



Mary Taylor, CPA
Auditor of State

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Allison Perz, Executive Director
Ohio Council of Community Schools
3131 Executive Parkway, Suite 306
Toledo, OH 43606

Based on your request for a mid-year audit, we conducted a special audit of the Performing Arts School of Metropolitan Toledo (PASMT), by performing the procedures enumerated in the attached Supplement to the Special Audit Report for the period July 1, 2006 through February 9, 2007 (the Period), solely to:

- Identify PASMT's significant revenue and trace revenue received to a PASMT bank account;
- Determine whether certain expenditures were authorized, for a purpose related to PASMT operations, and whether the items purchased and/or the services described were received;
- Determine whether amounts withheld from employees' compensation were remitted to respective taxing authorities and employee retirement systems as required.

This engagement was conducted in accordance with the Quality Standards for Inspections established by the President's Council on Integrity and Efficiency (January 2005). 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 PASMT's significant sources of revenue and traced revenue received to a PASMT bank account.

Significant Results – During the Period PASMT had revenue of \$414,213. We confirmed \$406,098 received from federal and state sources with the remaining received from miscellaneous individual sources, students' parents, and interest.

We noted only \$1,330 of \$5,258 recorded in PASMT's receipt book could be traced to deposit in a PASMT bank account. Additionally, although we were unable to ensure the completeness of fundraising activities and receipts, we noted only \$196 of \$1,556 in documented fundraising receipts could be traced to deposit in a PASMT bank account. We issued findings for recovery against Kari DiCianni, former executive director, totaling \$5,288 for monies collected but unaccounted for.

We issued two noncompliance citations related to charging student tuition and untimely deposit of monies received.

2. We examined certain expenditures to determine whether expenditures were authorized, for a purpose related to PASMT's operations, and whether the goods purchased and/or the services described were received.

Significant Results – During the Period PASMT expended \$437,562. Unsupported payments to Kari and William DiCianni totaled \$53,037. During the special audit Kari DiCianni provided copies of various receipts and other documents for purchases and other transactions which she asserted were made by her or William DiCianni, her husband, on behalf of PASMT. These documents were not organized in a fashion that corresponded to the disbursements made to Mr. and Mrs. DiCianni. While Kari DiCianni was the executive director, William DiCianni's role and authority at PASMT is unclear as we noted no evidence that William DiCianni was a compensated PASMT employee. As such, accepted supporting documentation was netted against the total unsupported payments to Mr. and Mrs. DiCianni resulting in a finding for recovery of \$42,057 against Kari and William DiCianni, jointly and severally.

We also issued a finding for recovery of \$48,250 against Kari and William DiCianni, jointly and severally, for certain payments made to students at Mr. DiCianni's direction. As noted above, Mr. DiCianni's role and authority at PASMT is unclear as we noted no evidence that he was a compensated PASMT employee. The total payments were in excess of amounts due based on students' timesheet documentation provided by Mr. DiCianni. Certain students asserted PASMT issued checks to them who then cashed the checks at nearby check cashing establishments returning the cash to Mr. DiCianni. Mr. DiCianni asserted the cash was distributed among students as payment for services rendered. Due to the suspicious nature of these transactions, this report was referred to the Lucas County Prosecutor's Office.

In addition we issued a finding for recovery of \$3,187 against Kari DiCianni for overdraft, NSF, negative balance, and returned item(s) fees assessed by PASMT's financial institutions. These charges would not likely have been incurred if PASMT had established strong internal controls, a proper segregation of duties, a level of Board oversight, and strong cash management practices.

PASMT leased property at two locations during the Period to hold its classes. As of the end of the audit period PASMT had unpaid rent obligations to both property owners totaling \$54,744.

We were unable to test PASMT's asset inventory as planned due to PASMT's inability to provide complete and accurate asset records. We issued a management recommendation to improve PASMT's internal control over physical assets.

We issued two noncompliance citations related to financial record keeping and not reporting compensation paid to certain students and a volunteer to the Internal Revenue Service. We referred a copy of this report to the Internal Revenue Service and state and local taxing authorities.

3. We examined payroll withholdings to determine whether amounts withheld from employees' compensation were remitted to the required agencies.

Significant Results – We issued findings for recovery totaling \$20,611 against Kari DiCianni for failure to remit federal, state, local, Medicare and school district taxes; School Employees Retirement System contributions; and IRC Section 403B Plan contributions withheld from employees' compensation.

