



Mary Taylor, CPA  
Auditor of State



HARMONY COMMUNITY SCHOOL  
HAMILTON COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Assets.....	7
Statement of Revenues, Expenses and Changes in Net Assets .....	8
Statement of Cash Flows .....	9
Notes to the Financial Statements .....	11
Federal Awards Expenditure Schedule .....	25
Notes to the Federal Awards Expenditure Schedule .....	26
Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	27
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 .....	29
Schedule of Findings.....	31
Schedule of Prior Audit Findings.....	57

**This page intentionally left blank.**



# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

Harmony Community School  
Hamilton County  
1580 Summit Avenue  
Cincinnati, Ohio 45237

To the Board of Directors:

We have audited the accompanying basic financial statements of Harmony Community School, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harmony Community School as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 17 the School has a negative net asset balance of (\$459,802) as of June 30, 2005. The financial statements do not include any adjustment relating to the amounts and classifications of liabilities that might be necessary if the School is unable to meet its debts as they come due or if these debts require adjustment under the provisions of Chapter Nine of the Federal Bankruptcy Code. Note 17 also describes management's plans regarding this matter.

The Auditor of State has billed Harmony Community School for audit services provided for the school years ending June 30, 2005 through 2007. As of the date of this report the School has unpaid audit fees totaling \$77,908 of which \$62,948 has been outstanding for more than 120 days.

As described in Note 20, the School was placed on probation by its sponsor, Lucas County Educational Service Center, in November 2005. They are currently on probation under their new sponsor, The Buckeye Community Hope Foundation.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2008, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with

*Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Government Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the School's basic financial statements. The federal awards expenditures schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

**Mary Taylor, CPA**  
Auditor of State

July 11, 2008

## **HARMONY COMMUNITY SCHOOL**

### **Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2005**

The discussion and analysis of the Harmony Community School's (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statement and notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June 1999. Certain comparative information between the current year and the prior year is required to be present in the MD&A.

#### **Financial Highlights**

- In total, net assets decreased \$613,986, which represents a 398 percent decrease from 2004. The School was able to show a cash flow increase of \$249,837; however, the larger decrease can be attributed to outstanding invoices to vendors, state reductions in revenue, outstanding unemployment payments and the accrual of salaries related to staff.
- Total assets increased \$232,048, which represents a 7.75 percent increase from 2004. This increase was primarily due to an increase in cash as the School received more revenue from the State although on accrual basis part of that revenue is due back to the State.
- Long-term liabilities decreased \$135,232, which represents a 5.19 percent decrease from 2004. The School continues to reduce the outstanding debt obligations to create a sustainable financial condition for the future of the School.

#### **Using this Financial Report**

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

#### *Statement of Net Assets*

The Statement of Net Assets answers the question, "How did we do financially during 2005?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

**HARMONY COMMUNITY SCHOOL**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005

Table 1 provides a summary of the School's net assets for fiscal year 2005 and fiscal year 2004:

(Table 1)  
**Net Assets**

	2005	Restated 2004
<b>Assets</b>		
Current Assets	\$383,958	\$137,606
Capital Assets, Net	2,843,037	2,857,341
Total Assets	<u>3,226,995</u>	<u>2,994,947</u>
<b>Liabilities</b>		
Current Liabilities	1,217,674	236,408
Non-Current Liabilities	2,469,123	2,604,355
Total Liabilities	<u>3,686,797</u>	<u>2,840,763</u>
<b>Net Assets</b>		
Invested in Capital Assets	311,088	2,836,751
Unrestricted	<u>(770,890)</u>	<u>(2,682,567)</u>
Total Net Assets	<u><u>(\$459,802)</u></u>	<u><u>\$154,184</u></u>

Total assets increased \$232,048 mainly due to additional revenue received from the State. The School saw a revaluation of capital assets and additional depreciation causing a 2004 restatement of \$62,826 to those assets. The largest change from 2004 was in current liabilities as the School recognized the full accrued wages and benefits for staff members that accrued salary throughout the school year but are paid during the summer months. The School also two significant outstanding intergovernmental payables at year end for overpayment of revenue from the State and outstanding unemployment balances.

The School actually decreased long term liabilities by \$135,232 despite the additional capital lease for vehicles which added \$27,998 to the balance for 2005. The School is very realistic about the need to reduce the debt load to create a solid financial operating environment in order to do what is most important and that is educates the children attending the School.



# HARMONY COMMUNITY SCHOOL

## Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2005

Table 2 shows the changes in net assets for fiscal year 2005 and fiscal year 2004, as well as a listing of revenues and expenses.

(Table 2)  
**Change in Net Assets**

	2005	Restated 2004
<b>Operating Revenues:</b>		
State Foundation	\$3,571,642	\$3,302,512
Disadvantaged Pupil Impact Aid	171,260	21,122
State Special Education	664,766	794,406
Parity Aid	40,358	0
Other Receipts	180,222	42,633
<b>Non-Operating Revenues:</b>		
Federal and State Grants	844,414	60,454
Total Revenues	<u>5,472,662</u>	<u>4,221,127</u>
<b>Operating Expenses:</b>		
Salaries and wages	2,367,547	2,102,808
Fringe Benefits and Payroll Taxes	1,682,407	780,574
Purchased Services	1,229,117	744,880
Materials and Supplies	370,423	217,479
Depreciation	183,023	172,005
Other Expenses	45,830	633
<b>Non-Operating Expenses:</b>		
Interest Expense	208,241	209,400
Total Expenses	<u>6,086,648</u>	<u>4,227,779</u>
Decrease in Net Assets	(613,986)	(6,652)
Beginning Net Assets	154,184	160,836
Ending Net Assets	<u>(\$459,802)</u>	<u>\$154,184</u>

While net assets decreased \$613,986 from 2004 to 2005, the change was significantly impacted by the full recognition of accrued salaries and outstanding payment to the State as of June 30. As shown above, the State provided the School with additional revenue compared to 2004 from their various sources. This was critical to the School's ability to reduce outstanding debt obligations as well as continue to provide the key services to the student base. Community Schools receive no support from tax revenues.

## **HARMONY COMMUNITY SCHOOL**

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

### **Capital Assets**

At the end of fiscal year 2005 the School had \$2,843,037 invested in building and building improvements, furniture, fixtures, and equipment, instruments and text books which represented a decrease of \$14,303 from 2004. This decrease was primarily due to annual depreciation exceeding capital expenditures. For more information on the School's capital asset refer to note 5 of the financial statements.

### **Debt Administration**

The School retired \$70,147 of the mortgage payable during 2005. The mortgage revenue payable will retire in 2022 with semi-annual principal and interest payments. For further information on the School's obligations, refer to note 10 of the financial statements.

### **Current Financial Issues**

The Harmony Community School was formed in 1998. During the 2004-2005 school year, there were approximately 674 students enrolled in the School. The School received its finances mostly from state aid. Per pupil aid for fiscal year 2005 amounted to \$6,754 per student.

### **Contracting the School's Financial Management**

This financial report is designed to provide our citizen's with a general overview of the School's finances and to show the School's accountability for the money that it receives. If you have questions about this report or need additional information contact the Office of the Treasurer at Harmony Community School, 1580 Summit Avenue, Cincinnati, Ohio 45237 or via telephone at (513) 921-5260.

**HARMONY COMMUNITY SCHOOL  
STATEMENT OF NET ASSETS**

**JUNE 30, 2005**

**Assets:**

Current assets:

Cash	\$ 382,017
Accounts receivable	1,941
Total current assets	<u>383,958</u>

Noncurrent assets:

Capital assets, net depreciation	<u>2,843,037</u>
Total noncurrent assets	<u>2,843,037</u>

**Total Assets** 3,226,995

**Liabilities:**

Current liabilities

Payables:

Accounts	191,784
Accrued wages and benefits	430,848
Intergovernmental	473,664
Interest	6,237
Line of Credit	27,808
Due within One Year:	
Capital Leases Payable	14,490
Mortgage Payable	<u>72,843</u>
Total current liabilities	<u>1,217,674</u>

Non-Current liabilities

Due in More than One Year	<u>2,469,123</u>
---------------------------	------------------

**Total Liabilities** 3,686,797

**Net Assets:**

Invested in capital assets, net of related debt	311,088
Unrestricted	<u>(770,890)</u>

**Total net assets** \$ (459,802)

See accompanying notes to the basic financial statements

**HARMONY COMMUNITY SCHOOL  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS**

**Year Ended June 30, 2005**

<b>Operating Revenues:</b>	
State foundation	\$ 3,571,642
DPIA	171,260
Special Education	664,766
Parity Aid	40,358
Other operating revenues	<u>180,222</u>
<b>Total operating revenues</b>	<u><b>4,628,248</b></u>
<b>Operating Expenses:</b>	
Salaries and wages	2,367,547
Fringe benefits and Payroll Taxes	1,682,407
Purchased Services:	1,229,177
Materials and supplies	370,423
Depreciation	183,023
Other expenses	<u>45,830</u>
<b>Total operating expenses</b>	<u><b>5,878,407</b></u>
Operating Loss	(1,250,159)
<b>Nonoperating revenues (expenses):</b>	
Federal grants	839,414
State grants	5,000
Interest Expense	<u>(208,241)</u>
<b>Total nonoperating revenues</b>	<u><b>636,173</b></u>
Change in net assets	(613,986)
Net assets, beginning of year (restated)	154,184
Net assets, end of year	<u><u><b>\$ (459,802)</b></u></u>

See accompanying notes to the basic financial statements

**HARMONY COMMUNITY SCHOOL  
STATEMENT OF CASH FLOWS**

**Year Ended June 30, 2005**

**Cash flows from operating activities:**

Cash received from State of Ohio - Foundation	\$ 3,764,730
Cash received from State of Ohio - DPIA	171,260
Cash received from State of Ohio - State	705,124
Cash received from other operating revenues	178,281
Cash payments for personal services	(3,484,407)
Cash payments for suppliers for goods and services	(1,457,075)
Cash payments for other expenses	(33,387)
Net cash used by operating activities	<u>(155,474)</u>

**Cash flows from noncapital financing activities:**

Cash received from state and federal grants	<u>844,414</u>
---	----------------

**Cash flows from capital and related financing activities:**

Acquisition of capital assets	(137,529)
Principal paid on capital leases	(9,663)
Principal paid on mortgage payable	(70,146)
Principal paid on line of credit	(8,687)
Total interest paid on outstanding obligations	(213,078)
Net cash used by capital and related financing activities	<u>(439,103)</u>

Net change in cash	249,837
Cash at beginning of year	<u>132,180</u>
Cash at end of year	<u><u>382,017</u></u>

**Reconciliation of operating loss to net cash used by operating activities:**

Operating loss	(1,250,159)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	183,023
Change in assets and liabilities:	
Accounts receivable	(1,941)
Prepaid Items	5,426
Accounts payable	161,454
Accrued wages and benefits	413,636
Intergovernmental payable	333,087

Net cash used by operating activities	<u><u>\$ (155,474)</u></u>
---------------------------------------	----------------------------

See accompanying notes to the basic financial statements

*This page intentionally left blank*

## **HARMONY COMMUNITY SCHOOL**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

### **NOTE 1 – DESCRIPTION OF THE SCHOOL AND THE REPORTING ENTITY**

Harmony Community School, Hamilton County Ohio (the School), is a non-profit corporation established to Ohio Rev. Code Chapters 3314 and 1702 to provide an appropriate educational facility and program for all age groups and to provide instruction in courses, which meter general educational requirements compatible with and approved by the State of Ohio. The School qualifies as an exempt organization under section 501(c)(3) of the Internal Revenue Code. The School is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school.

