follows:

From the Articles of Incorporation for Righteous Men Ministries:



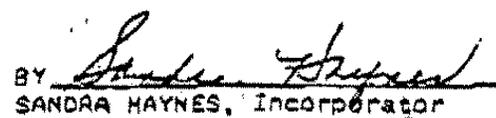
Sandra L. Brown

From the Articles of Incorporation for Brown & Brown Insurance Agency, in which her signature resembles Shirley Haynes' handwriting:



Sandra L. Brown INCORPORATOR

On the Articles of Incorporation for The Haynes Group, a "Sandra Haynes" signed as an Incorporator. Through background searches, we found that Shirley Haynes is also known as "Sandra Haynes." We are unsure whether this signature is that of Shirley Haynes AKA Sandra Haynes or Sandra Brown. Our background investigations also revealed that Shirley Haynes, Sandra Brown, and The Haynes Group all shared a common address.



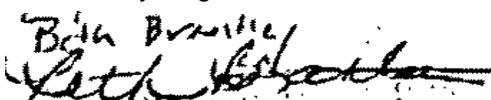
BY Sandra Haynes  
SANDRA HAYNES, INCORPORATOR

Finally, Beth Brantley's signature was found on a CAMST document, "Assurance for Federal Sub-grant Recipient," representing herself to be CAMST's Chief Operating Officer. Her signature on that document resembles the handwriting of Shirley Haynes rather than Ms. Brantley's signature found on the endorsement of one of the CAMST checks issued to Curtis Enterprises, as follows:

From the CAMST federal document; this signature resembles Shirley Haynes' handwriting:



Ms. Brantley's signature on the endorsement of a Curtis Enterprises check:





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**CLEVELAND ACADEMY OF MATH, SCIENCE AND TECHNOLOGY**

**CUYAHOGA 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  
SEPTEMBER 18, 2006**