4. On August 30, 2007, we held an exit conference with the following individuals representing the Ohio Council of Community Schools:

Harlan Reichle, Board Chairperson
Allison Perz, Executive Director
Barry Savage, Attorney

The attendees were informed that they had five business days to respond to this special audit report. A response was received on September 17, 2007. The response was evaluated and changes were made to this report as we deemed necessary.



Mary Taylor, CPA
Auditor of State

May 2, 2007

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Supplement to the Special Audit Report

Background

On January 26, 2007, at the request of PASMT's sponsor, the Ohio Council of Community Schools (OCCS), Kari DiCianni was dismissed as PASMT's Executive Director. OCCS became PASMT's sponsor in July 2006, and was having difficulty obtaining financial reports and cooperation from Ms. DiCianni. OCCS conducted a limited investigation of PASMT and discovered several irregularities, unusual business practices, and potentially illegal activities.

In a letter dated January 30, 2007, Allison Perz, Executive Director of OCCS, requested "an immediate mid-year audit" of PASMT.

This request was considered by the Auditor of State's Special Audit Task Force and on February 16, 2007, the Auditor of State initiated a special audit of PASMT.

Supplement to the Special Audit Report

Issue No. 1 – Examination of Revenues - Identify PASMT's significant revenues and trace revenue received to a PASMT bank account.

PROCEDURES

Using documentation supplied by PASMT's financial institutions, we scheduled deposits made during the Period and identified significant revenues. Using PASMT's receipt book we scheduled each receipt and attempted to trace it to a corresponding deposit. We examined available fundraising documentation to identify revenue and attempted to trace it to a corresponding deposit. For confirmable revenue we verified with third parties the dates and amounts of revenue PASMT received.

RESULTS

During the Period PASMT had the following deposit and credit memo activity in its bank accounts:

Transfers & other movements between accounts	\$411,272
Revenue from federal & state sources	406,098
Revenue from miscellaneous sources	6,777
Bank adjustments to account(s)	3,915
Parents' checks	1,332
Interest	6
Total	<u>\$829,400</u>

Revenue from federal and state sources was confirmed.

FINDINGS FOR RECOVERY

Cash Receipts

Examination of PASMT's receipt book noted that PASMT receipted \$5,258 for various types of revenues. However, only \$1,330 of this amount could be traced to a corresponding deposit into a PASMT bank account.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies collected but not accounted for is hereby issued against William DiCianni¹ and Kari DiCianni, jointly and severally, in the amount of \$310 and in favor of PASMT.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies collected but not accounted for is hereby issued against Kari DiCianni in the amount of \$3,618 and in favor of PASMT.

Fundraising Receipts

There appeared to be three fundraisers conducted during our audit period. However documentation supporting the amount generated was available for only one, a Little Caesar's Pizza Kit Fundraiser. The documentation noted that PASMT collected \$1,556; however, only \$196 could be traced into a PASMT bank account.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies collected but not accounted for is hereby issued against Kari DiCianni in the amount of \$1,360 and in favor of PASMT.

¹ William DiCianni issued the receipt noted. As noted also in Issue No. 2, William DiCianni's role and authority at PASMT is unclear as we noted no evidence that William DiCianni was a compensated PASMT employee.

Supplement to the Special Audit Report

NONCOMPLIANCE CITATIONS

Tuition

Ohio Rev. Code Section 3314.08(l) states, "(n)o community school shall charge tuition for the enrollment of students."

While examining PASMT's receipt book we noted receipts for annual fees of \$125 per student which were recorded as tuition.

Untimely 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 27 of 54 occasions tested in which PASMT did not deposit funds within 24 hours of receipt. In those instances deposits were made between 14 and 28 days late and in eight instances not at all.

Supplement to the Special Audit Report

Issue No. 2 – Examination of Expenditures - Determine whether certain expenditures were authorized, for a purpose related to PASMT's operations, and whether the goods purchased and/or the services described were received.

PROCEDURES

Using canceled checks received from PASMT's financial institutions, we scanned and summarized expenditure transactions PASMT made during the Period.

We identified certain vendors who received large or unusual payments during the Period and examined documentation supporting those transactions. For significant expenditures where supporting documentation was not maintained by PASMT, we contacted the vendor and requested documentation supporting the transactions.

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

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

RESULTS

PASMT Disbursements

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

Payments to Vendors	\$107,835
Compensation - Kari DiCianni	28,158
Unsupported Payments to Kari DiCianni	8,899
Unsupported Payments to William DiCianni	44,138
Payments to Students and Volunteer	52,980
Compensation – Other than Kari DiCianni	142,005
Other Compensation Related Payments	50,360
NSF, Overdraft, & Other Fees	3,187
Total	<u><u>\$437,562</u></u>

Numerous payments to vendors were not supported by documentation that demonstrated the disbursements were for a purpose related to PASMT's operations.

