MARCUS GARVEY ACADEMY
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004

Mary Taylor, CPA
Auditor of State

MARCUS GARVEY ACADEMY
CUYAHOGA COUNTY

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Marcus Garvey Academy
Cuyahoga County
13830, Euclid Avenue
East Cleveland, Ohio 44112

To the Board of Trustees:

We were engaged to audit the accompanying basic financial statements of the Marcus Garvey Academy, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Academy's management.

The Academy did not provide sufficient original supporting documentation for all non-payroll expenditures. Consequently, we were unable to verify the existence, accuracy, completeness and valuation of the amounts reported as expenditures for non-payroll purposes.

The Board of Trustees, through its minute records, had not approved the payroll amounts of Academy employees, nor did the Academy enter into employment contracts with all of the employees. Consequently we were unable to verify the accuracy, existence, completeness, and valuation of the payroll transactions of the Academy.

The total reported as accounts payable was not supported by original supporting documentation. Invoices representing valid claims against the Academy were not made available.

The amount reported as accrued wages and benefits payable was not supported. The Academy was unable to provide approved salary and wage amounts to support the amount reported. Consequently, we were unable to verify the completeness and valuation of the wages payable.

Since the Academy did not provide the evidence described in the four paragraphs above, the scope of our auditing procedures was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2007 on our consideration of the Academy'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 do 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.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. Since we were unable to express an opinion on the basic financial statements, we could not apply certain limited procedures to the required supplementary information. We did not audit the information and express no opinion on it.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 28, 2007

Marcus Garvey Academy
A Community School
Cuyahoga County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

The discussion and analysis of the Marcus Garvey Academy's (the Academy's) financial performance provides and overall review of the Academy's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999.

Financial Highlights

In total, net assets increased $48,382 which represents a 40% increase from 2003. This increase was due mainly to decreasing outstanding debt obligations.

Using this Financial Report

This financial report contains the basic financial statements of the Academy, as well as the Management's Discussion and Analysis and notes to the basic financial 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. As the Academy reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentation information is the same.

Statement of Net Assets

The statement of net assets answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the 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 cash is received or paid.

This statement reports the Academy's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the Academy's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as state revenue, student enrollment growth, and facility conditions in arriving at their conclusion regarding the overall health of the Academy.

Marcus Garvey Academy
A Community School
Cuyahoga County

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004

Table 1 provides a summary of the Academy's net assets for fiscal years 2004 and 2003.

Table 1
Net Assets

	2004	2003
Current Assets	$ 18,738	$ 77,840
Capital Assets, Net	5,218	4,814
Total Assets	23,956	82,654
Current Liabilities	96,513	153,093
Long Term Liabilities	0	50,500
Total Liabilities	96,513	203,593
Net Assets:		
Invested in Capital Assets, net	5,218	4,814
Unrestricted	(77,775)	(125,753)
Total Net Assets	$ (72,557)	$ (120,939)

The positive portion of the Academy's total assets reflects its investment in capital assets net of related debt. The Academy uses capital assets to provide services; consequently, these assets are not available for future spending.

Net Assets of the Academy have increased $48,382 but unrestricted net assets reflect a negative balance of $77,775. The increase in net assets is primarily the result of reducing the debt for loans and the line of credit.

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2004 and 2003, as well as revenues and expenses.

Table 2
Changes in Net Assets

	2004	2003
Operating Revenues:		
Foundation payments	499,065	155,130
Other Operating Revenues	5,663	2,359
Non-Operating Revenues:		
Federal and State subsidies	64,074	272,541
Other	571	556
Total Revenues	569,373	430,586
Operating Expenses:		
Salaries & Wages	224,177	177,045
Fringe Benefits	54,241	35,459
Purchased Services	120,823	147,944
Materials & Supplies	38,691	44,082
Depreciation	1,195	1,025
Building Lease	49,830	117,659
Miscellaneous	23,368	19,663
Non-Operating Expenses:		
Interest expense	8,366	7.800
Total Expenses	520,991	550,677
Change in Net Assets	$ 48,382	$(120,091)

The Academy's net assets improved significantly during 2004, increasing 40% from the deficit balance in 2003. During fiscal year 2004, the Academy's revenue increased in the area of foundation payments due to increased enrollment over the prior school year. Similarly, the expenses for salaries and fringes increased as a result of having more staff members to serve the increased number of students. The decrease in Federal and State subsidies is the result of the Academy having received its one time start-up grant funding during the 2003 fiscal year.

