



**Auditor of State
Betty Montgomery**

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**IMANI INSTITUTE LEADERSHIP SCHOOL
CUYAHOGA COUNTY**

SCHEDULE OF INCORPORATORS, BOARD MEMBERS AND RELEVANT INDIVIDUALS

Incorporators

Donna Johnson
Ernest Johnson
Gwendolyn Carr
Roger Van Deusen

Board Members

Janet Nevels, President
Don Rogers, President
Ernest Johnson, Parliamentarian
William McDonald, Treasurer
Gwendolyn Carr, Member
India Joyeau, Member
Cleo Miller, Member
Donald Nance, Member
Corliss Newsome, Member
Derrick Pledger, Member
Carol Rivchun, Member
Elaine Sutton, Member

Relevant Individuals and/or Companies

Donna Johnson, Superintendent
Clarence Love, Fiscal Officer
AHRMS Management, Fiscal Officer/Management Company

Donna Johnson provided us with three different lists of Board Members, the combination of which is shown above. One of the lists provided by Ms. Johnson was not dated and two of the lists did not define the terms of the members. Repeated requests to Ms. Johnson and Ernest Johnson for additional information regarding Board Members and terms went unanswered.

Imani's Code of Regulations, Article I, Section 9, submitted with their Ohio Department of Education (ODE) charter school application, states that a membership book shall be maintained, which shall contain the name and address of each member of the board and the date of his or her admission. Imani did provide us with names and addresses of various Board Members; however, the dates of their admissions were not identified.

Additionally, the Community School Contract between ODE and Imani dated June 28, 2001, as well as Imani Policies No. 1 and 2, documented specific duties of the Board of Trustees, as well as requirements related to monthly meetings and the recording of minutes. Imani officials were unable to produce documentation for our special audit to demonstrate the Board of Trustees operated in accordance with Imani's Governance and Administrative Plan, filed with the ODE contract.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Imani Institute Leadership School
c/o Donna Johnson, Superintendent, and
Ernest Johnson, Parliamentarian
4836 Utah Street
San Diego, CA 92116

We have conducted a special audit of the Imani Institute Leadership School ("Imani") by performing the procedures enumerated in the attached Supplement to the Special Audit Report for the period January 1, 2001 through June 30, 2003 ("the Period"), solely to:

- Identify the major sources of revenues received by Imani; and
- Determine whether certain expenditures were authorized, for a purpose related to Imani operations, and whether the items purchased and/or the work described was received.

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 reviewed certain revenue transactions to determine the sources of major revenues received by Imani.

Significant Results –During the Period, Imani deposited \$1,670,523 into its bank accounts. Of that amount, we confirmed \$1,223,030 of state and federal funds. We issued one finding for recovery against Donna Johnson totaling \$1,184, for school fees which were received but not deposited.

Additionally, we issued nine noncompliance citations for failing to deposit funds within 24 hours of receipt; failing to accurately count, report and maintain student enrollment numbers; charging tuition in violation of Ohio Revised Code; failing to maintain documents to support all financial activities; failing to maintain accounting records in accordance with Ohio Revised Code and Ohio Administrative Code; failing to present evidence that budgets were created, shared with the board, or modified as necessary; failing to follow fund accounting; lack of bonding for the fiscal agent; and failing to design and operate the school under a positive internal control environment.

2. We reviewed certain expenditures to determine whether applicable competitive bidding requirements and Imani's procurement policies were followed and to determine whether contracts or payments were authorized, for a purpose related to the operations of Imani, and the work described or the items purchased were received.

Significant Results – During the Period, Imani expended \$1,669,726 through the issuance of checks and the use of a debit card. Of this amount, we issued findings for recovery totaling \$144,881, as follows: against Donna Johnson for checks issued to cash (\$32,118), cash unaccounted for (\$27,358), for general expenditures unrelated to operations of a charter/community school (\$13,339), for fees for nonsufficient funds (\$3,757), for exceeding her authorized payroll (\$25,859), and for unauthorized reimbursements (\$3,544); against Donna Johnson and Ernest Johnson for ATM withdrawals (\$7,243) and debit card transactions (\$22,532); against Donna Johnson and Marcus Wright for overpayment of loan transactions (\$4,840); and against Donna Johnson and Rashid Alaji for consulting payments (\$4,291).

We also issued a federal questioned cost in the amount of \$482,159, for federal grant expenditures which were unsupported. Ten noncompliance citations were issued for failing to follow fund accounting, failing to establish an effective internal control structure to govern the expenditure process, failing to maintain disbursement records, failing to timely remit and report SERS and STRS withholdings and earnings, failing to document approval of expenditures, failing to maintain records, failing to report consulting payments on IRS Form 1099, failing to promptly remit payroll tax withholdings, and failing to establish and maintain a fixed asset accounting system. We referred the payroll withholding and Form 1099 issues to the Internal Revenue Service, the Ohio Department of Taxation, and the City of Cleveland Tax Department for resolution.

Additionally, Ms. Johnson's salary was understated on her annual Form W-2 in both 2001 and 2002. This matter was referred to the Internal Revenue Service and the Ohio Department of Taxation.

3. After completing the audit procedures noted above, a decision was made to perform additional procedures on certain transactions through October 31, 2005. As a result of those additional procedures, we issued findings for recovery totaling \$195,101, as follows: against Donna Johnson for checks issued to cash (\$155,388), cash unaccounted for (\$17,279), for general expenditures unrelated to the operations of a charter/community school (\$4,220), for fees for nonsufficient funds (\$4,099), and for unauthorized reimbursements (\$3,180); and against Donna Johnson and Ernest Johnson for ATM withdrawals (\$624), and debit card transactions (\$10,311).

We issued referrals to the Internal Revenue Service, the Ohio Department of Taxation, and the City of Cleveland Tax Department for outstanding liabilities related to payroll withholding of income tax. Donna Johnson's Form W-2 was understated for both 2004 and 2005; this matter was also referred to the Internal Revenue Service and the Ohio Department of Taxation. STRS funds were withheld from certain employee's paychecks; however, those amounts were not remitted to STRS. We referred this matter to STRS for resolution.

Payroll checks were generated for May 2005; however, the checks were not distributed to the employees. We referred this matter to the United States Department of Labor, the 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.