The creation of the School was initially proposed to the State Board of Education, the sponsor, on June 9, 1998 for a three year contract. The State Board of Education approved the proposal and entered into a contract with Board of Directors of the School. By-laws of the school were amended to allow for the creation of the Management Cabinet of the School. Members of the Cabinet were appointed by the Board of Directors. The contract provided for the commencement of School operations on September 16, 1998. During the fiscal year ended 2002, a contract extension for two years was executed. Then during the fiscal year ended 2005, the School executed a contract with a new sponsor, Lucas County, which was effective from January 2005 through June 30, 2005. Effective in June 2006, the School is now sponsored by Buckeye Community Hope.

The fiscal operations of the School are under a five-member Management Cabinet, which is directed by the Executive Director. This Cabinet is responsible for formulating policies regarding fiscal operations and monitoring the expenditure of funds. The Treasurer of the School directs the financial affairs of the School including accounting and insurance, and is responsible for reporting the progress of the School against those responsibilities.

### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

#### **A. Basis of Presentation**

The School's basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows.

## **HARMONY COMMUNITY SCHOOL**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

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

#### **B. Measurement Focus**

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School finances meet the cash flow needs of its activities.

#### **C. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School's financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Expenses are recognized at the time they are incurred.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

#### **D. Budgetary Process**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its Sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School; therefore no budgetary information is presented in the financial statements.

#### **E. Cash**

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



# HARMONY COMMUNITY SCHOOL

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

## **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

### **F. Capital Assets**

Capital Assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School maintains a capitalization threshold of five hundred dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight line method over the following useful lives:

Building and Building Improvements	30 years
Furniture, Fixtures and Equipment	3 years
Vehicles	5 years

### **G. Intergovernmental Revenues**

The School currently participates in the State Foundation Program, State Special Education Program, State Parity Aid, and the State Disadvantage Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expense requirements, in which the resources are provided to the School on a reimbursement basis.

The School also participates in other various Federal and/or State Programs through the Ohio Department of Education. Revenue received from these programs is recognized as non-operating revenue in the accounting period in which all eligibility requirements have been met.

Amounts awarded under the above named programs for the 2005 school year totaled \$4,448,026.

### **H. Net Assets**

Net assets represent the difference between assets and liabilities. Assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

## **HARMONY COMMUNITY SCHOOL**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

#### **I. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activities. For the School, these revenues are primarily foundation payments from the State. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the School. Revenues and expenses not meeting this definition are reported as non-operating.

#### **J. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

### **NOTE 3 – DEPOSITS**

All monies received by the School are accounted for by the School's Treasurer. All cash received by the Treasurer is held in a central bank account. Total cash for the School is presented as "Cash" on the accompanying Statement of Net Assets.

At fiscal year end, the carrying amount of the School's deposits was \$382,017. Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it. The School does not have a policy in place for securing their deposits. As of June 30, 2005, \$407,715 of the School's bank balance of \$507,715 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Investments:* the School had no investments at June 30, 2005, or during the fiscal year.

### **NOTE 4 – RECEIVABLES**

The School had no intergovernmental receivables at June 30, 2005.

**HARMONY COMMUNITY SCHOOL**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2005:

	Restated Balances 6/30/04	Additions	Deletions	Balance 6/30/05
Capital Assets Being Depreciated				
Building and Improvements	\$3,000,000	\$0	\$0	\$3,000,000
Furniture, Fixtures, and Equipment	11,922	136,810	0	148,732
Vehicles	21,509	31,910	0	53,419
Total Capital Assets				
Being Depreciated	3,033,431	168,720	0	3,202,151
Less Accumulated Depreciation				
Buildings and Improvements	(171,042)	(128,958)	0	(300,000)
Furniture, Fixtures, and Equipment	(3,974)	(35,860)	0	(39,834)
Vehicles	(1,075)	(18,205)	0	(19,280)
Total Accumulated Depreciation	(176,091)	(183,023)	0	(359,114)
Total Capital Assets				
Being Depreciated, Net	\$2,857,340	(\$14,303)	\$0	\$2,843,037

**NOTE 6 – RISK MANAGEMENT**

**A. Property and Liability**

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School contracted with Travelers Casualty and Surety Company for general liability and property insurance.

Coverages are as follows:

Building (\$1,000 deductible)	\$13,907,500
Greenland Apartment	745,000
Boiler and Machinery	Included in Building
Business Personal Property (\$1,000 deductible)	200,000
Ordinances and Laws	1,250,000
Educational Errors and Omissions (\$5,000 each loss)	2,000,000
Automobile	1,000,000
General Liability:	
Per occurrence	1,000,000
Total per year	2,000,000

Settle claims have not exceeded this commercial coverage since formation of School. There has been no significant change in insurance coverage from last year.

**B. Workers' Compensation**

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

## **HARMONY COMMUNITY SCHOOL**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

### **NOTE 7 – DEFINED BENEFIT PENSION PLANS**

#### **A. School Employees Retirement System**

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual salary and the School is required to contribute at 14 percent. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rated allowed by State statute. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$90,374; \$54,426; and \$187,946; 100 percent has been contributed for fiscal years 2005, 2004 and 2003.

#### **B. State Teachers Retirement System of Ohio**

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits, annual cost-of-living adjustments, death and survivor benefits to members and benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a stand-alone financial report that maybe obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090

## **HARMONY COMMUNITY SCHOOL**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

### **NOTE 7 – DEFINED BENEFIT PENSION PLANS** (continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited services who becomes disabled may qualify for a disability benefit. Eligible spouses and dependants of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2005, 2004, and 2003, were \$63,747; \$106,542; and \$52,569; 100 percent has been contributed for fiscal years 2005, 2004, and 2003.

### **NOTE 8 – POSTEMPLOYMENT BENEFITS**

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

## **HARMONY COMMUNITY SCHOOL**

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

#### **NOTE 8 – POSTEMPLOYEMENT BENEFITS** (continued)

All STRS Ohio benefit recipients and sponsored dependants are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage is paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal years ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$4,904 for the fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2005, the balance in the fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

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

After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.42 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$29,326.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005, were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS had 58,123 participants currently receiving health care benefits.

#### **NOTE 9 – EMPLOYEE BENEFITS**

##### **A. Employees Medical, Dental, and Vision Benefits**

The School has contracted with a private carrier to provide employee medical/surgical benefits. The School pays 100% of the monthly premium.

##### **B. Insurance Benefits**

The School provides life and short-term and long-term disability insurance to all employees through a private carrier. Coverage is provided for all certified and non-certified employees.

**HARMONY COMMUNITY SCHOOL**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

**NOTE 10 – LONG TERM OBLIGATIONS**

The School's long term obligations at June 30, 2005 were as follows:

<u>Long Term Obligations</u>	Restated Principal Outstanding 6/30/04	Additions	Deductions	Principal Outstanding 6/30/05	Amounts Due in One Year
Mortgage-Park National	\$1,913,126	\$0	\$51,408	\$1,861,718	\$55,674
Mortgage-Jewish Federation	670,639	0	18,739	651,900	17,169
Provident Line of Credit	36,496	0	8,687	27,809	27,808
Capital Leases Payable	20,590	31,910	9,663	42,837	14,490
<b>Total</b>	<b>\$2,640,851</b>	<b>\$31,910</b>	<b>\$88,497</b>	<b>\$2,584,264</b>	<b>\$115,141</b>

*Mortgage – Park National:* During fiscal year 2003, the School entered in a \$2,000,000 mortgage payable with Park National Bank for ten years to help purchase the current building the School is operating in presently. The mortgage has an interest of 7.88% and will mature in 2013.

*Mortgage – Jewish Federation:* During fiscal year 2003, the School entered in a \$700,000 mortgage payable with the Jewish Federation for twenty years to help purchase the current building the School is operating in presently. The mortgage has an interest of 7.91% and will mature in 2023.

Principal and interest requirements to retire long-term mortgage obligations outstanding at June 30, 2005 are as follows:

Years	Mortgage Obligations		
	Principal	Interest	Total
2006	\$72,843	\$194,088	\$266,931
2007	80,513	192,275	272,788
2008	87,197	185,591	272,788
2009	94,433	178,356	272,789
2010	102,271	170,518	272,789
2011-2015	1,697,602	443,861	2,141,463
2016-2020	244,567	106,738	351,305
2021-2023	134,492	11,957	146,449
<b>Totals</b>	<b>\$2,513,618</b>	<b>\$1,483,384</b>	<b>\$3,997,002</b>

**NOTE 11 – LINE OF CREDIT**

In 2002, the School entered into a line of credit with Provident Bank in with a limit of \$150,000 at an interest rate of 6.75 percent. As of June 30, 2005, \$27,809 was borrowed against the limit. Principal and interest are immediately due and payable on demand. Monthly payments shall be equal to accrued and unpaid financial charges and are to be paid each month until the principal is paid. The line of credit is collateralized by the School's inventory, chattel paper, accounts equipment and general intangibles, assignment of warrant payment from the State of Ohio.

**HARMONY COMMUNITY SCHOOL**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

**NOTE 11 – LINE OF CREDIT** (continued)

The line of credit is evidenced by a promissory note. Notes are statutorily limited to maturing at the end of the year unless the debt issued obligates or is collateralized by the State monies received by the School under Ohio Law. The line of credit above issued during the year does not specifically exclude State foundation monies and extended beyond year-end, contrary to State statutes.

**NOTE 12 – CAPITAL LEASES PAYABLE**

Capital assets consisting of vehicles have been capitalized on the statement of net assets in the total amount of \$53,419 with \$31,910 added for fiscal year 2005. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the statement of net assets. Principal payments in fiscal year 2005 totaled \$9,663. The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2005.

<u>Fiscal Year Ending June 30,</u>	<u>Net Assets</u>
2006	\$16,525
2007	16,525
2008	9,827
2009	<u>3,783</u>
Total	46,660
Less: Amount Representing Interest	<u>(3,823)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$42,837</u></u>

**NOTE 13 – CONTINGENCIES**

**Grants**

The School received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2005.



## HARMONY COMMUNITY SCHOOL

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

### **NOTE 13 – CONTINGENCIES** (continued)

#### **Litigation**

A lawsuit entitled *Beverly Blount-Hill, et al. v. State of Ohio, et al. Case #3:04CV197* was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on the School cannot presently be determined.