Capital Assets

The Academy maintains an capitalization threshold of $500. At June 30, 2004 the Academy had invested $7,438 in capital assets, and had reported $2,220 in accumulated depreciation. Additional information regarding capital asset activity is included in the notes to the basic financial statements (Note 2).

Debt Activity

During fiscal year 2003, the Academy found it necessary to borrow against a line of credit it has with a local financial institution for cash flow purposes at various times during its initial year of operation. During fiscal year 2004, the Academy repaid $50,123 against the line of credit principal leaving $49,364 outstanding at June 30, 2004.

Restrictions and Other Limitations

The future financial stability of the Academy is not without challenges.

The first challenge is the state economy. The Academy does not receive any funds from taxes. The primary source of funding is the state foundation program. An economic slowdown in the state could result in budgetary cuts to education, which would have a negative impact on the Academy.

The second challenge facing the Academy is the future of state funding. On October 6, 2004, a suit was filed in the US District Court challenging the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The Academy is unable to determine what effect, if any, this suit might have on future funding from the State.

Contacting the Academy

This financial report is designed to provide a general overview of the finances of the Marcus Garvey Academy and to show the Academy's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to Marcus Garvey Academy, Attn: Treasurer, 13830 Euclid Avenue, East Cleveland, Ohio 44112.

Marcus Garvey Academy
Cuyahoga County
Balance Sheet
as of June 30, 2004

Assets		
Current Assets		
Cash and Investments	$	14,968
Receivable - Accounts		3,770
Total Current Assets		18,738
Non-Current Assets		
Capital assets (Net of Accumulated Depreciation)		5,218
Total Assets	$	23,956
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable	$	21,156
Accrued Wages & Benefits		21,615
Due to Other Governments		4,378
Interest Payable		0
Line of Credit		49,364
Total Current Liabilities		96,513
Long-Term Liabilities		
Loans payable		0
Total Liabilities		96,513
Net Assets		
Invested in Capital Assets		5,218
Unrestricted		(77,775)
Acumulated Deficit		(72,557)

The accompanying Notes are an integral part of the Financial Statements

Marcus Garvey Academy
Cuyahoga County
Statement of Revenues, Expenses,
and Changes in Accumulated Deficit
for the Fiscal Year ended June 30, 2004

Operating Revenues	
Sales	$ -
Foundation Payments	499,065
Other Operating Revenues	5,663
Total Operating Revenues	504,728
Operating Expenses	
Salaries & Wages	224,177
Fringe Benefits	54,241
Purchased Services	120,823
Materials & Supplies	38,691
Depreciation	1,195
Building Lease	49,830
Insurance	0
Miscellaneous	23,668
Total Operating Expenses	512,625
Operating Income	(7,897)
Non-Operating Revenues and (Expenses)	
Interest Earnings	571
Federal subsidies and State Grants	64,074
Interest Expense	(8,366)
Total Non-Operating Revenues and (Expenses)	56,279
Change in Net Assets	48,382
Net Assets (Deficit) at July 1, 2003	(120,939)
Net Assets (Deficit) at June 30, 2004	(72,557)

The accompanying Notes are an integral part of the Financial Statements

Marcus Garvey Academy
Cuyahoga County
Statement of Cash Flows
for the Fiscal Year ended June 30, 2004