4. In addition to the noncompliance noted in Items No. 1 and 2, we issued two noncompliance citations regarding filing an annual report of activities, and the role and expected involvement of the Board of Trustees.
5. Imani's charter school contract expired on June 30, 2005. Imani was ineligible to reopen because they were unable to engage a new sponsor. Should Imani officials find a sponsor and request a new charter, we recommend ODE deny Imani officials any requests to open a new school unless the management and record-keeping weaknesses identified in this and previous audit reports are sufficiently remedied.

On April 12, 2005, the San Diego City School district recommended the approval of a new charter school to be opened by Ms. Johnson in California. Her new school opened in September 2005 and closed in November 2005. On October 10, 2006, Ms. Johnson surrendered the school's charter. For informational purposes, we sent a copy of this report to the California Department of Education and to the San Diego City School District.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 6, 2006

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Supplement to the Special Audit Report

Background

Imani Institute Leadership School (“Imani”) was a charter school established in 2000. Imani’s charter school contract expired on June 30, 2005. Imani was ineligible to reopen because they were unable to engage a new sponsor.

Imani’s financial audit for the fiscal year ended June 30, 2002, disclosed noncompliance with certain laws and regulations, including not filing annual financial statements, failing to meet required reporting and record-keeping standards required by the Ohio Revised Code and the Ohio Administrative Code, and collecting parent and transportation fees in violation of the Ohio Revised Code. Additionally, the financial audit included eight internal control reportable conditions for not maintaining financial records and statements, the condition of the financial records which did exist, the use of a debit card to circumvent the purchasing system, lack of monitoring internal controls, not presenting a statement of cash flows and notes to the financial statements, nonpayment of State Teachers Retirement System withholdings, and a recommendation for establishing an audit committee.

During preparations for the financial audit for the fiscal year ended June 30, 2003, we identified several debit card purchases which did not appear to be for a purpose related to the operations of a charter school such as restaurant charges, gasoline, and purchases at Ann Taylor stores. Additionally, Imani was unable to provide revenue and expense records (i.e., receipts and invoices) and was declared “unauditable” for the fiscal year ended June 30, 2003.

This information was presented to the Special Audit Task Force and on November 17, 2003, the Auditor of State declared a Special Audit of the Imani Institute Leadership School.

Throughout our field work Imani officials could not provide us with receipt books or revenue and expenditure ledgers. We issued subpoenas to Imani’s financial institutions to obtain all detailed information available from each Imani bank account. The banks provided us with all checks issued from the accounts, as well as all deposit tickets and certified copies of deposited items. We used the banks’ information to create a history of all revenue and expenditures of the school. Considerable effort was exhausted to create detailed spreadsheets supporting all of Imani’s receipts and expenditures.

Supplement to the Special Audit Report

NONCOMPLIANCE WITH OHIO DEPARTMENT OF EDUCATION CONTRACT

The Community School Contract between the Ohio Department of Education (ODE) and Imani dated June 28, 2001, required compliance with a number of established criteria, the following of which Imani violated during the Period:

- Imani did not maintain financial records;
- Imani did not comply with policies and procedures regarding financial internal controls;
- The fiscal officer was not bonded in accordance with ORC 3314.011;
- A committee formed of two members of the trustee board, a school administrator, and a member of the teaching staff was never established to be responsible for an inventory system, the disposition of equipment and fixed assets of the school;
- The purchase of fixed assets was not supported by two signatures;
- Purchase orders were not drafted detailing the date and items purchased, vendor information and price;
- Equipment was not tagged on the physical surface and was not recorded in an equipment inventory log book or computer file;
- Disposal forms were not completed for the removal of fixed assets;
- The Superintendent/CEO, Treasurer and the Trustee Board Finance Committee did not review the financial statements of Imani on a monthly basis in preparation for board meetings;
- A quarterly statement of finances was not issued in writing;
- All Board meeting minutes were not recorded or open to the public for inspection;
- Imani did not develop a Board Policy and Procedures Manual;
- Imani did not have evidence of a criminal records check for its Superintendent;
- There were no written quarterly reports which detailed the school's financial status; and
- The school did not issue an annual report detailing the status of programs and finances.

Imani's charter school contract expired on June 30, 2005. Imani was ineligible to reopen because they were unable to engage a new sponsor. Should Imani officials find a sponsor and request a new charter, we recommend ODE deny Imani officials any requests to open a new school unless the management and record-keeping weaknesses identified in this and previous audit reports are sufficiently remedied.

Supplement to the Special Audit Report

Issue No. 1 – Review of Revenues

PROCEDURES

Using documentation supplied by Imani’s financial institutions, we quantified deposits for each fiscal year during the Period, and identified major revenue sources. We identified sources of confirmable revenue and verified with those sources the dates and amounts paid to Imani.

For certain revenues based upon enrollment numbers or other criteria we attempted to determine whether applicable criteria were met. We contacted the Ohio Department of Education (ODE) for average daily membership (ADM) numbers and Clarence Love, Imani Fiscal Officer, provided us with the names and addresses of 79 students enrolled during the Period. We compared Mr. Love’s list to the numbers received from ODE. We also contacted 30 parents to confirm attendance and determined whether parents paid school-related fees.

RESULTS

During the Period Imani received the following revenue:

Source	1/1/01 – 6/30/01	7/1/01 – 6/30/02	7/1/02 – 6/30/03	Amount
Federal and State Subsidies	\$50,000	\$522,402	\$650,628	\$1,223,030
Grants	37,500	182,500	10,000	230,000
Miscellaneous ¹	811	80,538	136,144	217,493
Total	\$88,311	\$785,440	\$796,772	\$1,670,523

We confirmed with outside sources that federal and state subsidies (\$1,223,030) and grants (\$230,000) deposited into an Imani bank account were deposited intact and that no additional subsidies or grants had been paid other than those deposited. Because the miscellaneous revenue could not be confirmed, we judgmentally reviewed certain revenue transactions.

FINDINGS FOR RECOVERY

School Fees: \$1,184

In Imani records we found copies of 14 receipts totaling \$2,702, issued to parents for annual fees and uniforms in 2001. We traced these receipts to deposits and noted only \$1,518 was deposited.

Imani Policy No. 4, section 7, states, “The Superintendent shall have full custody and keep account of monies, funds and property of Imani Institute Leadership School.”

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money collected but unaccounted for is hereby issued against Donna Johnson, Superintendent, in the amount of \$1,184, and in favor of the Ohio Department of Education.

NONCOMPLIANCE CITATIONS

Timely Deposits

Ohio Rev. Code Section 9.38 requires, in part, that all public monies received shall be deposited with a properly designated depository on the business day next following the day of receipt.