### **NOTE 14 – PURCHASED SERVICES**

Purchased Services during fiscal year 2005 were comprised of the following:

Professional Fees	\$460,006
Utilities	242,729
Student Development	216,215
Leasing	99,891
Transportation	47,262
Insurance	26,265
Other	136,809
	<hr/>
Total	<u>\$1,229,177</u>

### **NOTE 15 – RELATED PARTIES**

The spouse of the current Executive Director is employed as a social worker and is paid \$48,490 annually. The spouse of the former Executive Director is employed as the guidance counselor and is paid \$73,000 annually.

### **NOTE 16 – PRIOR PERIOD ADJUSTMENT AND RESTATEMENT OF NET ASSETS**

During fiscal year 2005, the School discovered a capital lease on a vehicle that was entered into during the prior fiscal year. The School also re-evaluated the list of capital assets owned by the School and made changes based on the current status of the owned assets. These changes had the following impact on the beginning net assets:

Net Assets as of June 30, 2004	\$217,166
Cost basis of assets removed	(242,917)
Accumulated depreciation removed	180,091
Net impact of leased vehicle	156
	<hr/>
Restated Net Assets as of June 30, 2004	<u>\$154,184</u>

## **HARMONY COMMUNITY SCHOOL**

### **Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2005**

#### **NOTE 17 – FISCAL DISTRESS**

At June 30, 2005 the School had ending net assets of (\$459,802). The School's net assets were negative mainly due to the extent of outstanding debt (\$2,556,456) and accrued liabilities related to the payroll and benefits (\$711,424) and amounts owed to the State of Ohio for overpayment of foundation revenue (\$193,088).

The School's administration is in the process of evaluating the processes and procedures used in the various expense areas for savings. The School is still receiving funds from the State of Ohio and is working to use those funds in a more efficient manner.

#### **NOTE 18 – FINDING FOR RECOVERY**

The Auditor of State determined that the School had discrepancies of total eligible hours compared to hours recorded as paid by the Ohio Department of Education for fiscal years 2005, 2006 and 2007 in several of the School's funded programs. Another finding was determined based on the lack of documentation to prove that a minimum of twenty-five students were provided with learning opportunities for a minimum of nine hundred twenty hours per school year. The Auditor of State issued another finding based on three students who attended the School that did not reside within the school district corresponding to the address in listed in the enrollment application as belonging to their parents. These students resided away from their parents or legal guardian and did not meet any of the other requirements found in Ohio Revised Code Section 3313.64(B).

The total amount of the above described findings is \$2,620,995. The School is working with the Ohio Department of Education to setup a payment plan to repay the findings over several years given the amount. The Auditor of State is reporting the findings; although, final determination rests with the Ohio Department of Education and the Attorney General's office.

#### **NOTE 19 – MATERIAL NONCOMPLIANCE**

Ohio Revised Code Section 3314.03(A)(11)(a) states that community schools will provide learning opportunities for a minimum of nine hundred twenty hours per school year. During 2007, the School did not provide the required 920 hours for learning opportunities as required by the Ohio Revised Code.

Contrary to Ohio Administrative Code Section 117-2-02, the School did not maintain proper and sufficient accounting records and implement proper controls to reduce the possibility of material misstatements caused by error or fraud.

As part of the School's contract with their sponsor, the Ohio State Board of Education, there is a requirement that an expense report form be approved by the School's director as part of the process for purchasing. Failure to obtain proper approval for disbursements could result in overspending the School's fund or unauthorized expenditures.

Ohio Revised Code Section 149.351(A) provides that no public record shall be removed, destroyed, mutilated, transferred or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under Ohio Revised Code Sections 149.38 and 149.42. The School had several violations of this section.

## **HARMONY COMMUNITY SCHOOL**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2005

### **NOTE 19 – MATERIAL NONCOMPLIANCE** (continued)

Ohio Revised Code Section 3314.03(A)(10) provides that all community school classroom teachers are to be licensed in accordance with Ohio Code Sections 3319.22 to 3319.31, except that a community school may engage noncertificated persons to teach up to twelve hours per week pursuant to Ohio Revised Code Section 3319.301. The District failed to meet the licensing requirements for fifteen of twenty teachers including four of six Title I teachers that were tested.

The School was out of compliance with OMB Circular A-133, Section .300 that states that the auditee shall prepare a schedule of federal expenditures of Federal award for audit or provide information in the general and expense ledgers to aid in the preparation of this schedule.

Under 34 C.F.R. Section 80.30(c)(1), except as stated in other regulations or an award document, grantees or subgrantees shall obtain the prior approval of the awarding agency whenever any significant changes are anticipated under a nonconstruction award. Contrary to the requirement in this section, the School's Consolidated Final Expenditure Report for all of its grants did not reconcile to the accounting system used to prepare the annual financial statements.

### **NOTE 20 – SUBSEQUENT EVENTS**

On January 18, 2008, the State of Ohio Attorney General's office filed a lawsuit with Hamilton County Common Pleas court to declare that the School is a failed charitable trust. Presently the case is still pending and any financial ramifications to the School are not known at the time of this report.

In November 2005, the School's sponsor at that time, Lucas County ESC, placed the School on probation for failure to meet general accepted standards of fiscal management. Lucas County ESC also claimed the School violated state and/or federal laws that apply to community school established in Ohio Revised Code Chapter 3314 while failing to administer state mandated tests to grades 7 and 8. As of the report date, the School is still on probation with their current sponsor, Buckeye Community Hope.

**This page intentionally left blank.**

**HARMONY COMMUNITY SCHOOL  
HAMILTON COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
<b>Child Nutrition Cluster</b>				
School Breakfast Program	05-PU	10.553	\$12,800	\$12,800
National School Lunch Program	LL-P4	10.555	<u>65,980</u>	<u>65,980</u>
Total Child Nutrition Cluster			<u>78,780</u>	<u>78,780</u>
<b>Total U.S. Department of Agriculture</b>			<b><u>78,780</u></b>	<b><u>78,780</u></b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
<b>Special Education Cluster:</b>				
Special Education Grants to States (Title VI-B)	6B-SF	84.027	<u>25,096</u>	<u>12,750</u>
Total Special Education Cluster			<u>25,096</u>	<u>12,750</u>
Grants to Local Educational Agencies (Title I)	C1-S1	84.010	394,732	394,732
Safe and Drug Free Schools	DR-S1	84.186	106	0
21st Century Grant	T1-S1	84.287	299,748	299,748
Title VI -- Innovative Education Program Strategies	C2-S1	84.298	3,322	3,322
Title II-D - Technology Literacy Challenge Fund Grants	TJ-S1	84.318	11,823	11,823
Improving Teacher Quality	TR-S1	84.367	<u>25,807</u>	<u>25,807</u>
<b>Total U.S. Department of Education</b>			<b><u>760,634</u></b>	<b><u>748,182</u></b>
<b>Totals</b>			<b><u><u>\$839,414</u></u></b>	<b><u><u>\$826,962</u></u></b>

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

**HARMONY COMMUNITY SCHOOL  
HAMILTON COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2005**

**NOTE A--SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B—CHILD NUTRITION CLUSTER**

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

**NOTE C -- MATCHING REQUIREMENTS**

Certain Federal programs require that the School contribute non-Federal funds (matching funds) to support the Federally-funded programs. The School has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Harmony Community School  
Hamilton County  
1580 Summit Road  
Cincinnati, Ohio 45237

To the Board of Directors:

We have audited the basic financial statements of Harmony Community School, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2005, and have issued our report thereon dated July 11, 2008, where in we noted that the School has a negative net asset balance of (\$459,802) as of June 30, 2005. We also noted that the School has unpaid audit fees totaling \$77,908 as of the date of this report. We also noted that the School was placed on probation by its Sponsor, Buckeye Community Hope Foundation. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider a reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-008 through 2005-013.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable conditions 2005-008 through 2005-0011 listed above to be material weaknesses.

In a separate letter to the School's management dated July 11, 2008, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

### **Compliance and Other Matters**

As part of reasonably assuring whether Harmony's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2005-001 through 2005-007, 2005-009 and 2005-012 through 2005-014.

In a separate letter to the Academy's management dated July 11, 2008, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the management, Board of Directors, federal awarding agencies, the Community School sponsor, and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

July 11, 2008





# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Harmony Community School  
Hamilton County  
1580 Summit Road  
Cincinnati, Ohio 45237

To the Board of Directors:

#### Compliance

We have audited the compliance of Harmony Community School, Hamilton County, Ohio (the School) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the School's major federal programs. The School's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School's compliance based on our audit.

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

As described in item 2005-014 in the accompanying schedule of findings and questioned costs, the School did not comply with requirements regarding special tests and provisions applying to its Title I program. As described in items 2005-015 and 2005-016 in the accompanying schedule of findings and questioned costs, the School did not comply with requirements regarding reporting applying to its Title I and 21<sup>st</sup> Century programs. Compliance with those requirements is necessary, in our opinion, for the School to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the School complied, in all material respects, with the requirements referred to above that are applicable to each of each of its major federal programs for the year ended June 30, 2005.

### Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the School's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings as items 2005-015 through 2005-016.

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

We also noted another matter involving the internal control over federal compliance not requiring inclusion in this report that we reported to the School's management in a separate letter dated July 11, 2008.

We intend this report solely for the information and use of the management, the Board of Directors, federal awarding agencies, the Community School sponsor, and pass-through entities. It is not intended for anyone other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

July 11, 2008

**HARMONY COMMUNITY SCHOOL  
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2005**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Qualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I – 84.010 21 <sup>st</sup> Century Grant – 84.287
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

**FINDING NUMBER 2005-001**

**Finding for Recovery - Comparison of Services Rendered to Services Billed**

For the period July 1, 2004 through June 30, 2007, Harmony Community School (the School) provided instruction to the students starting in August and ending in May. We calculated each student's total available service hours by identifying the number of school days during the year the student could attend taking into consideration their enrollment and withdrawal dates and multiplying the number of days identified by the number of educational hours provided each day. We used

Total eligible hours were then compared to the hours recorded as paid by the Ohio Department of Education (ODE) to the School. The following table reflects by School Year and County the total hours overpaid and related payment:

School Year	County	Total Hours Overpaid	Amount of Overpayment
2005	Hamilton	23,660	\$142,670
2006	Hamilton	22,285	134,155
2007	Hamilton	2,577	15,311
2005	Butler	<u>231</u>	<u>1,381</u>
		<u>48,753</u>	<u>\$ 293,517</u>

In accordance with the forgoing facts and pursuant to **Ohio Revised Code, Section 117.28**, a finding for recovery for public money illegally expended is hereby issued against Harmony Community School and Jamie Jamison, former school Registrar (responsible for scheduling, recording of grades, attendance, and transcript data for fiscal year 2005), jointly and severally, in the amount of \$144,051, and against Harmony Community School in the amount of \$149,466, for the total amount of \$293,517 and in favor of the Ohio Department of Education on behalf of the students' resident school districts.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. *Seward v. National Surety Co.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State, ex. rel. Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att'y Gen. No. 80-074.

Jamie Jamison, former Registrar, shall be secondarily liable for the fiscal year 2005 illegal expenditures to the extent that recovery or restitution is not obtained from Harmony Community School.