We also noted disbursements to certain students allegedly for services provided at the direction of William DiCianni for amounts far greater than those due based on timesheet documentation.

PASMT Leased Properties

During the Period PASMT held classes at two locations for which it rented space under executed lease agreements with the respective property owners. The class locations were 425 Jefferson Avenue, Toledo, Ohio, for the period July 1, 2006 to October 25, 2006, and 2740 West Central Avenue, Toledo, Ohio, for the period October 26, 2006 through the end of the school year.

According to the lease agreement for the Jefferson Avenue property, PASMT owed \$45,002 to the property owner during the Period. Examination of bank records and inquiry of the lessor noted that PASMT paid only \$17,500 leaving an obligation of \$27,502 as of the end of the Period.

Supplement to the Special Audit Report

According to the lease agreement for the West Central Avenue property, PASMT owed \$28,742 to the property owner during the Period. Examination of bank records and inquiry of the lessor noted that PASMT paid only \$1,500 leaving an obligation of \$27,242 as of the end of the Period.

Fixed Asset Testing

The asset inventory listing PASMT provided was not dated and PASMT could not provide any asset addition or disposal information. The inventory list PASMT provided was sorted by teacher and contained no reference to any administrative assets. Due to the incompleteness of fixed asset records, no further testing of fixed assets was performed. However, our examination of disbursements noted no significant fixed asset purchases during the Period.

FINDINGS FOR RECOVERY

Unsupported Payments to Kari and William DiCianni

Unsupported payments were made to Kari and William DiCianni totaling \$53,037. During the special audit Kari DiCianni provided copies of various receipts and other documents for purchases and other transactions which she asserted were made by her or William DiCianni on behalf of PASMT. These documents were not organized in a fashion that corresponded to the disbursements made to Mr. and Mrs. DiCianni. While Kari DiCianni was the executive director, William DiCianni's role and authority at PASMT is unclear as we noted no evidence that William DiCianni was a compensated PASMT employee. As such, accepted supporting documentation was netted against the total unsupported payments to Mr. and Mrs. DiCianni resulting in a finding for recovery against Kari and William DiCianni, jointly and severally, totaling \$42,057.

In accordance with the foregoing acts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Kari DiCianni and William DiCianni, jointly and severally, in the amount of \$42,057 and in favor of PASMT.

Unsupported Payments to Students

Payments were made directly to certain students allegedly for work they performed for William DiCianni on behalf of PASMT. During interviews, students stated that they cashed the checks and returned the cash to Mr. DiCianni. The students received a portion of the returned cash as payment for his or her services. Mr. DiCianni asserted that the remaining cash was distributed to other students as payment for their services. Using timesheets provided by William DiCianni documenting the amounts earned by students we calculated that \$48,250 more was disbursed to students than amounts earned by the students.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Kari DiCianni and William DiCianni, jointly and severally, in the amount of \$48,250 and in favor of PASMT.

Overdraft/Insufficient Funds Fees

During the Period PASMT incurred \$1,857 in overdraft fees, \$1,248 in NSF fees, and \$82 in negative balance and returned item fees from its financial institutions. These charges would not likely have been incurred if PASMT had established strong internal controls, proper segregation of duties, Board oversight, and cash management practices.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Kari DiCianni in the amount of \$3,187 and in favor of PASMT.

Supplement to the Special Audit Report

NONCOMPLIANCE CITATIONS

Accounting and Reporting

Paragraph 27 of the Community School Contract with the Ohio Council of Community Schools states PASMT's financial records will be maintained in the same manner as are financial records of school districts pursuant to the rules of the Auditor of State of Ohio.

During the Period accounting records were not properly maintained by PASMT. Revenues and expenditures were not supported with documentation and accounting reports were not generated.

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 (i.e. W-2), on form 1099.

During the Period a volunteer and certain students were issued checks respectively totaling in excess of \$600, ranging in total from \$3,800 to \$21,250. The volunteer and students were issued the checks allegedly as part of an arrangement with William DiCianni to compensate them for services they provided to PASMT at Mr. DiCianni's direction. None of the total amounts were reported on either IRS Form W-2 or 1099. The names, identifying information, and amounts unreported were forwarded to the Internal Revenue Service, and state and local taxing authorities.