During the Period there were nine of 24 occasions tested in which Imani did not deposit federal and/or state funds within 24 hours of receipt.

¹ Miscellaneous revenues included unknown sources (cash totaling \$14,027 and money orders totaling \$45,645), loans (\$127,500) and other miscellaneous sources (\$30,321).

Supplement to the Special Audit Report

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).

In June 2002, Imani reported to ODE enrollment of 70.27 full-time equivalent (FTE) students. ODE visited Imani on August 27, 2002, to audit their enrollment data and found there were only 66.66 FTE. After their site visit ODE made deductions from future Imani foundation payments to offset the overage which resulted from the overstatement of student enrollment.

On December 8, 2004, ODE conducted another site visit at Imani to review procedures used to identify special education students, including the validity of IEP's. Imani's funding was based on 15 students with IEP's. The ODE review found that 12 of the 15 students did not have valid IEP's and five of those 12 were not enrolled at Imani. Deductions again were made to future Imani foundation payments to offset the amount over funded for these 12 students.

ODE made another site visit to Imani on April 27, 2005. At that time, Imani had 162 student names on its Charter School Average Daily Membership (CS-ADM) report. ODE found a total of 54 errors on that report, which consisted of 39 students who were not enrolled at Imani and 15 students who were identified as handicapped; however, a valid IEP for each student was not on file. In addition to the 54 errors in population, there were additional students whose entry and/or withdrawal dates were not substantiated by attendance records. In response to these errors, ODE again made deductions from Imani's foundation payments.

Upon request, Imani was unable to provide attendance records and grade cards to support that educational services were provided. A limited number of grade cards that were provided were incomplete.

School Fees

Ohio Rev. Code Section 3314.08 (I) provides that "No community school shall charge tuition for the enrollment of any student."

We contacted ODE for ADM numbers and Clarence Love, Imani's Fiscal Officer, provided us with the names and addresses of 79 students enrolled during the Period. Using those lists, we contacted 30 parents to confirm attendance and determined whether parents paid school-related fees.

Of the 30 letters we sent to parents, only eight responses were received. Seven of the eight letters confirmed the children attended Imani during the Period. Additionally, six of the seven positive responses stated they had paid school-related fees for their child's attendance at Imani ranging in amounts from \$250 to \$870. Imani did not provide us with any documentation to demonstrate the purpose of such fees, even though it reported an annual parents' fee on its Profit and Loss Statement. Charter schools are not allowed to charge tuition, and can only charge school fees if there are strict guidelines in place defining the purpose of those fees. Imani did not provide any guidelines for school fees.

Records Retention

Ohio Rev. Code Section 149.43(B)(1) 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.

On multiple occasions we requested Imani officials to make available all financial records in order to perform our special audit. A response was never received for records related to transactions in 2003. Responses to our record requests for 2002 and 2001 were incomplete.

Supplement to the Special Audit Report

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 Imani dated June 28, 2001, requires that Imani 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.

Imani 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, or were used inconsistently. Additionally, Imani's financial records were in such disarray that our office disclaimed its opinion on the financial statements dated June 30, 2002, and we were unable to conduct a financial audit for the period ended June 30, 2003.

School Budgets

The Community School Contract between ODE and Imani dated June 28, 2001, requires 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.

Additionally, Imani Policy No. 3, Approval of Annual Budget, states the budget of Imani is to be presented and approved at the Annual Board of Trustees meeting for the forthcoming fiscal year.

Imani 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.

Fund Accounting

Ohio Administrative Code Section 117-6-01 required 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).

Additionally, Exhibit II, p. 4 of the Community School Contract between ODE and Imani dated June 28, 2001, states, in part, "Our school will comply with all USAS . . . requirements."

Imani did not maintain its records in accordance with USAS. All revenue received was commingled and not accounted for in separate funds. Receipts were not identified by fund, receipt code, or special cost center.

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, 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."

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. The bond is to be in an amount and with surety to be established by a resolution of the governing authority; payable to the State of Ohio, and conditioned for the faithful performance of all the official duties required of the fiscal officer.

Supplement to the Special Audit Report

Additionally, Exhibit II of the Financial Plan in the Community School Contract between ODE and Imani dated June 28, 2001, requires that the Treasurer be bonded in accordance with ORC 3314.011.

Imani provided no evidence that Clarence Love, Fiscal Officer, was bonded. Donna Johnson, Superintendent, was required, by Imani Policy No. 4, section 7, to “have full custody and keep account of” Imani monies; however, she also was not bonded.

Internal Control Environment

Ohio Administrative Code Section 117-2-01 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 Imani dated June 28, 2001, states that Imani agrees to comply with policies and procedures regarding internal financial controls, including but not limited to the fact that Imani will establish 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.
- Monitoring, a process that assesses the quality of internal control performance over time.

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

- Imani failed to ensure that all transactions were properly authorized in accordance with management’s policies;
- Imani failed to ensure that accounting records were properly designed;
- Imani failed to plan for adequate segregation of duties or compensating controls;
- Imani failed to perform analytical procedures to determine the reasonableness of financial data;
- Imani failed to ensure the collection and compilation of the data needed for the timely preparation of financial statements;
- Imani failed to provide monthly financial statements to its governing board; and
- Imani failed to reconcile its bank accounts on a regular basis.

Supplement to the Special Audit Report

Issue No. 2 – Review of Expenditures

PROCEDURES

Using the canceled checks received from Imani's financial institutions, we reviewed and summarized expenditure transactions incurred during the Period.

We reviewed Imani's expenditures and identified vendors who received large or unusual payments during the Period or who received multiple payments on the same date. We reviewed documentation supporting certain payments to determine whether services were provided within the scope of contract documents and for a purpose related to the operations of Imani. We determined whether expenditures were approved for payment, by whom, and when. For significant expenditures where supporting documentation did not exist, we contacted the vendor and requested copies of sales receipts which supported the transaction.

We determined the location where classes were held and contacted the property owners to obtain and review rental agreement(s) that had been in place. We determined whether Imani performed its contractual responsibilities and whether all rent, fees, and utilities, as agreed upon, had been paid by Imani.

We attempted to trace significant purchases to the location of a fixed asset.