Cash Flows from Operating Activities	
Cash received from Foundation Payments	$499,065
Cash received from Other Operating Revenues	$5,663
Cash payments for personal services	($279,619)
Cash payments for contract services	($121,698)
Cash payments for supplies and materials	($49,123)
Cash payments for Miscellaneous	($15,987)
Net Cash Provided By/(Used for) Operating Activities	$38,301
Cash Flows from Noncapital Financing Activities	
Cash from Federal & State Subsidies	$85,526
Proceeds borrowed	$31,715
Principal repaid	($132,338)
Interest Expense	($9,996)
Net Cash from Noncapital Financing Activites	($25,093)
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	($1,599)
Net Cash Used for Capital and Related Financing Activities	($1,599)
Cash Flows from Investing Activities	
Interest on cash and cash equivalents	$571
Net cash from investing activites	$571
Net increase in cash and cash equivalents :	$12,180
Cash and cash equivalents at beginning of year	$2,788
Cash and cash equivalents at end of year	$14,968
Reconciliation of Operating Income to Net Cash Provided By (Used for) Operating Activities	
Operating Income	($7,897)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities	
Depreciation	$1,195
Changes in Assets and Liabilities:	
Accounts receivable	$0
Prepaid expenses	$49,830
Accounts Payable	($1,178)
Accrued Wages and Benefits	$2,193
Intergovernmental Payable	($5,842)
Total Adjustments	$46,198
Net cash provided (used) by operating activities	$38,301

The accompanying Notes are an integral part of the Financial Statements

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I. Description of the School and Reporting Entity

Marcus Garvey Academy (the Academy) is a non-profit corporation established July 1, 2002 pursuant to Ohio Revised Code Chapters 1702 and 3314 to address the needs of students from low income families in grades sixth through eighth. The Academy which is part of the State's Education program, is independent of any school district, and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

On November 19, 2001 the Academy submitted a proposal to the Ohio Department of Education to open a community school in the fall of 2002. The Ohio Department of Education approved the proposal and entered into a contract with the Academy, which provided for the commencement of operations at the beginning of the 2002-2003 school year.

The Academy was approved for operation under contract with the Ohio State Board of Education (the Sponsor) for a period of five years commencing July 1, 2002 and shall terminate on June 30, 2007. The Sponsor is responsible for evaluating the performance of the school and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a 5-member Governing Board. The Board is responsible for carrying out the provisions of the contract, which includes, but is not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers. The Board controls the Academy's instructional facility staffed by five classified and four certified full time personnel who provide services to 89 students.

II. Summary of Significant Accounting Policies

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principals 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 principals. The Academy also applies Financial Accounting Standards Board Statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below.

II. Summary of Significant Accounting Policies (Continued)

1. Basis of Presentation

The Academy uses enterprise accounting to track and report on its financial activities. 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 costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

2. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (e,g. revenues) and decreases (e.g. expenses) in net total assets.

The basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Contributions and grants are recognized when the donor makes a promise to give to the Academy that is unconditional.

3. 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 Rev. Code Section 5705, unless specifically provided in the schools contract with its sponsor. The contract between the Academy and its sponsor requires a detailed budget for each year of the contract.

4. Cash and cash equivalents

All monies received by the Academy are maintained in a demand deposit account in the name of Marcus Garvey Academy. For internal accounting purposes, the Academy segregates its cash.

II. Summary of Significant Accounting Policies (Continued)

5. 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 these estimates.

6. Intergovernmental Receivables

All receivables are considered collectible in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. Intergovernmental receivables of the Academy at June 30, 2004, of which all grant requirements had been satisfied, consisted of the School Nutrition Program funding in the amount of $3,770.

7. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value on the date received. The Academy maintains a capitalization threshold of $500. The Academy does not possess any infrastructure.

Depreciation and amortization of leasehold improvements, computers, and equipment are computed using the straight-line method over their estimated useful lives. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets.

Assets	Years
Computers and Equipment	5

8. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

9. Compensated Absences

Vacation is taken in a manner which corresponds with the school calendar; therefore, the Academy does not accrue vacation time as a liability.