**Officials' Response:**

This finding does not include enough specifics to fully respond to, however it revolves around the inability to document 920 hours of academic hours for certain students. The difficulty for the school is that the records kept to document these hours were reviewed by it's sponsor (Ohio Department of Education for the first portion of the audit and Lucas County ESC for the remainder) and by the Ohio Department of Education, and were found to be sufficient. Harmony has kept the records that were suggested by those entities, and has altered it's record keeping in the last school year due to the new policies of Ohio Department of Education official. It is unwarranted to issue a finding for recovery for failure to keep records which were not required to be kept during the time period in question.

**FINDING NUMBER 2005-001  
 (Continued)**

It is unclear what students are referred to in this finding and what program(s) they were enrolled in. Based upon the information in the finding, some of these students may be the very same students covered in findings 2005-002 through 2005-007.

**Auditor of State’s Conclusion**

This finding involves students that continued to be reported in the student count after they had stopped attending Harmony Community School. There was no evidence provided by the School to the Auditor of State’s office indicating that the records maintained by the School to support the student count were deemed “sufficient” by the Ohio Department of Education or Lucas County ESC. Auditor of State work papers, containing detailed information to support this finding for recovery, were made available to the School for review. We used student enrollment forms, withdrawal forms, grade cards, attendance reports, schedules and transcripts to identify the last date students were in attendance compared to the withdrawal date recorded by the School in CSADM. We used the school calendars and the monthly CN-7 reports to determine the actual number of days the School was in session. The total amount of funding per hour was calculated based on the ODE Formula amount for the applicable school year for the student’s resident district. Care was taken to ensure students were not duplicated between this finding and findings 2005-002 through 2005-007.

**FINDING NUMBER 2005-002**

**Finding for Recovery - Transitional Program**

During school years 2005, 2006, and 2007, the School offered the Transitional Program. According to Director Deland McCullough, this program was for students who had completed their academic requirements and were in the process of completing their non-academic requirements. Non-academic requirements included civil service, school activity, completing a portfolio and passing the Ohio Graduation Test. Students participating in this program did not attend academic classes and met with a school advisor when considered necessary.

**Ohio Revised Code, Section 3314.03(A)(11)(a)**, states that the contract between a sponsor and the governing authority must specify that “[t]he school will provide learning opportunities to a minimum of twenty-five students for a minimum of nine hundred twenty hours per school year.” During a July 30, 2007 meeting, ODE stated that the School must be able to document the provision of 920 hours of educational opportunities to the students and have documentation supporting the student’s participation in those opportunities in order for the program to be eligible for funding. If documentation is not maintained and a 920 hour curriculum cannot be provided, the program cannot be funded.

Even though numerous requests were made during fieldwork, the School was unable to provide documentation supporting the existence of a 920 hour curriculum program for the 2005, 2006, and 2007 school years. After a June 12, 2008 meeting, the School provided an example curriculum of how a student would attain the required 920 educational opportunity hours. However, the School was unable to provide documentation supporting the students’ participation in educational opportunities in the Transitional Program or other traditional educational programs which would entitle the School to funding for these students for these school years. Due to a lack of required documentation supporting the students’ participation in 920 hours of educational opportunities, the School was not entitled to receive the following funding:

<b>School Year</b>	<b>County</b>	<b>Total Hours Overpaid</b>	<b>Overpayment Amount</b>
2005	Hamilton	43,807	\$264,156
2006	Hamilton	25,393	152,865
2007	Hamilton	<u>260</u>	<u>1,562</u>
		<u>69,460</u>	<u>\$418,583</u>

**FINDING NUMBER 2005-002**  
**(Continued)**

In accordance with the forgoing facts and pursuant to **Ohio Revised Code, Section 117.28**, a finding for recovery for public money illegally expended is hereby issued against Harmony Community School and Jamie Jamison, former school Registrar (responsible for scheduling, recording of grades, attendance, and transcript data for fiscal year 2005), jointly and severally, in the amount of \$264,156 and against Harmony Community School in the amount of \$154,427, for the total amount of \$418,583 and in favor of the Ohio Department of Education on behalf of the students' resident school districts.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. *Seward v. National Surety Co.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State, ex.rel. Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att'y Gen. No. 80-074.

Jamie Jamison, former Registrar, shall be secondarily liable for the fiscal year 2005 illegal expenditures to the extent that recovery or restitution is not obtained from Harmony Community School.

**Officials' Response:**

This finding is analogous to finding 2005-001 in that this finding does not include enough specifics to fully respond to, however it revolves around the inability to document 920 hours of academic hours for certain students. The difficulty for the school is that the records kept to document these hours were reviewed by it's sponsor (Ohio Department of Education for the first portion of the audit and Lucas County ESC for the remainder) and by the Ohio Department of Education, and were found to be sufficient. Harmony has kept the records that were suggested by those entities, and has modified it's record keeping in the last school year due to the new policies of Ohio Department of Education official. It is unwarranted to issue a finding for recovery for failure to keep records which were not required to be kept during the time period in question.

This finding centers around the Transitional Program which was reviewed, audited, approved by, and certified by the Ohio Department of Education on numerous occasions. The finding specifically draws attention to a July 30, 2007 meeting with an anti-charter school advocate who works at the Department of Education where he changed the requirements of ODE for this program. The finding also makes reference to Harmony's compliance with this new (unwritten, non-administrative code) standard as of June 12, 2008. At that time (June 2008) the anti-charter school employee of the Ohio Department of Education added yet another requirement. Due to these new requirements, the program was discontinued.

ORC 3314.03(A)(11)(a) states that a school must specify that they will provide 920 hours of learning opportunities. There is no requirement of, or specification of, specific documentation being required to document these hours. The "proof" of these hours is left up to the school, ODE, and the schools sponsor. Both the sponsor and ODE found that there was compliance with the 920 hour requirement. If the Auditors now find that more documentation is preferred, then this should be a management recommendation not a finding for recovery.

It is inappropriate for an audit to find fault with failure to comply with a standard which is not in place at the time in question. Any finding prior to July 30, 2007 regarding the Transition Program does just that and is inappropriate.

**FINDING NUMBER 2005-002  
(Continued)**

**Auditor of State's Conclusion**

The School was unable to provide documentation supporting a planned 920 hour student curriculum or the students' participation in 920 hours of educational opportunities in the Transitional Program or other traditional educational programs which would entitle the School to funding for the school years noted above. Auditor of State work papers containing detailed information to support this finding for recovery were made available to the School for review. We used student enrollment forms, withdrawal forms, grade cards, attendance reports, schedules and transcripts to identify the last date students were in attendance compared to the withdrawal date recorded by the School in CSADM. We used the school calendars and the monthly CN-7 reports to determine the actual number of days the School was in session. The total amount of funding per hour was calculated based on the ODE Formula amount for the applicable school year for the student's resident district. There was no evidence provided by the School to the Auditor of State's office indicating that the records maintained by the School to support the student count were deemed "sufficient", or that this program was "certified" by the Ohio Department of Education or Lucas County ESC. The meeting referred to in the finding was with an ODE representative and was to discuss policy issues and requirements that were in place at the time the program was operated by Harmony Community School. The Officials' response that the meeting was with "an anti-charter school advocate" has no bearing on the finding.

**FINDING NUMBER 2005-003**

**Finding for Recovery - Plus Program**

During the 2005, 2006, and 2007 school years, the School offered the Plus program. Students in this program completed their curriculum using a computer program called Nova Net and were required to log 10 hours of computer time per week. If students completed the 10 hours, they were reflected as having perfect attendance for the week. If students did not complete the 10 hours, they were reflected as being absent on Friday of that week. These students did not participate in the traditional educational program offered by the School which provided 27.5 to 30 hours of educational opportunities each week.

**Ohio Revised Code, Section 3314.03(A)(11)(a)**, states that the contract between a sponsor and the governing authority must specify that "[t]he school will provide learning opportunities to a minimum of twenty-five students for a minimum of nine hundred twenty hours per school year." During a July 30, 2007 meeting, ODE stated that the School must be able to document the provision of 920 hours of educational opportunities to the students and have documentation supporting the student's participation in those opportunities in order for the program to be eligible for funding. If documentation is not maintained and a 920 hour curriculum cannot be provided, the program cannot be funded.

We obtained reports from Nova Net which documented the highest number of hours logged by a student was 810.6 hours during the period July 22, 2004 through January 12, 2006. In total, we identified 7,516.4 hours of educational opportunities participated in by 100 students during SY 2005, 2006 and 2007. The School was unable to provide any other documentation supporting student participation in programs offering 920 hours of educational opportunities.

Despite numerous requests during fieldwork, the School was unable to provide documentation supporting a 920 hour curriculum existed for this program for the 2005, 2006 and 2007 school years. After a June 12, 2008 meeting, the School provided a curriculum of how a student would attain the required 920 educational opportunity hours. In our review, we noted the curriculum:

**FINDING NUMBER 2005-003  
 (Continued)**

- Included four components which were not identified as part of the program by Plus Administrator Jamie Jamison.
- Provided estimates for certain areas of the curriculum instead of expected learning opportunities.
- Included hours for completing the portfolio process and the required work, community service and school-related activity hours. However, the curriculum did not take into account what opportunities were provided when the non-academic requirement had been completed in a previous year.

In addition, we noted no documentation was maintained to support the hours spent at work, working on the student's portfolio, civil service and/or school activities. As such, we were unable to determine whether the 920 hours of educational opportunity were offered to each student.

Based on a lack of required documentation necessary to support an eligible 920 hour curriculum program and because of a lack of documentation to support students' participation in 920 hours of educational opportunity each school year, we determined the School was not entitled to funding in the following amounts:

<b>School Year</b>	<b>County</b>	<b>Total Hours Overpaid</b>	<b>Overpayment Amount</b>
2005	Hamilton	45,831	\$276,361
2006	Hamilton	30,904	186,042
2007	Hamilton	<u>10,335</u>	<u>62,113</u>
		<u>87,070</u>	<u>\$524,516</u>

In accordance with the forgoing facts and pursuant to **Ohio Revised Code, Section 117.28**, a finding for recovery for public money illegally expended is hereby issued against Harmony Community School and Jamie Jamison, former school Registrar (responsible for scheduling, recording of grades, attendance, and transcript data for fiscal year 2005), jointly and severally, in the amount of \$276,361, and against Harmony Community School in the amount of \$248,155, for the total amount of \$524,516 and in favor of the Ohio Department of Education on behalf of the students' resident school districts.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. *Seward v. National Surety Co.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State, ex.rel. Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att'y Gen. No. 80-074.

Jamie Jamison, former Registrar, shall be secondarily liable for the fiscal year 2005 illegal expenditures to the extent that recovery or restitution is not obtained from Harmony Community School.