RESULTS

Total Expenditures

Using the bank records received from Imani's financial institutions, we reviewed and summarized expenditure transactions incurred during the Period as follows:

Checks issued to Vendors	\$1,482,843
Checks issued to "Cash"	98,496
Debit Card Transactions ²	57,840
ATM Cash Withdrawals	7,243
Debit Memos and Returned Items	18,010
Service Charges and Non-Sufficient Funds Fees	5,294
Total	\$1,669,726

Miscellaneous Loans

There were deposits from Jimmy Johnson, Donna Johnson's father, totaling \$31,200. These deposits were cashiers checks from Mr. Johnson without any notation as to their purpose. During the Period, Imani issued checks to Jimmy Johnson totaling \$31,000. The memo portions of those checks were noted as "Loan payments." Again, Imani did not have any documentation to support whether this was, in fact, a loan transaction.

We confirmed with Fifth Third Bank that Imani had a revolving loan agreement (e.g., line of credit) dated January 21, 2003, in the amount of \$50,000. From January through June 2003, Imani borrowed \$65,000 and repaid \$15,000 on the revolving loan. As of May 2006, Imani had not repaid the loan.

Management Contract

Imani used the services of AHRMS Management Group to serve as its management company. However, Imani officials were unable to produce a service contract outlining the expectations of the business relationship, required payments, or time frame involved. Because Imani officials did not provide us with any identifying information on this company, we attempted to obtain information from the Ohio Secretary of State's office; however, AHRMS Management Group was not registered with the state of Ohio.

² This is the net amount of debit card transactions. Total debit card transactions were \$60,138 with refunds posted totaling \$2,298, netting \$57,840.

Supplement to the Special Audit Report

Property Lease; July 2001 through February 2002: 1729 Superior Avenue, Cleveland

Imani entered into a five year lease agreement with Sunshine Limited Partnership, owner, for the lease of space in this building. The lease called for a security deposit of \$32,658, monthly rental of \$16,329, and monthly parking fees of \$1,500 for the period of July 2001 through December 2001. Beginning in January 2002, the monthly parking fee increased to \$1,875. Imani only occupied the building for eight months. During that time, payments were made totaling \$105,571. Our calculation of what should have been paid in accordance with the lease agreement was \$176,040, resulting in a balance due of \$70,469. In a confirmation letter dated August 24, 2004, Thomas Unik, General Partner of Sunshine Limited Partnership, stated that Imani owed Sunshine \$666,640; presumably for vacating the premises prior to the lease conclusion.

Property Lease: March and April 2002: YMCA, Cleveland

During the Period, Imani paid the YMCA \$20,572 for the lease of classroom space. Of that amount, \$15,075 was supported by an invoice and a rental agreement. The remaining amount, \$5,497, while unsupported, appears reasonable based on available documentation.

Property Lease: May 2002 through June 2003: St. John Cantius Church (second floor only)

The terms of this lease required monthly payments of \$2,300 for rent and \$250 per month for utilities. According to a letter dated July 8, 2004, from Pastor Lucjan Stokowski, Imani fulfilled all aspects of its lease agreement and paid the full amount of the lease.

FINDINGS FOR RECOVERY

Checks to Cash: \$32,118

During the Period, checks were issued to cash totaling \$98,496. Bank records obtained from Imani's financial institutions showed that \$66,378 of that amount was then used to purchase cashier's checks for school expenditures or to make deposits into other Imani bank accounts. The remaining cash of \$32,118 remains unaccounted for.

Imani Policy No. 4, section 7, states, "The Superintendent shall have full custody and keep account of monies, funds and property of Imani Institute Leadership School." Section 8 states, "The Superintendent will have the authority to execute checks...and any other instruments on behalf of the Imani Institute Leadership School, subject to the budget process mandated by the Board of Trustees."

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money collected but unaccounted for is hereby issued against Donna Johnson, Superintendent, in the amount of \$32,118, and in favor of the Ohio Department of Education.

Cash Unaccounted For: \$27,358

Imani maintained multiple bank accounts at more than one financial institution. Donna Johnson transferred funds from one bank to another by issuing an Imani check to the alternate bank. We traced all checks issued to banks to verify funds were deposited into the alternating financial institution. During the Period, seven checks totaling \$27,358 were issued to Imani's banks; however, they were not deposited into another Imani account.

Imani Policy No. 4, section 7, states, "The Superintendent shall have full custody and keep account of monies, funds and property of Imani Institute Leadership School." Section 8 states, "The Superintendent will have the authority to execute checks...and any other instruments on behalf of the Imani Institute Leadership School, subject to the budget process mandated by the Board of Trustees."

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money collected but unaccounted for is hereby issued against Donna Johnson, Superintendent, in the amount of \$27,358, and in favor of the Ohio Department of Education.

ATM Cash Withdrawals: \$7,243

One of Imani's accounts at National City Bank included the use of a debit card. The records provided to us from National City documented that Donna and Ernest Johnson were the only signatories on the debit card. During the Period, the debit card was used to withdraw cash at automated teller machines (ATM) totaling \$7,243 without evidence that these ATM withdrawals were related to the operations of the school.

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 collected but unaccounted for is hereby issued against Donna Johnson, Superintendent, and Ernest Johnson, Parliamentarian, jointly and severally, in the amount of \$7,243, and in favor of the Ohio Department of Education.

General Expenditures: \$13,339

Our review of Imani's general expenditures revealed transactions totaling \$13,339 which were not for purposes related to the operations of a charter school, such as the African Travel Association and other memberships (\$705), personal expenses such as home warranties, home installation of postage machines and computers, as well as express shipping of personal credit card payments (\$2,229), meals at restaurants (\$1,434), retail purchases such as eye cream, deodorant, chaise lounge chairs, and the return of a flat-bed screener with no indication of where the credit of funds was applied (\$1,089), retainer fee paid but services not utilized (\$600), and travel and theater purchases with no evidence they were school-related, approved by the Board, or of an educational benefit (\$5,446). There was also a purchase of a table and chairs (\$727) which was supported by an invoice documenting the items were delivered to Donna Johnson's home address, as well as a contractor's invoice for the construction/renovation of an office (\$1,109) at Ms. Johnson's home address.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for illegal expenditures of public money is hereby issued against Donna Johnson, Superintendent, in the amount of \$13,339, and in favor of the Ohio Department of Education.

Fees for Nonsufficient Funds: \$3,757

During the Period, Imani incurred \$3,757 in bank fees for nonsufficient funds. These charges would not likely have been incurred if Imani had established and abided by strong internal controls, segregation of duties, oversight of the Board, and better management of state and federal subsidies.