II. Summary of Significant Accounting Policies (Continued)

9. Compensated Absences (Continued)

Sick leave/ Personal leave benefits are earned by full time employees at the rate of eight days per year and cannot be carried into the subsequent year. No accrual for sick time is made since unused time is not paid to employees upon employment termination.

10. Accrued Liabilities Payable

The Academy has recognized certain liabilities on its balance sheet relating to expenses, which are due but unpaid as of June 30, 2004, including:

Wages Payable – a liability has been recognized at June 30, 2004 for salary payments made after year-end that were for services rendered in fiscal year 2004.

Intergovernmental Payable – payment for the employer's share of the retirement contribution, workers' compensation, and Medicare associated with services rendered during fiscal year 2004, but where not paid until the subsequent fiscal year.

11. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws and regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

III. Deposits and Investments

At fiscal year end June 30, 2004, the carrying amount of the Academy's deposits totaled $14,968 and its bank balance was $20,885. All of the bank balance was covered by the Federal Depository Insurance Corporation. As of June 30, 2004, the Academy had $11 in petty cash.

IV. Capital Assets

A summary of the Academy's capital assets as of June 30, 2004 follows:

Computers and Equipment	$ 7,438
Less: Accumulated Depreciation	(2,220)
Net Capital Assets	$ 5,218

V. Purchased Services

Purchased Services include the following:

Advertising	$ 3,844
Administrative	19,385
Building Services	1,038
Financial Services	30,937
Instruction Services	5,620
Occupancy Costs	52,654
Pupil Support Services	700
Transportation Services	6,645
Total Purchased Services	$ 120,823

VI. Debt

The Academy held the following debt during the fiscal year:

1. Related Party Transactions

The Academy entered into a debt agreement with the Board Chairman, Arthur Baker Jr. in July of 2002 for $25,000. The loan is at an interest rate of 9% per annum and requires the Academy to pay a minimum of $187.50 of interest a month. As of June 30, 2004, all of the principal had been repaid and interest expense for the fiscal year was $2,437.

The Academy entered into a debt agreement with Board member, Nettie Barksdale, in April of 2003 for $8,000. As of June 30, 2004 all of the amount had been paid back. The loan was interest free.

2. Short Term Debt

The Academy entered into debt agreements in fiscal year 2003 for which an outstanding balance existed at June 30, 2003 in the amount of $17,500. The Academy entered into additional agreements during fiscal year 2004 for $30,600. The agreements were with private organizations and school administrators and individuals to continue operations. As of June 30, 2004, all amounts have been repaid. These loans were interest free.

3. Line of Credit

During fiscal year ending 2003 the Academy entered into a short-term debt agreement with National City Bank for a line of credit. The following is a summary:

Line of Credit	Credit Limit	Balance June 30, 2004
6.25% National City	$100,000	$49,384

Principal payments of $51,218 were made during fiscal year 2004. Interest payments in the amount of $7,559 were made during the year. The line of credit is uncollateralized. This line of credit is presented on the financial statements as current liabilities.

VII. Risk Management

1. Property and Liability

The Academy 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. For fiscal year 2004, Marcus Garvey Academy contracted with Pinkney-Perry Ins. Agency Inc. for all of its insurance.

General liability coverage has a $2,000,000 single occurrence limit and $4,000,000 aggregate. Hired and Non-Owned Vehicles are covered at $1,000,000 combined single limit of liability.

2. Employee Medical, and Dental Benefits

The Academy provides medical, through QualChoice, and dental, through Humana, Inc. insurance benefits to all full time employees. The Academy pays 50% of the monthly premium for medical insurance and no payment for the dental coverage.

3. Workers' Compensation

The Academy makes premium payments to the Ohio Worker's Compensation System for employee injury coverage. As of June 30, 2004 there have been no claims filed by Marcus Garvey employees with the Ohio Worker's Compensation System.

VIII. Defined Benefit Pension Plans

1. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides 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 state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 9.09 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts by the SERS' Retirement Board. The Academy's required contribution for pension obligations to SERS for the year ended June 30, 2004 and 2003 were $8,900 and $4,416; 94.01% has been paid for the year ended 2004 and 100 percent has been paid for 2003. The unpaid contribution for 2004, in the amount of $533 is recorded as a liability.