MANAGEMENT COMMENT

Fixed Assets

PASMT did not maintain a complete listing of all fixed assets. Additionally, PASMT had not established procedures to record and account for asset additions or disposals.

The lack of a complete fixed asset listing and the absence of internal controls over recording and accounting for asset additions and disposals could result in a loss from errors and/or misappropriation without management's detection.

We recommend PASMT do the following:

- Designate an individual(s) responsible for preparing and recording assets;
- Create and periodically update a fixed asset policy;
- Conduct an initial physical inventory of all assets and subsequently perform a physical inventory of assets annually;
- Based on the initial physical inventory, prepare a complete asset listing which includes, at a minimum, the following: location, tag number, description, date of acquisition, cost (or estimated historical cost), source of funding, depreciation, and accumulated depreciation. Following subsequent annual physical inventories, reconcile the actual inventory results with the asset listing taking into account asset additions and disposals;
- Implement procedures to record and account for asset additions as they are acquired;
- Implement procedures to record and account for asset disposals including the removal of the asset from the listing.

Supplement to the Special Audit Report

Issue No. 3 – Payroll Withholdings – Determine whether amounts withheld from employees’ compensation were remitted to respective taxing authorities and employee retirement systems as required.

PROCEDURES

Using payroll records obtained from ACE Charter School Services and Lucas County Educational Service Center, PASMT’s previous sponsor and fiscal agent, we scheduled amounts withheld for federal, state, local, school district, and Medicare taxes, 403B accounts, State Teachers Retirement System, and School Employees Retirement System.

We compared the amounts withheld from employees’ compensation to the amounts actually remitted by PASMT to the respective taxing authorities and retirement systems.

We also examined payroll records to assure employees for which contracts were provided were compensated in accordance with those contracts.

RESULTS

The following table represents total amounts withheld from employees’ compensation, amounts remitted to respective taxing authorities and retirement systems, and the amounts still owed as of the end of our audit period.

	Amount Withheld	Amount Remitted	Amount Owed
Federal Tax	\$14,359	\$5,902	\$8,457
State Tax	5,315	2,190	3,125
Local Tax	4,867	0	4,867
School District Tax	329	132	197
Medicare Tax	3,136	1,265	1,871
403B	1,362	1,292	70
STRS	15,029	15,029	0
SERS	6,601	4,577	2,024
TOTAL	\$50,998	\$30,387	\$20,611

For employees which PASMT was able to provide employment contracts, employees were compensated in accordance with those contracts.

FINDINGS FOR RECOVERY

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...”

PASMT used third parties to process payroll; however, there were insufficient funds in the bank account to make the required withholding payments. For the Period PASMT did not remit \$8,457, \$3,125, \$4,867, \$1,871, and \$197 of federal, Ohio, City of Toledo, Medicare, and school district taxes, respectively, that were withheld from employees’ compensation.

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 Kari DiCianni in the amount of \$18,517 and in favor of PASMT.

SERS Withholdings

In regards to the School Employees Retirement System (SERS), Ohio Rev. Code Section 3309.47 states, in part, "The contributions by the direction of the school employees' retirement board shall be deducted by the employer from the compensation of each contributor on each payroll of such contributor for each payroll period and shall be an amount equal to the required per cent of such contributor's compensation. On a finding by the board that an employer has failed or refused to deduct contributions for any employee during any year and to transmit such amounts to the retirement system, the retirement board may make a determination of the amount of the delinquent contributions, including interest at a rate set by the retirement board, from the end of each year, and certify to the employer the amounts for collection."

PASMT used third parties to process payroll; however, there were insufficient funds in the bank account to make the required withholding payments to the School Employees Retirement System for December 2006 and January 2007 totaling \$2,024.

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 Kari DiCianni in the amount of \$2,024, and in favor of PASMT.

403B Withholdings

Employees of PASMT had the option to contribute to a 403B annuity account. PASMT was responsible for withholding these amounts from the employees' bi-weekly compensation and submitting the amounts to the entity that serviced the 403B accounts for PASMT. Withholdings were not submitted to the entity that serviced the 403B accounts for the last payroll in January 2007.

PASMT used third parties to process payroll; however, there were insufficient funds in the bank account to make the required withholding payments for the 403B account for the month of January 2007 totaling \$70.

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 Kari DiCianni in the amount of \$70 and in favor of PASMT.



Mary Taylor, CPA
Auditor of State

PERFORMING ARTS SCHOOL OF METROPOLITAN TOLEDO

LUCAS 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
OCTOBER 18, 2007**