Imani Policy No. 4, Section 7, states, "The Superintendent shall have full custody and keep account of monies, funds and property of Imani Institute Leadership School." Section 8 states, "The Superintendent will have the authority to execute checks...and any other instruments on behalf of the Imani Institute Leadership School, subject to the budget process mandated by the Board of Trustees."

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 Donna Johnson, Superintendent, in the amount of \$3,757, and in favor of the Ohio Department of Education.

Debit Card Purchases: \$22,532

One Imani bank account had a debit card associated with it, and documentation received from the financial institution confirmed that Donna and Ernest Johnson were co-signatories on that account. Mr. and Ms. Johnson began using the Imani debit card after July 1, 2001. The debit card was used for 430 transactions, totaling \$60,138.

Of the total debit card transactions, we determined \$22,532 were for items which were unrelated to the operation of a charter school. Among the significant debit card transactions were purchases at Ann Taylor (an upscale ladies clothing store, \$635), Ticket Master (tickets to a Luther Vandross concert, \$130), The Coach Store (an upscale ladies handbag store, \$318), Layne Bryant (for women's clothing, \$112), ethnic art (\$4,466), gasoline (\$1,129), home improvement (\$417), market shopping and meals at restaurants (\$2,526), retail expenses without any evidence to support the purchase, receipt, or approval (\$3,752), and theater and travel which was not supported by any documentation verifying the expenditure was approved and a valid expense of a charter school (\$9,047).

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 Donna Johnson, Superintendent, and Ernest Johnson, Parliamentarian, jointly and severally, in the amount of \$22,532, and in favor of the Ohio Department of Education.

Supplement to the Special Audit Report

Loans: \$4,840

During the Period, there were five deposits totaling \$31,300, into Imani's bank accounts from HDC Inc. The memo portion of the HDC checks stated "loan;" however, Imani was unable to provide us with any documentation to support that this was a loan transaction (e.g., loan application, loan agreement, etc.). During the Period, Imani issued payments to HDC, with "loan repayment" written in the memo portion of the checks. However, the value of the checks noted as "loan repayments" exceeded the value of the deposited HDC checks by \$4,840.

Although we found an address for HDC in Imani's records, a search of that address on the Internet and through Lexis Nexis Total Research System did not reveal a company by the name HDC. Additionally, although we found a company registered with the Ohio Secretary of State as HDC, the address did not match the address Imani officials had on file. Therefore, we were unable to conclude with certainty who was the owner of HDC. However, the checks issued by Imani to HDC were endorsed by Marcus Wright, who was involved with Imani's management company, AHRMS Management. The extent of his relationship with AHRMS Management or Mr. Wright's position with the company was not provided.

Imani Policy No. 4, Section 7, states, "The Superintendent shall have full custody and keep account of monies, funds and property of Imani Institute Leadership School." Section 8 states, "The Superintendent will have the authority to execute checks...and any other instruments on behalf of the Imani Institute Leadership School, subject to the budget process mandated by the Board of Trustees."

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 Donna Johnson, Superintendent, and Marcus Wright, AHRMS Management Company, jointly and severally, in the amount of \$4,840, and in favor of the Ohio Department of Education.

Donna Johnson – Payroll: \$25,859

Although Donna Johnson had an employment contract which established her salary at \$150,000, Board minutes dated May 31, 2001, wherein Ms. Johnson was listed as being present, documented that Ms. Johnson agreed to accept a lesser salary of \$65,000 and \$75,000 for the fiscal years ended 2002 and 2003, respectively. Payroll records show she was actually paid \$69,600 and \$96,259, in each of the fiscal years, resulting in an overpayment of \$25,859.

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 Donna Johnson, Superintendent, in the amount of \$25,859, and in favor of the Ohio Department of Education.

In addition to Ms. Johnson's payroll overpayments, the amounts recorded on her Internal Revenue Service (IRS) Form W-2 were under-reported by \$32,150 and \$3,125, in 2001 and 2002, respectfully. This occurred because certain payroll payments were issued on a hand-written check by Ms. Johnson rather than through Imani's payroll processing company. It was allowable for Imani to issue IRS Form 1099 for the variances; however, Imani provided no evidence it had done so. We referred this matter to the IRS and the Ohio Department of Taxation for further review.

Consultant Payments: \$4,291

In fiscal year 2002, Imani hired Rashid Alaji as an Innovative Program Consultant. Mr. Alaji's consulting contract stated he would be paid \$20 per hour for services rendered, up to a contract maximum of \$25,000. Imani provided us with Mr. Alaji's timesheets which documented 80 hours worked every two weeks. Based on the stated rate of \$20 per hour, Mr. Alaji should have been paid \$16,800; however, Imani actually paid him \$21,091, resulting in an overpayment of \$4,291. Imani officials were unable to explain why Mr. Alaji was paid in excess of \$20 per hour which was dictated by his contract.

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 Rashid Alaji, consultant, and Donna Johnson, Superintendent, jointly and severally, in the amount of \$4,291, and in favor of the Ohio Department of Education.

Supplement to the Special Audit Report

Reimbursements: \$3,544

During the Period, Donna Johnson issued nine checks as reimbursements to herself without any documentation or evidence the transaction was a reimbursement. The largest check, in the amount of \$1,500, had a notation in the memo portion of the check as “Reimbursement for Moving Expense.” Donna Johnson wrote these checks to herself without supporting documentation or written authorization from the Board to show the expenditures were 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 Donna Johnson, Superintendent, in the amount of \$3,544, and in favor of the Ohio Department of Education.

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 Imani 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 Imani 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/or reference.

There were no voucher packages, checks, reports, or other supporting documentation related to the following federal grants received in the following fiscal years:

Program	2001	2002	2003
Public Charter School Subsidy, CFDA 82.282	\$50,000	\$150,000	
School Breakfast, CFDA 10.553		5,692	\$4,913
National School Lunch, CFDA 10.555		10,507	7,880
Title I Disadvantaged Children Targeted Assistance, CFDA 84.010			89,876
Drug-Free Schools, CFDA 84.186			423
Eisenhower Professional Development, CFDA 84.281			1,122
Title V, Part B Charter Schools, CFDA 84.282			150,000
Title V Innovative Education Program, CFDA 84.298			1,281
Title II Part D, Technology, CFDA 84.318			1,310
Class Size Reduction, CFDA 84.340			579
Special Education Grants to States, CFDA 84.027			1,830
Improving Teacher Quality State Grants (Title II Part A), CFDA 84.367			6,746
Total	\$50,000	\$166,199	\$265,960

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, Imani was unable to support or verify payments were made only for the purpose of the grant.