**FINDING NUMBER 2005-003  
(Continued)**

**Officials' Response:**

This finding has the same deficiencies as the FINDING NUMBER 2005-002, in that this finding does not include enough specifics to fully respond to, however it revolves around the inability to document 920 hours of academic hours for certain students. The difficulty for the school is that the records kept to document these hours were reviewed by it's sponsor (Ohio Department of Education for the first portion of the audit and Lucas County ESC for the remainder) and by the Ohio Department of Education, and were found to be sufficient. Harmony has kept the records that were suggested by those entities, and has modified it's record keeping in the last school year due to the new policies of Ohio Department of Education officials. It is contrary to common sense to issue a finding for recovery for failure to keep records which were not required to be kept during the time period in question.

This finding centers around the Plus Program which was reviewed, audited, approved by, and certified by the Ohio Department of Education on numerous occasions. The finding specifically draws attention to a July 30, 2007 meeting with an anti-charter school advocate who works at the Department of Education where he changed the requirements of ODE for this program. The finding also makes reference to Harmony's compliance with this new (unwritten, non-administrative code) standard as of June 12, 2008.

ORC 3314.03(A)(11)(a) states that a school must specify that they will provide 920 hours of learning opportunities. There is no requirement of, or specification of, specific documentation being required to document these hours. The "proof" of these hours is left up to the school, ODE, and the schools sponsor. Both the sponsor and ODE found that there was compliance with the 920 hour requirement. If the Auditors now find that more documentation is preferred, then this should be a management recommendation not a finding for recovery.

In addition, the finding for recovery is for the full funding for the students in the Plus Program. The audit points out that some hours were documented. A finding for recovery should, if made at all, be limited to those hours that have not been documented, after all, students can miss up to 105 consecutive hours before the school is required to withdraw them. ODE would allow payment to the school for those hours. How can it be determined that some of these students didn't have 800+ hours between August and April?

**Auditor of State's Conclusion**

The School was unable to provide documentation supporting a planned 920 hour student curriculum or the students' participation in 920 hours of educational opportunities in the Plus Program or other traditional educational programs which would entitle the School to funding for the school years noted above. Auditor of State work papers containing detailed information to support this finding for recovery were made available to the School for review. We used student enrollment forms, withdrawal forms, grade cards, attendance reports, schedules, transcripts and Nova Net Daily Usage reports for the dates that the student logged in the system to identify the last date students were in attendance compared to the withdrawal date recorded by the School in CSADM. We used the school calendars and the monthly CN-7 reports to determine the actual number of days the School was in session. The total amount of funding per hour was calculated based on the ODE Formula amount for the applicable school year for the student's resident district. There was no evidence provided by the School to the Auditor of State's office indicating that the records maintained by the School to support the student count were deemed "sufficient", or that this program was "certified" by the Ohio Department of Education or Lucas County ESC. The meeting referred to in the finding was with an ODE representative and was to discuss policy issues and requirements that were in place at the time the program was operated by Harmony Community School. The Officials' response that the meeting was with "an anti-charter school advocate" has no bearing on the finding. In this July 30, 2007 meeting with ODE, it was indicated by ODE that if there is no documentation supporting the hours of services provided for these non-academic activities, funding cannot be provided.

**FINDING NUMBER 2005-004**

**Finding for Recovery - Adult Continuing Education (ACE) Program**

Beginning with the 2006 school year, the School started to offer the ACE (Adult Continuing Education) program. The program was designed for students to attend 6-7 instructional hours per week and was a split day program (morning and afternoon sessions). The curriculum was taught in 9 week blocks and included social studies, writing/reading, math and science. At the end of the nine weeks, the student would take a test consisting of questions from the Texas Assessment Bank. For each section passed, the student no longer attended that class in the next session.

**Ohio Revised Code, Section 3314.03(A)(11)(a)**, states that the contract between a sponsor and the governing authority must specify that “[t]he school will provide learning opportunities to a minimum of twenty-five students for a minimum of nine hundred twenty hours per school year.” During the 2006 and 2007 school years, ACE students’ attendance was tracked separately from the traditional programs but the students were included in the CSADM database submitted to ODE to obtain funding. We determined students participating in this program did not participate in traditional programs offered by the School providing 27.5-30 educational opportunity hours each week depending upon the school year.

During a July 30, 2007 meeting, ODE stated that the School must be able to document the provision of 920 hours of educational opportunities to the students and have documentation supporting the student’s participation in those opportunities in order for the program to be eligible for funding. If documentation is not maintained and a 920 hour curriculum cannot be provided, the program cannot be funded.

Despite our numerous requests during fieldwork, the School was unable to provide documentation supporting a 920 hour curriculum existed for this program for the 2006 and 2007 school years. After a June 12, 2008 meeting, the School provided a summary of the curriculum documenting how a student would attain the required 920 educational opportunity hours. In our review, we noted the curriculum:

- Provided estimates for certain areas of the curriculum instead of expected learning opportunities.
- Included hours for completing the portfolio process and the required hours for work, community service and a school-related activity. However, the curriculum did not take into account what opportunities were provided when the non-academic requirement had been completed in a previous year.

The School was unable to provide documentation supporting the students’ participation in educational opportunities in the ACE program or other traditional educational programs which would entitle the School to funding for these students for these school years. Additionally, no documentation was maintained to support the hours spent at work, working on the student’s portfolio, civil service and/or school activities.

Due to a lack of required documentation supporting that students participated in 920 hours of educational opportunities, the School was not entitled to receive the following funding:

School Year	County	Total Hours Overpaid	Overpayment Amount
2006	Hamilton	94,259	\$ 567,439
2007	Hamilton	104,664	629,030
2007	Butler	<u>1,160</u>	<u>6,948</u>
		<u>200,083</u>	<u>\$1,203,417</u>

In accordance with the forgoing facts and pursuant to **Ohio Revised Code, Section 117.28**, a finding for recovery for public money illegally expended is hereby issued against Harmony Community School in the amount of \$1,203,417 in favor of the Ohio Department of Education on behalf of the students’ resident school districts.

**FINDING NUMBER 2005-004  
(Continued)**

**Officials' Response:**

Again, this finding does not include enough specifics to fully respond to, however it revolves around the inability to document 920 hours of academic hours for certain students. The difficulty for the school is that the records kept to document these hours were reviewed by it's sponsor (Ohio Department of Education for the first portion of the audit and Lucas County ESC for the remainder) and by the Ohio Department of Education, and were found to be sufficient. Harmony has kept the records that were suggested by those entities, and has revised it's record keeping in the last school year due to the new policies of Ohio Department of Education official. It is unwarranted to issue a finding for recovery for failure to keep records which were not required to be kept during the time period in question.

This finding centers around the Adult Continuing Education (ACE) Program which was reviewed, audited, approved by, and certified by the Ohio Department of Education on numerous occasions. The finding specifically draws attention to a July 30, 2007 meeting with an anti-charter school advocate who works at the Department of Education where he changed the requirements of ODE for this program. The finding also makes reference to Harmony's compliance with this new (unwritten, non-administrative code) standard as of June 12, 2008.

ORC 3314.03(A)(11)(a) states that a school must specify that they will provide 920 hours of learning opportunities. There is no requirement of, or specification of, specific documentation being required to document these hours. The "proof" of these hours is left up to the school, ODE, and the schools sponsor. Both the sponsor and ODE found that there was compliance with the 920 hour requirement. If the Auditors now find that more documentation is preferred, then this should be a management recommendation not a finding for recovery.

In addition, the finding for recovery is for the full funding for the students in the ACE Program. The audit points out that some hours were documented. A finding for recovery should, if made at all, be limited to those hours that have not been documented.

**Auditor of State's Conclusion**

The School was unable to provide documentation supporting a planned 920 hour student curriculum or the students' participation in 920 hours of educational opportunities in the ACE Program or other traditional educational programs which would entitle the School to funding for the school years noted above. Auditor of State work papers, containing detailed information to support this finding for recovery, were made available to the School for review. We used student enrollment forms, withdrawal forms, grade cards, attendance reports, schedules and transcripts to identify the last date students were in attendance compared to the withdrawal date recorded by the School in CSADM. We used the school calendars and the monthly CN-7 reports to determine the actual number of days the School was in session. The total amount of funding per hour was calculated based on the ODE Formula amount for the applicable school year for the student's resident district. There was no evidence provided by the School to the Auditor of State's office indicating that the records maintained by the School to support the student count were deemed "sufficient", or that this program was "certified" by the Ohio Department of Education or Lucas County ESC. The meeting referred to in the finding was with an ODE representative and was to discuss policy issues and requirements that were in place at the time the program was operated by Harmony Community School. The Officials' response that the meeting was with "an anti-charter school advocate" has no bearing on the finding.

## FINDING NUMBER 2005-005

### Finding for Recovery Repaid Under Audit - Deck Built at the Director's Residence

In May 2006, Director Deland McCullough began construction to extend the deck at his residence. After receiving quotes from contractors, Director McCullough mentioned extending his deck to Floyd Moore, a school employee. Mr. Moore indicated he would be willing to build the deck if Director McCullough could provide the materials.

Upon discussion with former Treasurer Rob Steigerwald, Director McCullough obtained approval, from the former Treasurer, to use the School's Home Depot credit card to purchase the materials and would repay the amount charged via a payroll deduction. The School's records reflect material charges of \$4,291 for the deck built at Director McCullough's residence.

In addition to the deck construction, school employee John Houston and two students installed electrical outlets. Mr. Houston purchased \$804 worth of materials to install these outlets, charged to the School's account at Gray Bar, an electrical supply store. In addition, the School paid two students \$1,456 for their labor while working at Director McCullough's residence.

In total, the School remitted payments totaling \$6,551 for materials and labor costs related to the construction of the deck and installation of electrical outlets at Director McCullough's residence. Of the \$6,551, Director McCullough reimbursed the School \$960 via a payroll deduction; paid \$2,640 on the Home Depot credit card account using a cashier's check, and reimbursed the School \$1,462 from his personal account. The remaining balance of \$1,489 was reimbursed by Director McCullough on July 8, 2008.

In accordance with the forgoing facts and pursuant to **Ohio Revised Code, Section 117.28**, a finding for recovery for public money illegally expended is hereby issued against Deland McCullough in the amount of \$1,489 and in favor of Harmony Community School.

### Unpaid Sales Tax

The materials used for Mr. McCullough's deck and the electrical work at his home were purchased using Harmony's account, which included its Tax Identification Number. No State or County sales tax was paid on the transaction. An analysis was performed by the AOS calculating the amount of the sales tax due on the purchases to be \$282.

The failure to collect and remit sales tax raises questions under Ohio Revised Code Sections 5739.02(A) and 5739.02(B)(1). Consequently, this report will be referred to the Ohio Department of Taxation to review whether Mr. McCullough, by using the schools account which included their Tax Identification Number, should remit tax for those purchases.

### Officials' Response:

This finding deals with funds that were inappropriately expended by the school. It should be noted that prior to this expenditure occurring, the school fiscal officer was consulted and issued a verbal opinion that it was allowable. The fiscal officer was believed to be a CPA, and had worked in the State Auditor's office on charter school audits, and was therefore presumed to be knowledgeable on the point. Once school officials became aware that the expenditure was not appropriate, the funds were repaid in full.