VIII. Defined Benefit Pension Plans (Continued)

2. State Teachers Retirement Systems (STRS)

STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in part, by the state or any political subdivision thereof.

Plan Options – Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal.

VIII. Defined Benefit Pension Plans (Continued)

2. State Teachers Retirement Systems (STRS) (Continued)

Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Eligible faculty of Ohio' public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offer by their employer. Employees have 120 days from their employment date to select a retirement plan. A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a moneypurchase benefit or a lump-sum payment in addition to the original retirement allowance. Benefits are increased annually by 3% of the original base amount.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependent. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio Law, health care benefits are not guaranteed.

A Defined Benefit or Combined Plan member with five or more years' credited service who become disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of $1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to $2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Plan members were required to contribute 9.3 percent of their annual covered salary through June 30, 2003 and effective July 1, 2003 the member contribution rate increased to 10% and the Academy is required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The Academy's contributions for pension obligations to STRS for the years ended June 30, 2004 and 2003 were $16,233 and $13,465; 88.03% has been contributed for 2004 and 100% for 2003. $1,943 representing the unpaid contribution for 2004, is recorded as a liability.

VIII. Defined Benefit Pension Plans (Continued)

2. State Teachers Retirement Systems (STRS)

STRS Ohio issues a publicly available financial report. Additional information or copies of STRS Ohio's 2003 *Comprehensive Annual Financial Report* may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, or by visiting the STRS Ohio Web site www.strsoh.org.

3. POST-EMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS).

State Teachers Retirement System - The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare B premiums. Pursuant to the Revised Code (R. C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefits recipients pay a portion of the health care costs in the form of a monthly premium. The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. Through June 30, 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled $1,249 for the ended June 30, 2004. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was $2.8 billion at June 30, 2003 (the latest information available). For the year ended June 30, 2004, net health care costs paid by STRS were $352,301,000 and STRS had 108,294 eligible benefit recipients.

State Employees Retirement System - coverage is made available to service retirees with ten or more years of qualifying service credit, 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.

VIII. Defined Benefit Pension Plans (Continued)

3. POST-EMPLOYMENT BENEFITS (Continued)

For this period, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For 2004, the minimum pay had been established at $25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the Academy, the amount to fund health care benefits, including surcharge, was $6,271 for the year ended June 30, 2004.

Health Care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2004 were $204,930,737 and the target level was $307.4 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits as $303.6 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000.

IX. Contingencies

1. Grants

The Academy 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 Marcus Garvey Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of Marcus Garvey Academy at June 30, 2004.

2. Federal Tax Exemption Status

The Academy has applied for status as an exempt organization under Internal Revenue Code Section 501 (c)(3). The Internal Revenue Service (IRS) issued a proposed conclusion that the Academy does not qualify for federal tax exemption under Section 501 (c)(3) of the Internal Service Code and must file federal income tax returns. Should the Academy fail to obtain federal tax exempt status, it will be subject to federal income tax, the effect of which has not been assessed.

3. Litigation

A suit was filed in the US District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is pending. The effect of this suit, if any, on the Academy is not presently determinable.

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

Marcus Garvey Academy
Cuyahoga County
13830 Euclid Avenue
East Cleveland, Ohio 44112

We were engaged to audit the basic financial statements of the Marcus Garvey Academy, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2004 and have issued our report thereon dated November 28, 2007. Our report indicated that due to the lack of original supporting documentation for non-payroll expenditures, the lack of Board approval of salary and wage amounts, and the Academy's failure to enter into employment contracts, approved by the Board, with all employees, the lack of original documentation supporting the reported accounts payable amount, and our inability to verify the amounts reported as accrued wages and benefits, we did not express an opinion on the financial statements.

Internal Control Over Financial Reporting

In planning and performing our engagement, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order 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 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 Academy'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 2004-014 and 2004-019.