Total Federal Questioned Costs: \$482,159

Supplement to the Special Audit Report

NONCOMPLIANCE CITATIONS

Fund Accounting

The contract between ODE and Imani required Imani 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 required that to demonstrate legal compliance and to facilitate sound management, school districts shall maintain financial records on a fund basis. Funds are to be established and classified using the current guidelines and definitions established by the Governmental Accounting Standards Board. All school districts shall maintain the financial records in accordance with the uniform school accounting system (USAS).

Minimum reporting requirements for expenditures are fund (3 digits), function (2 digits), object (1 digit), and, when required by a funding agent, special cost center (4 digits).

Imani did not maintain its records in accordance with the Uniform System of Accounting (USAS). All expenditures were made from the same fund which consisted of commingled state and federal money.

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 Contract between ODE and Imani dated June 28, 2001, states that Imani agrees to comply with policies and procedures regarding internal financial controls, including but not limited to the fact that Imani will establish 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.

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

- Imani failed to maintain expenditure ledgers for the Period;
- Imani failed to follow its documented purchasing policy;
- Imani failed to receive board approval for expenses;
- Imani failed to use purchase orders;
- Imani failed to maintain documentation to support expenditures (e.g., invoices); and
- Imani failed to receive board approval for loan transactions, and to enter into and maintain copies of loan agreements.

Supplement to the Special Audit Report

Disbursement Records

Imani Policy No. 4, Disbursement of Funds, states, in part, "The Treasurer must maintain a record of all disbursements along with correlating documentation, and will report monthly on the accumulation of expenses against the budget. The Treasurer shall submit a financial report that will include all expenses and projected revenue."

Imani did not have an employee in the position of Treasurer. Donna Johnson, Superintendent, wrote all checks from Imani bank accounts, and approved all purchase requests; thereby, acting in the role of Treasurer. Ms. Johnson did not maintain records of disbursements and supporting documentation, nor did she prepare and submit financial reports in accordance with this policy.

STRS Withholdings

Ohio Administrative Code 3307-3-02(B) states, in part, "Each employer shall no later than five business days after any pay date report contributions on compensation paid or earned based on payroll records for each member employed during the payroll period in a position covered by the retirement system..." Ohio Administrative Code 3307-3-03 further clarifies that, "Member contributions made pursuant to section 3307.26 of the Revised Code shall be due with the payroll report specified by paragraph (B) of rule 3307-3-02 of the Administrative Code, but shall in no case be paid by an employer later than the fifth business day after a pay date. Any employer contributions not made by deduction from foundation funds as specified by section 3307.31 of the Revised Code shall be due with the payroll report specified by rule 3307-3-02 of the Administrative Code, but shall in no case be paid by an employer later than the fifth business day after a pay date."

During fiscal years 2002 and 2003, Imani did not remit employer and employee State Teacher's Retirement System (STRS) withholdings by the fifth business day after the pay dates. Beginning in November 2003, due to untimely or nonexistent payments, STRS began taking the delinquent and current payments from Imani's school foundation payments to ensure member contributions were paid. In addition, Imani did not submit payroll deduction reports to STRS which list the employee's name, social security number, and the amount deducted for STRS for each pay period. According to STRS, out of 44 payroll reports due during the Period, five were submitted more than five days after the pay date. Because current STRS contributions began being deducted from foundation payments Imani had no delinquency at June 30, 2003.

SERS Withholdings

In regards to the School Employee's Retirement System (SERS), Ohio Revised Code Section 3309.571 states, "Where the employer fails to transmit contributions withheld from the employees, or any amount due the employer's trust fund within thirty days from the end of the month in which such amounts are due, the employer will be liable to a penalty for late payments which shall be at a rate of six per cent per annum of the amount due." During the Period, Imani did not submit payments in accordance with the above Revised Code Section.

As of June 30, 2002, Imani was delinquent for both employee and employer contributions to SERS in the amounts of \$2,921 and \$4,458, respectively. Imani was current for both employee and employer contribution as of June 30, 2003. As a result of untimely or nonexistent payments, SERS deducted the delinquent payments from Imani's state foundation payments. Imani is also paying penalties and interest payments due to the untimely remission of payments.

In addition, Imani did not remit a payroll deduction report that lists the employee's name, social security number, and the amount deducted or SERS for each pay period.

Filing of IRS 1099 Forms

Internal Revenue Regulation (24 C.F.R.), §1.6041 -1, requires employers to report all compensation in excess of \$600 that is not otherwise reported (e.g., on Form W-2), on Form 1099.

During the Period, 15 consultants were paid in excess of \$600 each, in amounts totaling \$108,981. Of that amount, only \$29,228 was reported on IRS Form 1099. The names, identifying information, and amounts unreported were forwarded to the Internal Revenue Service.

Supplement to the Special Audit Report

Approval of Expenditures

Imani's Disbursement of Funds policy (Policy No. 4) states, in part, "The Board of Trustees will approve funds expended... pursuant to the adopted budget." The Policy goes on to state that "A fund request is presented to the Board of Trustees and is acted on by a majority of the Board of Trustee members present." The Community School Contract between ODE and Imani states, "The Superintendent/CEO, treasurer and the Trustee Board Finance Committee will review the financial statements for the school on a monthly basis in preparation for board meetings. A quarterly statement of finances will be issued in writing as well."

There was no documentation that any of Imani's expenditures was approved by the Board. Nor did Imani provide a budget for any time during the Period. Donna Johnson was the only signatory on all available purchase requests. Only a limited number of Board meeting minutes were provided and those did not document approval of expenditures.

Records Retention

Ohio Rev. Code Section 149.43(B)(1) 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.

Per Imani Policy No. 4 Disbursement of Funds, the Treasurer must maintain a record of all disbursements along with correlating documentation and report monthly on the accumulation of expenses against the budget.

Imani did not maintain financial records in a consistent manner and supporting documentation was not available for all disbursements of public funds. Records that were provided for our special audit were unorganized and were not reconciled to expenditure ledgers or purchase orders. During the Period, Imani issued payments to individuals and vendors for which supporting documentation was not on file and could not be verified. This missing documentation included invoices for purchases, purchase orders and travel expenses which were not supported by invoices. School officials were unable to provide supporting documentation for 1,389 checks and debit card purchases out of 2,044 transactions during the Period.