**FINDING NUMBER 2005-005  
(Continued)**

**Auditor of State's Conclusion**

School management should have obtained a written opinion from an attorney if they had questions regarding the appropriateness of this expense. Failure of the School to verify the credentials of their employee has no bearing on this finding. The Auditor of State's office provided information regarding the illegal expenditure to the School at a June 12, 2008 meeting. Mr. McCullough repaid \$1,489 to the School on July 8, 2008.

**FINDING NUMBER 2005-006**

**Finding for Recovery – Student Residency**

**Ohio Revised Code, Section 3314.06(A)**, states “[t]hat except as otherwise provided in this section, admission to the school shall be open to any individual age five to twenty-two entitled to attend school pursuant to section 3313.64 or 3313.65 of the Revised Code in a school district in the state.”

**Ohio Revised Code, Section 3313.64(B)(1)**, states “[a] child shall be admitted to the schools of the school district in which the child's parent resides.” **Ohio Rev. Code, Section 3313.64(B)(2)**, provides that a child who does not reside in the district where the child's parent resides shall be admitted to the schools of the district in which the child resides if any of the following applies:

- (a) The child is in the legal or permanent custody of a government agency or a person other than the child's natural or adoptive parent.
- (b) The child resides in a home.
- (c) The child requires special education.

Pursuant to **Ohio Revised Code, Section 3313.64(A)(4)**, a home is generally defined as “a home, institution, foster Home, group home or other residential facility in this state that receives and care for children”.

During the 2005-2006 and 2006-2007 school years, we identified 3 students under the age of 18 at the beginning of the school year who did not reside within the school district corresponding to the address listed in the enrollment application as belonging to their parents. Instead, these students resided apart from their parents, in an apartment complex owned by the School, in another apartment complex, or in a house with other students. Additionally, per the students' enrollment applications, the students did not reside with a legal guardian and did not meet any of the other requirements found in **Ohio Revised Code Section 3313.64(B)**. As such, the School was not entitled to the following funding requested and received from the Ohio Department of Education for these students:

<b>School Year</b>	<b>Amount</b>
2005-2006	\$2,441
2006-2007	\$1,385
	<u>\$3,826</u>

In accordance with the forgoing facts and pursuant to **Ohio Revised Code, Section 117.28**, a finding for recovery is hereby issued against Harmony Community School for public money illegally expended in the amount of \$3,826, and in favor of the Ohio Department of Education on behalf of the students' resident school districts.

**FINDING NUMBER 2005-006  
(Continued)**

Residency – Students Over the Age of 18

**Ohio Revised Code, Section 3314.06(A)**, states “[t]hat except as otherwise provided in this section, admission to the school shall be open to any individual age five to twenty-two entitled to attend school pursuant to section 3313.64 or 3313.65 of the Revised Code in a school district in the state.”

**Ohio Revised Code, Section 3313.64(F)**, provides, in part, that in the case of any individual entitled to attend school under this division, no tuition shall be charged by the school district of attendance and no other school district shall be required to pay tuition for the individual’s attendance. Notwithstanding division (B), (C), or (E) of this section:

- (1) All persons at least eighteen but under twenty-two years of age who live apart from their parents, support themselves by their own labor, and have not successfully completed the high school curriculum or the individualized education program developed for the person by the high school pursuant to section 3323.08 of the Revised Code, are entitled to attend school in the district in which they reside.

During the 2005-2006 and 2006-2007 school years, we identified 64 students over the age of 18 at the beginning of the school year who did not reside within the school district corresponding to the address listed in the enrollment application as belonging to their parents. Instead, these students resided apart from their parents, in an apartment complex owned by the School, in another apartment complex, or in a house with other students. Additionally, per the students’ enrollment applications, the students did not reside with a legal guardian. The School provided affidavits for some students indicating that the students were employed. However, we were unable to obtain paychecks stubs, W-2’s or timesheets documenting the students were supporting themselves by their own labor; and the employers noted for those affidavits provided were unable to verify the students’ employment. As such, the School was not entitled to the following funding requested and received from the Ohio Department of Education for these students:

<b>School Year</b>	<b>Amount</b>
2005-2006	\$47,263
2006-2007	\$129,873
	<u>\$177,136</u>

In accordance with the forgoing facts and pursuant to **Ohio Revised Code, Section 117.28**, a finding for recovery is hereby issued against Harmony Community School for public money illegally expended in the amount of \$177,136, and in favor of the Ohio Department of Education on behalf of the students’ resident school districts.

During the 2006 and 2007 school years the School had students enrolled over eighteen years of age from other resident districts and claimed to be self supporting. The School has not established guidelines to constitute when a student over the age of eighteen is self supporting. We recommend the School establish guidelines to define when a student over the age of eighteen is self supporting outlining a range of income earned by a student and the timeframe of the earnings. Also, the School should verify the earnings information with wage statements from the student.

**Officials’ Response:**

This bulk of this finding deals with students who were over 18 and did not reside with their parents. This issue was the cause of “flags” by the Cincinnati Public Schools in 2005 and 2006. At that time, the school and it’s officials worked with the Ohio Department of Education and the Ohio Attorney General’s office to develop a policy as to what documentation would be required in such instances.

**FINDING NUMBER 2005-006  
(Continued)**

The results of these discussions was that the child would be required to sign an affidavit stating that the supported themselves by their own labor, and a letter from an employer or a potential employer. The students included in this finding provided both of those documents.

Any student who did not produce those documents was not funded, and the Ohio Department of Education, with the AG's office, made a determination that that documentation was sufficient and lifted the flags on students who did provide that documentation.

**Auditor of State's Conclusion**

For those student affidavits that were provided, certain employers were unable to verify the students' employment. The School was unable to provide paychecks stubs, W-2's or timesheets as alternative documentation that the students in question were supporting themselves by their own labor. In the July 30, 2007 meeting with ODE, it was indicated by ODE that if it is determined that the statements contained in the affidavit are false or the student has a diploma from another school district, the students over the age of 18 are not eligible for funding.

**FINDING NUMBER 2005-007**

**Material Noncompliance – Minimum Learning Opportunities**

**Ohio Revised Code, Section 3314.03(A)(11)(a)**, states that community schools will provided learning opportunities for a minimum of nine hundred twenty hours per school year. During the 2007 school year, the School did not provide the required 920 hours of learning opportunities as required by the Ohio Revised Code. The School provided 5.66 hours of instruction each day and operated for 160 days for a total of 905.6 hours of instruction. This was 14.4 hours less than the required 920 hours. This practice could result in the school receiving funding that they are not entitled to. We recommend the School review and adjust their school calendar and add the necessary amount of school days to the school year to provide the required 920 hours of learning opportunities.

**Officials' Response:**

During the 2007 school year, HARMONY operated under the use of calamity days as there was no legislation concerning calamity days in community schools until 2008 school year. Furthermore, HARMONY offered 14 additional days of full instruction that was available to all students from May 14 – June 1, 2007.

**Auditor of State's Conclusion**

The fourth quarter school calendar provided by Harmony Community School indicated that classes ended on May 4, 2007, and no documentation was provided to support an added 14 days in their regular school year calendar.

**FINDING NUMBER 2005-008**

**Material Weakness – Student Data**

School management is responsible for accurately entering and maintaining student information in the Ohio Department of Education (ODE) CSADM database. The student files maintained by the School should substantiate the date a student withdrawals from the school. When a student withdrawals from the School the student file should be updated with a withdrawal form to support the withdrawal date. The following exceptions were noted:

**FINDING NUMBER 2005-008**  
**(Continued)**

- For the 2005, 2006, and 2007 school years numerous instances were noted, as documented in finding number 2005-001, where the School was being paid for students after the student quit attending.

Failure to accurately updating the CSADM database to reflect actual students enrolled and in attendance at the school lead to \$293,517 funding overpayment from ODE. We recommend the School establish control procedures to monitor and update the CSADM database to accurately reflect all students actually enrolled and in attendance at the school.

- The enrollment date per the CSADM database did not agree to the enrollment date per the student files for ten instances for school year 2006 and one instance for school year 2007.
- The CSADM database did not agree to the withdrawal date per the student file for eleven instances for school year 2005, four instances for school year 2006, and twenty one instances for school year 2007.

Failure to update student file enrollment and withdrawal dates or the CSADM enrollment and withdrawal dates could lead to inaccurate reporting and over funding for the school. We recommend that the School establish control procedures to ensure that all student files accurately reflect the student enrollment and withdrawal dates.

- The date of birth per the birth certificate did not agree to the CSADM date of birth for four instances for school year 2005, and two instances for school year 2006.
- The resident district per the student file did not agree to the CSADM entity name for seven instances for school year 2005, and nine instances for school year 2006.
- During the 2005 school year a student was placed in a foster home in Cincinnati and attended Harmony Community School. Montgomery County Children Services (MCCS) placed this child. A letter to the school principal from MCCS found in the student's file stated that the Dayton Public School District was responsible for the cost of this child's education. However, payment from ODE had Cincinnati Public Schools as the resident district for this student.

Incorrect birth dates and residency districts can lead to inaccurate payment from ODE. We recommend the School notify ODE of any instances of incorrect residency districts so that funding can be corrected. In addition, the School should establish control procedures to monitor and update the CSADM database to reflect accurately students enrolled and in attendance at the School.

- The School did not review attendance records on a timely basis to determine truancy. For the 2007 school year, we noted 16 instances where a student was removed from the CSADM shortly after the quarter started. There was no evidence that these students attended Harmony for any days during the quarter in which they were removed. Ten of the 16 students were removed during the beginning of the first quarter indicating the student never attended Harmony for the year.
- We also noted the removal of 24 students for truancy on one date (3/23/07) from the CSADM. These students had a high number of unexcused absences. It appears that several of these students were truant prior to their removal date of 3/23/07.

Inaccurate reporting of the student withdrawal date on the CSADM can lead to incorrect funding for the school. We recommend Harmony review enrollment and attendance data on a more timely basis and remove students from the CSADM when truancy starts or on the actual date the student stops attending which would normally be at the end of the previous school year or the end of the quarter instead of waiting to remove the student from the CSADM on the date that the review is performed.



**FINDING NUMBER 2005-008  
(Continued)**

- The student application for enrollment should identify which grade the student is going to participate. If the student does not know the appropriate grade an official from the school should complete that portion of the application. The student application did not identify the student grade for fifty six instances for the 2005 school year, forty five instances for the 2006 school, and eleven instances for the 2007 school year.

Failure to properly identify which grade the student should enroll in can lead to incorrect reporting of student grades and attendance since programs offered at Harmony vary in nature. We recommend that the School establish control procedures to ensure that all student files accurately reflect the student grade.

**Officials' Response:**

HARMONY has changed its staffing, checks and balances, and oversight surrounding the registrar position (in charge of scheduling, recording of grades, attendance, transcript data, and database management). There are currently at least three staffers that review the data sensitive information for accuracy then submission. Also, HARMONY will utilize outside consultants for review of its data accuracy and submission systems.