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 which, we were engaged to audit, 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 2004-014 through 2004-018 listed above to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Academy'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 2004-001 through 2004-013.

The Marcus Garvey Academy's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Marcus Garvey Academy's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of the management and the Board of Trustees. It is not intended for anyone other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 28, 2007

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

FINDING NUMBER	**2004-001**

Finding for Recovery

During fiscal year 2004 Arthur Baker, Executive Director of the Academy, was paid a total of $43,500 Based on the first payroll period, Arthur Baker was due to receive $30,000 annual salary. During the fiscal year his semi-monthly payroll amount increased twice for which Board approval was not available.

In accordance with the foregoing facts and pursuant to Ohio Revised Code 117.28 a Finding for Recovery for public monies improperly expended is hereby issued against Arthur Baker, Executive Director and Barbara Russell, Financial Consultant, jointly and severally, in the amount of $13,500 and in favor of the Marcus Garvey Academy.

Official's Response:

Mr. Baker served the Academy as Board Chairman from July 2002 to August 2003 and then agreed to serve as a Consultant fulfilling the duties of Executive Director, on an interim basis.

In December 2003, Mr. Baker was asked to consider continuing the contract of the previous Executive Director at the original salary of $50,000 per year. The Board discussed his permanent appointment to Executive Director at an official Board of Education Meeting held on December 15, 2003. However, the Board did not include/pass a formal resolution that acknowledged this transition or salary and this discussion was not included in the minute records of the Board. (However, this matter was discussed as part of the School Developer's Report that was presented during the official Board Meeting on 12-15-03 that is included in the official Board minutes).

An employment contract between Mr. Baker and the Marcus Garvey Academy was prepared, but due to an oversight was never signed. He accepted the position effective January 1, 2004, and worked in that capacity until September 30, 2004, when he officially resigned.

Auditor's Response:

See Schedule of Findings 2004-005, 2004-006, and 2004-008 for comments concerning the authentication of Board minutes and the Boards fiscal responsibilities.

FINDING NUMBER	**2004-002**

Finding for Recovery

On June 2, 2004, Donna Stovall was paid $40 which was identified as Sankofar Art Festival in the payroll records of the Academy for which Board approval could not be located. On June 9, 2004 Donna Stovall was paid $500 which was identified as a bonus for which Board approval could not be located.

In accordance with the foregoing facts and pursuant to Ohio Revised Code 117.28 a Finding for Recovery for public monies improperly expended is hereby issued against Donna Stovall and

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

Arthur Baker, Executive Director and Barbara Russell, Financial Consultant, jointly and severally, in the amount of $540 and in favor of the Marcus Garvey Academy.

Official's Response:

Mr. Baker brought to the Board's attention that he was experiencing difficulty running the day-to-day operations with the requirement to request prior Board approval for all expenditures. The Board through informal verbal conversations agreed that the Executive Director should be given the authority to conduct business transactions of behalf of the school for $1,000.00 or less. The Executive Director would however, be required to bring these transactions to the Board's attention for later approval.

The payroll bonuses of $500.00 each paid to Mrs. Rimmer and Mrs. Stovall, fell within that authority.

Auditor's Response:

Based on the official's response we have not received any new audit evidence which would support the authorization of the payment of the bonus. As noted in paragraph one above, the Board through **"informal verbal communications"** granted authority to the Executive Director to spend $1,000 or less without Board approval but would be required to apprise the Board for later approval. We found no evidence during fiscal year 2004 or 2005 of Board approval for the payment of a $500 bonus to Donna Stovall.

Also, see Schedule of Findings 2004-005, 2004-006, and 2004-008 for comments concerning the authentication of Board minutes and the Boards fiscal responsibilities.

FINDING NUMBER	**2004-003**

<u>Finding for Recovery</u>

On June 2, 2004, Dorothy Rimmer was paid $150 which was identified as Sankofar Art Festival in the payroll records of the Academy for which Board approval could not be located. On June 9, 2004 Dorothy Rimmer was paid $500 which was identified as a bonus for which Board approval could not be located.