Payroll Taxes

Internal Revenue Regulation (24 C.F.R.) § 3402, states, in part, "Except as otherwise provided in this section, every employer making payment of wages shall deduct and withhold upon such wages a tax determined in accordance with tables or computational procedures prescribed..." Internal Revenue Regulation (24 C.F.R.), § 3403, states, in part, "the employer shall be liable for the payment of the tax required to be deducted and withheld..."

Imani used the services of an outside agency to process payroll; however, checks issued to pay various taxing authorities and retirement funds were delivered to Imani officials for mailing. We determined that at June 30, 2002, Imani had not remitted \$36,929 in employee federal tax withholdings. As of June 30, 2003, \$18,324 was not remitted to the Internal Revenue Services, \$4,823 was not remitted for local taxes, \$3,924 was not remitted for state taxes, and \$5,901 was not remitted for Medicare taxes.

On May 31, 2005, we were notified by Gaylen Blackwell, Associate Director, Office of Community Schools, ODE, that ODE had been contacted by the IRS concerning Imani's delinquency in filing Form 941 for the past several reporting periods. Mr. Blackwell notified Imani officials of their need to take immediate action to resolve these issues; however, we also referred these matters to the Internal Revenue Service, Ohio Department of Taxation, and the City of Cleveland, accordingly.

Supplement to the Special Audit Report

Fixed Assets

The Community School Contract between ODE and Imani, Exhibit II, Financial Plan, states that a committee will be formed to be responsible for disposition of assets and an inventory system. Within the contract, Imani officials asserted that Imani “has established plans for purchasing and disposal of assets. The purchase of these materials requires two signatures: that of the business manager and the CEO, and Board approval. A purchase order is drafted, detailing date and items purchased, vendor information, price, budget numbers, a brief narrative and the name of the person originating the order. The equipment is assigned a number which is engraved and tagged onto the physical surface and is logged into the school’s equipment inventory log-book and computer file. When disposal of a fixed asset is necessary...a disposal form is completed.”

Imani did not maintain a list of fixed assets or other business records which would have allowed us to determine whether certain purchases were for fixed assets. Upon reviewing the cancelled checks received from Imani’s financial institutions, we compiled a list of certain vendors which may have sold fixed assets to Imani. That list was given to Mr. Johnson with a request that he provide documentation to support the expenditures. Mr. Johnson did not provide a response to our request and no further testing was performed.

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Issue No. 3 – July 1, 2003 through October 31, 2005: The Extended Period

PROCEDURES

After reviewing the results of the Special Audit for the Period, a decision was made to perform additional procedures on certain transactions from July 1, 2003 through October 31, 2005 (the Extended Period).

We used documents received from Paychex (Imani's payroll processing company) to quantify the amounts withheld from employees' paychecks for SERS, STRS, health insurance, and taxes, and determined whether amounts were remitted as withheld. We also scheduled all salary payments to Donna Johnson and attempted to reconcile her salary to Form W-2 information.

In the area of expenditure transactions, we quantified all checks to cash and all ATM withdrawals from Imani accounts. We attempted to trace cash withdrawals and checks to cash to other Imani bank accounts. When certain expenditures came to our attention which appeared to be unusual in nature for a charter school, we investigated those payments further.

An interview with a former Imani employee revealed he had not received a paycheck after April 2005; however, he provided copies of Imani payroll records which documented that paychecks had been generated for employees in May 2005. Working directly with Imani's payroll processing company and by reviewing canceled checks from the Imani bank accounts, we determined whether the May 2005 payroll was created and distributed to employees.

Finally, through our review of Ms. Johnson and Mr. Johnson's personal bank accounts during the Period, we noted there were no payments for utility companies from those accounts. Having expected to find regular monthly payments for utilities, we requested the Johnson's utility companies provide historical information on their payments. Using the utility companies' records, we attempted to determine whether the Johnson's maintained additional personal bank accounts or if utility payments were being made in cash or being paid by Imani.

RESULTS

Payroll and Withholdings

At October 31, 2005, we calculated outstanding liabilities for state tax (\$29,793), federal and Medicare taxes (\$103,385) and city tax (\$11,443). These matters were referred to the Ohio Department of Taxation, the Internal Revenue Service, and the City of Cleveland Tax Department for collection efforts. Overpayments of liabilities existed for both SERS and STRS. This was due to both agencies withholding estimated funds directly from Imani's foundation payments. For the overpayment of retirement withholdings, we notified ODE, as well as SERS and STRS, for a resolution. Withholdings for medical insurance were deducted from employee payroll and were remitted to the appropriate agencies.

In 2004 and 2005, Donna Johnson's Form W-2 was understated by \$6,652 and \$13,200, respectively. The under-reporting of income was due to Ms. Johnson issuing herself handwritten checks rather than going through the payroll processing company. We will refer this matter to the Internal Revenue Service and the Ohio Department of Taxation.

May 2005 Payroll

Records received from Imani's payroll processing company, Paychex, verified that payroll checks were generated through May 2005. However, our subpoenas issued to Imani's banking institutions verified that none of the payroll checks issued in May 2005 had been cashed. We referred this matter to the United States Department of Labor, the 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.

Supplement to the Special Audit Report

Expenditure Transactions

During the Extended Period, expenditures totaling \$2,653,236 were charged against the Imani accounts.³

Personal Utility Payments

Dominion East Ohio Gas company provided records for utility payments at the Johnson's personal residence, from November 2003 through December 2005. During that time, cash payments were made totaling \$2,961, and one payment was made by check for \$225. There were two payments (\$38 and \$241) which were not maintained by Dominion and, therefore, cannot be identified by tender type.

First Energy provided a payment history from June 2003 through December 2005. All payments were made at a "ready-pay" center (e.g., Drug Mart, Giant Eagle). The First Energy representative informed us the "ready-pay" centers will only accept cash or money order for payment.

FINDINGS FOR RECOVERY

Checks to Cash: \$155,388

During the Extended Period checks were issued to cash totaling \$490,949. Bank records obtained from Imani's financial institutions showed that \$335,561 of that amount was then used to purchase cashier's checks for school expenditures or to make deposits into other Imani bank accounts. The remaining cash of \$155,388 remains unaccounted for.

Imani Policy No. 4, section 7, states, "The Superintendent shall have full custody and keep account of monies, funds and property of Imani Institute Leadership School." Section 8 states, "The Superintendent will have the authority to execute checks...and any other instruments on behalf of the Imani Institute Leadership School, subject to the budget process mandated by the Board of Trustees."