**FINDING NUMBER 2005-009**

**Material Noncompliance and Material Weakness – Accounting Records**

**Ohio Administration Code, Section 117-2-02**, states in part that:

- (A) 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.
- (B) The management of each local public office is responsible for the assertions underlying the information in the public office's financial statements. The accounting system should assure that the following five assertions are achieved for all transaction types and account balances applicable to the local public office's operations, considering the basis of accounting applicable to it:
  - (1) Existence/occurrence: That recorded assets (and liabilities, if generally accepted accounting principles apply) Exist as of fiscal year end, recorded transactions have occurred and are not fictitious.
  - (2) Completeness: That all account balances and transactions that should be included in the financial records are included.
  - (3) Rights and obligations: That recorded assets are rights of the public office and recorded liabilities (if generally accepted accounting principles apply), are obligations of the public office at the fiscal year end.
  - (4) Valuation/allocation: That generally accepted accounting measurement and recognition principles are properly selected and applied. This includes accounting measurement and recognition principles prescribed by the auditor of state for public offices that are not required to follow generally accepted accounting principles.

**FINDING NUMBER 2005-009**  
**(Continued)**

- (5) Presentation and disclosure: That financial statement elements are properly classified and described and appropriate disclosures are made as required by generally accepted accounting principles, or as prescribed by the auditor of state for entities that do not follow generally accepted accounting principles.

The following items were noted from review of the School's financial records and bank statements:

- The School did not have sufficient monitoring controls in place to reduce the risk of misstatements caused by error or fraud. The initial financial statement amounts presented for audit were not supported by the accounting system reports and underlying documentation. A total reconstruction was performed by the School and corrected financial statements were prepared. The net assets at June 30, 2005 changed from \$659,296 in the initial draft to (\$114,885) in the draft supported by the reconstruction. This resulted in additional audit cost due to the necessity of auditing two different sets of financial statements and ledgers.
- The School did not properly reconcile its general checking account during the audit period. The reconciled bank balance was \$32,131 higher than the general ledger balance at June 30, 2005. Reconciliations are an effective tool to help management determine the completeness of recorded transactions, as well, as ensure that all recorded transactions have been deposited with the financial institution.
- The School did not properly value their capital assets in prior periods and had to make an adjustment to their capital asset beginning balance to reduce it by \$276,000 (gross) to agree it to the value of the actual capital assets that they had.

Monitoring controls comprise regular management and supervisory activities established to oversee whether management's objectives are being achieved, covering operational and legal compliance, as well as financial control objectives. Effective monitoring controls should identify unexpected results or expectations (including significant compliance exceptions), investigate underlying causes, and take corrective action.

Monitoring controls may be in the nature of ongoing activities or periodic separate evaluation by either management or an internal audit function. They can relate to a specific transaction cycle or can be in a more overview nature.

Failure to accurately prepare and reconcile the accounting records reduces the accountability over school funds and reduces the Board's ability to effectively monitor financial activity; increases the risk that monies will be misappropriated and not detected in a timely manner; and increases the risk that the financial statements will be misstated.

The Treasurer should perform reconciliations between the bank balance and the monthly financial statements/reports. The reconciled checking account balance (bank balance, less outstanding checks, plus deposits in transit) should equal the total fund balance. Any variances should be immediately investigated and justified.

The Board should obtain and review financial activity on a regular basis; and compare it to underlying information such as the bank reconciliation, prior balances and activity, and the annual budget. Unusual items should be investigated and resolved in a timely manner. Monthly reports should be approved by the Board and maintained with the official minutes.

**FINDING NUMBER 2005-009  
(Continued)**

**Officials' Response:**

Harmony Community School (HARMONY) hired a new Treasurer in December 2006. The new Treasurer immediately realized that financial statements had not been prepared for fiscal year (FY) 2005 and the financial records had not been kept in a manner that would allow financial statements to be created. Using the bank statements, the new Treasurer reconstructed FY05 and FY06 financial records and then worked with a consultant to convert the cash basis financial records to GAAP financial statements for both years. Once these reconstructions were completed there was a significant change in the statements that were initially presented and the financial statements that were based upon the reconstructed financial records. Financial records were kept in an acceptable manner for FY07 and financial statements were created and submitted to the Auditor of State in a timely manner. Additionally, financial records were kept in an acceptable manner for FY08 and financial statements will be developed and submitted to the Auditor of State as required by Ohio Revised Code.

Although it is accurate that the reconciled bank balance as of June 30, 2005 was \$32,131 higher than the general ledger balance as of the same time, as mentioned above the general ledger was recreated from scratch and this was the best that could be based on the circumstances regarding the reconciliation. Since January 2007 cash reconciliations have been completed monthly.

Capital assets were not valued appropriately in prior periods and we understand that a significant adjustment had to be made. It is the goal of the school to enter into an agreement with an inventory valuation firm to determine more exact value of the capital assets of the school. We expect this to happen during Fiscal Year (FY) 2009 to be used for the FY09 financial statements.

**FINDING NUMBER 2005-0010**

**Material Weakness - Capital Assets**

The School has not developed and implemented procedures to assist in recording assets as additions (when purchased) and deletions (when disposed of) throughout the fiscal year. Also, procedures have not been implemented to perform periodic physical inventories of assets to ensure completeness. Failure to maintain records or employ adequate controls over the acquisition and disposal of fixed assets could result in misappropriation of assets and misstatements of recorded assets.

A listing of all fixed assets owned by the School should be maintained and updated to reflect additions of assets acquired and deletions of assets sold or disposed of throughout the year. To promote adequate safeguards over their fixed assets, and to reduce the risk that the School's fixed assets will be misstated, the School should prepare an updated listing of all fixed assets owned and develop and implement appropriate procedures to be performed throughout the year. These procedures should include tagging all assets meeting the School's capitalization criteria when received and recording the fixed asset tag number, the development of addition and disposal forms to be completed by the School and approved by management when assets are acquired or disposed recording such information as the tag number, a description, the cost, the acquisition date, reference for supporting documentation such as an invoice and proper approval.

**FINDING NUMBER 2005-010  
(Continued)**

The School should also develop and implement procedures for performing periodic (eg. annual) physical inventories. The physical inventory lists can be performed by submitting a list of all fixed assets recorded to each location and having individuals responsible for that location perform the inventory of all assets in that location. The assets in the location should be compared to the list provided. Assets no longer used should be disposed, and assets not included on the listing should be added.

**Officials' Response:**

HARMONY has the following plans during the current fiscal year to make the capital assets of the school become valued and monitored more effectively:

1. Review/develop a Fixed Assets policy that will among other things, set a threshold amount for the capitalization of assets.
2. Contract with an inventory valuation firm to determine which of our assets satisfy the threshold=2 0amount set in our Fixed Assets Policy, place an inventory tag on those items, and provide the school with a listing of those assets along with a value for those assets.
3. Develop and implement inventory forms to be used by the staff for additions, deletions and transfers of assets.

**FINDING NUMBER 2005-0011**

**Material Weakness - Payroll Processing**

The school has delegated payroll processing and reporting, which is a significant accounting function, to a third-party administrator. The school has not established procedures to determine whether the service organization has sufficient controls in place and operating effectively to reduce the risk that payroll disbursements have not been completely and accurately processed in accordance with the hours worked, withholding percentages, and pay rates submitted.

We recommend the school implement procedures to assure the completeness and accuracy of the payroll transactions processed by its third-party administrator, and proper reporting. The school should implement the following controls.

- activity is authorized, complete, and accurate;
- erroneous input data is corrected and resubmitted;
- school personnel will review the payroll output for completeness and accuracy;
- payroll output is routinely reconciled to respective school control totals;
- payroll requests and bank transfers are appropriately authorized;
- all access to payroll information will be restricted, properly authorized and reviewed on a periodic basis;

**FINDING NUMBER 2005-011  
(Continued)**

As an alternative, the school could specify in their contract with the third-party administrator that an annual Tier II SAS 70 audit report be performed. The school should be provided a copy of the SAS 70 report timely and should review the report's content. A SAS 70 audit report should be conducted in accordance with American Institute of Certified Public Accountants' (AICPA) standards by a firm registered and considered in good standing with the Accountancy Board of the respective State. An unqualified Tier II SAS 70 Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness in accordance with SAS No. 70, should provide the school with an appropriate level of assurance that payroll transactions are being processed in conformance with the with the hours worked, withholding percentages, and pay rates submitted.

During the audit we noted the following deficiencies related to the payroll process:

- During the audit period, the school gave an accounting firm unrestricted access to the School's bank account to transfer monies from the School to the firm's account to process direct deposit transactions, collect their processing fee and remit payroll withholdings.

This practice increases the risk of undetected errors and/or misappropriation of assets. The school should limit access to their bank accounts and electronic fund transfers to those authorized signatories within management of the school. An alternative method could be a notification to the School by the accounting firm of the amount needed to cover the payroll amount, and a transfer made by an authorized signatory to the payroll account.

- Two variances were noted on Federal Form 941 submitted for the fourth quarter of 2004 where the amounts of the form did not trace to the payroll register. Additionally, although recorded on the general ledger, the amount for remittance with the October 15, 2004, payroll was never submitted via an EFT and remained a reconciling item on the bank reconciliation until April 2005. The School settled their federal tax liability with the Internal Revenue Service on May 2, 2005.

We recommend that the School review 941s for accurate preparation by reviewing the amount of tax due for each pay period, and verifying that the correct amounts have been remitted via an EFT during the bank reconciliation process.

- The School did not provide employment contracts to its employees or indicate in the minute records the employment status of persons hired. It was not evident from documents maintained by the school whether a person was an employee of the School or an independent contractor.

Seven employees were issued a 1099 in addition to a W-2 to report their normal compensation earned. All wage amounts should have been included on their respective W-2 forms, and federal taxes should have been withheld by the school for the employees of the school.

The deficiencies noted above increase the risk of additional tax liabilities by the school. The School should implement procedures to document a person's current employment status either through employment contact or a Board approved resolution, and communicate this information and all changes to the accounting firm in a timely manner. W-2 forms and 1099's should be reviewed by the School subsequent to preparation for accuracy and completeness.

**Officials' Response:**

During FY07 HARMONY began working with a new payroll vendor and corrected many of the deficiencies in the current report, including the following:

**FINDING NUMBER 2005-011  
(Continued)**

1. The current payroll vendor no longer has access to the School's bank account to transfer funds from the regular account to the payroll account.
2. We now review Federal Form 941s prior to submission.
3. Beginning in FY09 all HARMONY employees will be approved by the Board of Directors and will be provided a written contract.
4. Beginning in FY09 the use of independent contractors will be limited and employees will only receive a form W-2 or a form 1099, not both.

**FINDING NUMBER 2005-012**

**Material Noncompliance and Reportable Condition - Expense Request Forms**

Exhibit 2 (Financial Controls) of the school's contract with their sponsor, the Ohio State Board of Education, requires that an expense request form be approved by the school's director as part of the process for purchasing. For 42 of 60 (70%) disbursements tested, there was no expense request form prepared. For the remaining 18 disbursements tested an expense request form was prepared, but only 7 were issued on or before the invoice date. Failure to obtain proper approval for disbursements could result in overspending the School's funds or unauthorized expenditures. The School should follow the requirements set forth by their sponsor and consistently obtain approval for disbursements prior to the expenditure being made.