In accordance with the foregoing facts and pursuant to Ohio Revised Code 117.28 a Finding for Recovery for public monies improperly expended is hereby issued against Dorothy Rimmer and Arthur Baker, Executive Director and Barbara Russell, Financial Consultant, jointly and severally' in the amount of $650 and in favor of the Marcus Garvey Academy.

Official's Response:

Mr. Baker brought to the Board's attention that he was experiencing difficulty running the day-to-day operations with the requirement to request prior Board approval for all expenditures. The Board through informal verbal conversations agreed that the Executive Director should be given the authority to conduct business transactions of behalf of the school for $1,000.00 or less. The Executive Director would however, be required to bring these transactions to the Board's attention for later approval.

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

The payroll bonuses of $500.00 each paid to Mrs. Rimmer and Mrs. Stovall, fell within that authority.

Mrs. Rimmer was paid $150 in May of 2004 for working the Marcus Garvey Academy Student recruitment booth at the Cleveland Fine Art Expo presented by Sankofa Fine Arts Plus, May 21-23, 2004. Mrs. Rimmer was paid $50.00 per day for each of three days that she staffed the booth.

Auditor's Response:

Based on the official's response we have not received any new audit evidence which would support the authorization of the payment of the bonus. As noted in paragraph one above, the Board through **"informal verbal communications"** granted authority to the Executive Director to spend $1,000 or less without Board approval but would be required to apprise the Board for later approval. We found no evidence during fiscal year 2004 or 2005 of Board approval for the payment of a $500 bonus or $150 for additional work at the Sankofa Fine Arts Plus to Dorothy Rimmer.

Also, see Schedule of Findings 2004-005, 2004-006, and 2004-008 for comments concerning the authentication of Board minutes and the Boards fiscal responsibilities.

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

FINDING NUMBER	**2004-004**

Financial Report Filing

Ohio Revised Code Section 117.38 provides that each public office shall file a financial report for each fiscal year, within one hundred and fifty days for entities reporting on a GAAP basis. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. In part, this report shall contain the following:

- Amount of collections and receipts, and accounts due from each source; and
- Amount of expenditures for each purpose.

Ohio Administrative Code Section 117-2-03(B) further clarifies the filing requirements of Ohio Revised Code Section 117.38. This section provides that all school districts, including educational service centers and community schools, shall file their annual financial reports pursuant to generally accepted accounting principles. Generally accepted accounting principles (GAAP) require the following:

- Management Discussion and Analysis;
- Statement of Net Assets as prescribed by GAAP standards;
- Income and expense statement as prescribed by GAAP;
- Cash flow statement as prescribed by GAAP; and
- Notes to the financial statements as prescribed by GAAP.

The Academy has not filed its financial statements for the year ended June 30, 2004.

We recommend the Academy organize its financial recordkeeping, develop tickler files as a reminder of filing dates and take all other steps necessary to file its financial statements within the prescribed time period. If these financial statements are not filed within the prescribed timetable the Academy may be assessed a late filing penalty.

FINDING NUMBER	**2004-005**

Expenditure of Public Funds/“Proper Public Purpose”

1982 Op. Att’y Gen. No. 82-006 addresses the expenditure of funds for public purposes. This opinion, citing the Ohio Supreme Court case of State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides guidance as to what may be construed as a public purpose. There are two criteria that demonstrate whether an expenditure is for a public purpose. First, the expenditure is required for the general good of all inhabitants. Second, the primary objective of the expenditure is to further a public purpose, even if an incidental private end is advanced.

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

FINDING NUMBER	**2004-005**

Expenditure of Public Funds/"Proper Public Purpose" (Continued)

The determination of what constitutes a public purpose is primarily a legislative function. As such, the decision to expend public funds "…must be made in accordance with the procedural formalities governing the exercise of legislative power. Specifically, the decision must be memorialized by a duly enacted ordinance or resolution and may have prospective effect only." 1982 Op. Atty. Gen No.82-006.