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money collected but unaccounted for is hereby issued against Donna Johnson, Superintendent, in the amount of \$155,388, and in favor of the Ohio Department of Education.

Cash Unaccounted For: \$17,279

Imani maintained multiple bank accounts at more than one financial institution. Donna Johnson transferred funds from one bank to another by issuing an Imani check either to the alternate bank or to Imani itself. We traced all checks issued to banks and to Imani to verify funds were deposited into an alternate financial institution. During the Extended Period, checks totaling \$187,998 were issued to Imani's banks and checks totaling \$367,854 were issued to Imani. Of those amounts, \$17,279 could not be traced as a deposit into one of Imani's accounts.

Imani Policy No. 4, section 7, states, "The Superintendent shall have full custody and keep account of monies, funds and property of Imani Institute Leadership School." Section 8 states, "The Superintendent will have the authority to execute checks...and any other instruments on behalf of the Imani Institute Leadership School, subject to the budget process mandated by the Board of Trustees."

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money collected but unaccounted for is hereby issued against Donna Johnson, Superintendent, in the amount of \$17,279, and in favor of the Ohio Department of Education.

ATM Cash Withdrawals: \$624

One of Imani's accounts at National City Bank included the use of a debit card. The records provided to us from National City documented that Donna and Ernest Johnson were the only signatories on the debit card. During the Extended Period the debit card was used to withdraw cash at automated teller machines (ATM) totaling \$624, without evidence that these ATM withdrawals were related to the operations of the school.

³ The Imani bank account balances at July 1, 2003 were \$8,005. Revenues totaling \$2,645,245 were deposited into the accounts, resulting in an ending balance at October 31, 2005 of \$14.

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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 collected but unaccounted for is hereby issued against Donna Johnson, Superintendent, and Ernest Johnson, Parliamentarian, jointly and severally, in the amount of \$624, and in favor of the Ohio Department of Education.

General Expenditures: \$4,220

Our Extended Period review of Imani's general expenditures revealed transactions totaling \$5,224 which were not for purposes related to the operations of a charter school, such as purchases from the Harlem Art Gallery in New York (\$3,800) and a single payment for cable television issued in May 2005, without any previous or subsequent payments or invoices to support the expenditure as being related to Imani (\$420).

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for illegal expenditures is hereby issued against Donna Johnson, Superintendent, in the amount of \$4,220, and in favor of the Ohio Department of Education.

Fees for Nonsufficient Funds: \$4,099

During the Extended Period Imani incurred \$4,099 in bank fees for nonsufficient funds. These charges would not likely have been incurred if Imani had established and abided by strong internal controls, segregation of duties, oversight of the Board, and better management of state and federal subsidies.

Imani Policy No. 4, Section 7, states, "The Superintendent shall have full custody and keep account of monies, funds and property of Imani Institute Leadership School." Section 8 states, "The Superintendent will have the authority to execute checks...and any other instruments on behalf of the Imani Institute Leadership School, subject to the budget process mandated by the Board of Trustees."

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 Donna Johnson, Superintendent, in the amount of \$4,099, and in favor of the Ohio Department of Education.

Debit Card Purchases: \$10,311

One Imani bank account had a debit card associated with it, and documentation received from the financial institution confirmed that Donna and Ernest Johnson were co-signatories on that account.

Of the debit card purchases during the Extended Period, we determined \$10,311 was for items which were unrelated to the operation of a charter school. Among the significant debit card transactions were purchases in California⁴ (\$5,044), gasoline (\$1,081), airfare purchases (\$3,182), plants (\$91), and out of state hotel charges (\$913).

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 Donna Johnson, Superintendent, and Ernest Johnson, Parliamentarian, jointly and severally, in the amount of \$10,311, and in favor of the Ohio Department of Education.

Reimbursements: \$3,180

During the Extended Period Donna Johnson issued checks to herself as reimbursements without any documentation or evidence the transaction was a reimbursement or was 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 Donna Johnson, Superintendent, in the amount of \$3,180, and in favor of the Ohio Department of Education.

⁴ On November 15, 2004, Ms. Johnson submitted a proposed budget and petition for a charter school in San Diego, California.

Supplement to the Special Audit Report

Additional Noncompliance

Although not directly the result of the issues and procedures of the Special Audit, we noted the following additional noncompliance that we wanted to bring to Imani's attention.

Annual Report of Activities

Ohio Rev. Code Section 3314.03(A)(11)(g) requires the community school Governing Authority to submit an annual report of its activities and progress in meeting the goals and standards of Ohio Rev. Code section 3314.03, divisions (A)(3) and (4) (academic goals, method to determine progress and performance standards to evaluate a school's success) and its financial status to the sponsor, the parents of all students enrolled in the school, and the legislative office of education oversight. Ohio Administrative Code section 117-2-03 states that pursuant to section 117.38 of the Revised Code, all local public offices must file an annual financial report.

Imani did not file an annual financial report.

Board of Trustees

Imani Policy No. 1, Notification of the Board of Trustees Meetings and Executive Committee Meetings, states "The Board of Trustee meetings shall be monthly. The Executive Committee board meetings should be quarterly." Imani Policy No. 2, Agenda for Board of Trustees Meetings and Executive Committee Meetings, states "The agenda will be prepared by the secretary and distributed at the meeting" and "Agendas will be maintained as official records with the correlating minutes." Imani Policy No. 6, Program Report, states "The President shall prepare a report at each Board of Trustees meeting... The report shall include progress of standing committees and ad hoc committees, names of committee chairs, assistance from the required Executive Committee and completed reports from each committee."

Additionally, Exhibit III, p. 2, of the Community School Contract between ODE and Imani states the school board meets once monthly for full board meetings and once monthly for committee meetings. The Annual Meeting of the Board of Trustees shall be held immediately following the annual meeting at which Trustees are elected. Also, "Board Meeting Minutes for regular and special sessions of the Board shall be promptly recorded and open to the public for inspection," in accordance with Ohio Rev. Code section 121.22.

Imani was unable to produce minute records to reflect monthly Board of Trustee meetings or quarterly Executive Committee meetings. Agendas with correlating minutes were not provided for the Period. For the minutes that were available, program reports were not included.



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**IMANI INSTITUTE LEADERSHIP SCHOOL
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
DECEMBER 19, 2006**