**Officials' Response:**

During FY09 an Expense Request form will be developed and utilized for all expense reimbursements. No reimbursement will be made unless proper procedures are utilized.

**FINDING NUMBER 2005-013**

**Material Noncompliance and Reportable Condition – Missing Documents**

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

- Three of 20 time sheets substantively tested (or 15%) could not be located for the audit.
- During the 2005 school year:
  - Four student files could not be located for audit, and
  - Seven files examined did not contain the student's birth certificate.

**FINDING NUMBER 2005-013  
(Continued)**

- During the 2006 school year:
  - Three student files were not located for audit.
  - Student grades for the fourth quarter for the Junior Academy were not presented for audit.
  - Texas Assessment test scores for the first quarter of the school year and sign-in / attendance sheets program for the entire school year were not provided for review.
  - An enrollment application for one student could not be located and one student file did not contain a birth certificate, social security card or immunization records.
- During the 2007 school year:
  - An enrollment application for one student could not be located.
  - Three student files, Texas Assessment Test scores, and Ohio graduation Test attendance records for the first, second and fourth quarters could not be located for audit.

Incomplete and/or inaccurate student file information can lead to inaccurate payments from ODE. One way to substantiate the enrollment, participation and attendance of a student is to maintain complete student files, student grades, and attendance records for the school year. Without an application there is no way to identify when the student began attending the school, this could result in funding miscalculations due to inaccurate reporting in the CSADM. Failure to obtain a birth certificate makes substantiating the student's age impossible. Not properly identifying a student's age can lead to inappropriate funding because a student could be over the age of 22. We recommend the School maintain complete and updated student files, copies of all the grades awarded, accurate attendance records, birth certificates, social security cards, immunization records, residency records, grade cards and various other enrollment documents to substantiate the enrollment of a student.

**Officials' Response:**

During FY09 the Board of Directors will do the following relative to record retention:

1. Develop a Record Retention Policy
2. Categorize and schedule for destruction any previous records
3. Provide a listing of records the school would like to destroy (in accordance with Policy) and provide to the Board of Education for approval prior to destruction.

**FINDING NUMBER 2005-014**

**Material Noncompliance**

**Ohio Revised Code, Section 3314.03(A)(10)**, provides that all community school classroom teachers are to be licensed in accordance with Ohio Revised Code Sections 3319.22 to 3319.31, except that a community school may engage noncertificated persons to teach up to twelve hours per week pursuant to Ohio Revised Code Section 3319.301. A permit must be issued by the Ohio Dept. of Education to these "noncertificated" persons in order to teach. Also, **34 C.F.R., Section 200.56**, requires Title I teachers to be highly qualified as defined in this section.

**FINDING NUMBER 2005-014  
 (Continued)**

For 15 of 20 teachers and teacher's aides tested, or 75%, no license or permit could be provided for audit. Also, 100% of the four teacher's aides tested worked in excess of 12 hours a week.

4 of the 6 (67%) Title I teachers tested, no teaching license was provided for audit. The 6 Title I teachers are included in the population above of the 15 exceptions overall.

This practice could result in students being taught by unqualified/unlicensed teachers. We recommend that Harmony Community School comply with all federal and state teaching guidelines by hiring licensed teachers, regularly reviewing the status of their teachers, and maintaining supporting documentation in their personnel files.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

**FINDING NUMBER 2005-014**

**Material Noncompliance**

<b>Finding Number</b>	2005-014
<b>CFDA Title and Number</b>	Title I, #84.010
<b>Federal Award Number / Year</b>	2005
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

See GAGAS finding #2005-014 above: this finding is also required to be reported in accordance with OMB Circular A-133.

**Officials' Response:**

For FY 05, according to data submission via EMIS, HARMONY had 100% of its core teaching staff that met Highly Qualified Teacher (HQT) status. HQT status is only achieved with appropriate certification/licensure being submitted through EMIS. This rate of HQT remains consistent with rates of 97.5 in FY 06 and 100 and FY 07. Nonetheless, HARMONY will continue compliance with all state and federal guidelines when hiring teachers.

**Auditor or State's Analysis**

The School did not provide documentation to support the qualifications for the teachers noted above.



**FINDING NUMBER 2005-015**

**Material Noncompliance and Material Weakness**

<b>Finding Number</b>	2005-015
<b>CFDA Title and Number</b>	Title I, #84.010 21 <sup>st</sup> Century Grant, #84.287
<b>Federal Award Number / Year</b>	2005
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Federal Expenditures**

**OMB Circular A-133, Section .300** states that the auditee shall:

- (a) identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulation, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs
- (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with OMB Circular A-133, Section 310.

The School did not present a schedule of expenditures of Federal award for audit, and the general ledger and expense ledger did not have the information segregated in a manner to facilitate the preparation of the schedule. The various federal grants were commingled in fund 599, or misposted to other funds.

A list of expenditures for each federal grant was prepared by the School upon our request. However, some of the expenditure amounts reported by the school exceeded the grant revenue amount. For these grants the expenditure amount was matched to the amount received for that year, since there was no evidence of carry over federal amounts from the prior year.

The schedule included in the report was prepared by AOS, from the general ledger, expense ledger, ODE federal subsidy report, State distribution ledger, and information obtained from school records.

Failure to maintain the appropriate expenditure records as required by OMB Circular A-133 increases the risk of future questioned costs and potential loss of federal financial assistance. We recommend the School segregate their federal funds on their financial records by utilizing the Uniform School Accounting System, and maintaining adequate documentation in support of all federal expenditures.

**Officials' Response:**

For FY07 and beyond, HARMONY will do the following relative to all Federal Programs:

**FINDING NUMBER 2005-015  
 (Continued)**

1. Develop a Schedule of Federal Financial Assistance complete with all revenues and expenditures for each FY.
2. Provide spreadsheets that detail revenues and expenditures ....segregating them by program.
3. Provide spreadsheets justifying each Project Cash Request.

**FINDING NUMBER 2005-016**

**Material Noncompliance, Material Weakness and Questioned Costs**

<b>Finding Number</b>	2005-016
<b>CFDA Title and Number</b>	Title I, #84.010 21 <sup>st</sup> Century Grant, #84.287
<b>Federal Award Number / Year</b>	2005
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

Questioned Costs

**34 C.F.R. Section 80.30(c)(1)** states, "Except as stated in other regulations or an award document, grantees or subgrantees shall obtain the prior approval of the awarding agency whenever any of the following changes is anticipated under a nonconstruction award:

- (i) Any revision which would result in the need for additional funding.
- (ii) Unless waived by the awarding agency, cumulative transfers among direct cost categories, or, if applicable, among separately budgeted programs, projects, functions, or activities which exceed or are expected to exceed ten percent of the current total approved budget, whenever the awarding agency's share exceeds \$100,000.
- (iii) Transfer of funds allotted for training allowances (i.e., from direct payments to trainees to other expense categories).

The Ohio Department of Education established grant guidelines, which include the following:

1. A Final Expenditure Report (FER) shall be submitted for each project.
2. Obligations must be liquidated by the report date without exception. Encumbrances shall not to be included on the FER. All reported amounts should be presented on a cash basis.
3. Under authority of 34 C.F.R. Section 80.43, failure to submit an FER (Final Expenditure Report) or correct FER discrepancies in a timely manner may result in a temporary suspension cash payments for the project, a suspension of program operations, or termination and repayment of any or all of the grant award until said project is closed.

**FINDING NUMBER 2005-016  
 (Continued)**

4. 10% RULE – Entities may expend up to 10% more than approved in the budget for an Object Code Total without submitting a budget revision (e.g., the total amount approved for salaries, object code 100, is \$1,000.00 – entities may spend up to \$1,100.00). This authority does not permit unauthorized expenditures. (34 C.F.R. Section 80.30)
5. All amounts reported on the FER must reconcile to the district’s or agency’s accounting system used to prepare annual financial statements.

Contrary to the above requirements, the School’s Consolidated Final Expenditure Report (FER) for the all of its grants did not reconcile to the accounting system used to prepare the annual financial statements. The amounts reported on the FER were the budgeted amounts, not the actual cash basis expenditure amounts, as required. In addition, the School expended more than ten percent (10%) over the budgeted amounts by object code as shown in the tables for which the School did not receive approval.

	<b>Budgeted Expenditures</b>	<b>Actual Expenditures per Expenditure Report</b>	<b>110% Of Budgeted Amount</b>	<b>Amount Exceeding 10 % over Budgeted Amount</b>
<b>Title I – CFDA #84.010</b>				
Retirement Fringe Benefits	\$52,000	\$146,185	\$57,200	\$88,985
<b>21<sup>st</sup> Century–CFDA #84.287</b>				
Purchased Services	111,742	184,396	122,916	61,480
Capital Outlay	2,500	10,735	2,750	7,985
<b>21<sup>st</sup> Century Total</b>	<b>\$114,242</b>	<b>\$195,131</b>	<b>\$125,666</b>	<b>\$69,465</b>
<b>Overall Total</b>	<b>\$166,242</b>	<b>\$341,316</b>	<b>\$182,866</b>	<b>\$158,450</b>

Based on the above deficiencies, we are questioning amounts equal to the Federal awards identified above which were received during the year ended June 30, 2005. In addition, failure to comply with grant requirements could result in future questioned costs and potential loss of federal financial assistance.

Further, **34 C.F.R. Section 80.43(a)** states, “If a grantee or subgrantee materially fails to comply with any term of an award, whether stated in a Federal statute or regulation, an assurance, in a State plan or application, a notice of award, or elsewhere, the awarding agency may take one or more of the following actions, as appropriate in the circumstances:

- (1) Temporarily withhold cash payments pending correction of the deficiency by the grantee or subgrantee or more severe enforcement action by the awarding agency,
- (2) Disallow (that is, deny both use of funds and matching credit for) all or part of the cost of the activity or action not in compliance,
- (3) Wholly or partly suspend or terminate the current award for the grantee’s or subgrantee’s program,
- (4) Withhold further awards for the program, or
- (5) Take other remedies that may be legally available.”

**FINDING NUMBER 2005-016  
(Continued)**

To achieve compliance with these requirements, we recommend that the Treasurer review the Final Expenditure Report for each grant prior to its being submitted by the School and compare that Report to the actual expenditures recorded in the expenditure ledgers. We also recommend the School obtain prior approval from the Ohio Department of Education for all changes which exceed 10% of the budget.

**Officials' Response:**

We did not receive a response from Officials regarding this finding.

**HARMONY COMMUNITY SCHOOL  
HAMILTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2004-001	Failure to maintain adequate monitoring controls.	No	Reissued as finding 2005-009
2004-002	ORC section 135.18(A) failure to maintain depository insurance.	No	Reissued in Management Letter





**Mary Taylor, CPA**  
Auditor of State

**HARMONY COMMUNITY SCHOOL**

**HAMILTON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
AUGUST 5, 2008**