During our testing of non-payroll expenditures, we noted 7 out of 24 transactions tested which were made by check and 33 out of a total of 37 transactions tested for which bank debit charges were used and were not supported by original supporting documentation or had no documentation to support the expenditure made. 1982 Op. Att'y Gen. No. 82-006 provides guidance concerning the expenditure of monies for a proper public purpose. Without original supporting documentation we were unable to determine if these expenditures we proper.

We recommend the Academy not expend public monies unless the original supporting documentation is attached to attest to the authenticity of and validity of the expenditure made.

FINDING NUMBER	**2004-006**

Books, Records of Accounts, and Minutes

Ohio Revised Code Section 1702.15 provides, in part, that "[e]ach corporation shall keep correct and complete books and records of account, together with minutes of the proceedings of its incorporators, members, directors, and committees of its directors or members."

The Academy failed to maintain files of original supporting documentation for non-payroll transactions and maintain a complete file of canceled checks. The minute records of the Board of Trustees did not provide board approval of salaries and wages paid to the employees and we were only able to locate employment contracts for five of the twelve employees of the Academy. Consequently, we were unable to determine the completeness, accuracy, and validity of the non-payroll and payroll transactions. The Disclaimer of Opinion issued, with this report, is a direct result of the Academy's failure to maintain the proper records.

We recommend the Academy maintain financial records which are complete and accurate. If necessary the Academy should review all of the available training and obtain the training necessary to maintain complete and accurate records of account.

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

FINDING NUMBER	**2004-007**

Five-Year Revenue and Expenditure Projection

Ohio Revised Code Section 3314.03(A)(15) provides that the contract entered into between a sponsor and the governing authority of a community school shall specify a financial plan detailing an estimated school budget for each year of the period of the contract and specify the total estimated per pupil expenditure amount for each such year. The plan shall specify the yearly base formula amount that will be used for purposes of funding calculations under section 3314.08 of the Ohio Revised Code. This base formula amount for any year shall not exceed the formula amount defined under section 3317.02 of the Revised Code. The plan may also specify for any year a percentage figure to be used for reducing the per pupil amount of the subsidy calculated pursuant to section 3317.029 of the Revised Code the school is to receive that year under 3314.08 of the Revised Code.

Contrary to the information contained in the MD&A and the notes to the financial statements, we could not find evidence the Academy had prepared a projected budget for each year of the period of the contract or locate any evidence the Academy prepared the financial plan as required. Consequently, the Board was not able to approve a spending plan or approve the assumptions of the financial management in dealing with the finances of the Academy. This could lead to unplanned future deficits.

We recommend the Academy review the requirements of Ohio Revised Code Section 3314.03 and take the necessary steps to meet this requirement, including obtaining the approval of the governing board and reviewing the appropriateness of the amounts included in the estimated budget.

FINDING NUMBER	**2004-008**

Board Meetings

Ohio Revised Code Section 121.22 requires schools take all official actions and conduct all deliberations upon official business in open meetings, unless the subject matter is specifically exempted by law. This section further outlines that Schools must establish a reasonable method by which any person can determine the time and place of all regular meetings and that the minutes of the meetings or special meetings be promptly prepared, filed, maintained, and approved by the governing authority.

Although the Board held meetings which were evidenced by minute records, no evidence could be located to support a regular schedule of Board meetings. In addition, the Academy had not published the Board meeting dates.

We recommend that the Board establish a regular meeting schedule and that this schedule be made available to the public.

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

FINDING NUMBER	**2004-009**

Annual Report of Activities

Ohio Revised Code Section 3314.03(A)(11)(g) requires the community school governing authority to submit within four months after the end of each school year a report of its activities and progress in meeting the goals and standards of (A)(3) and (4) (academic goals method to determine progress and performance standards to evaluate a school's success) of this section and its financial status to the sponsor and the parents of all students enrolled in the school.

No evidence was provided, by the Academy, to verify the required annual report of its activities and progress in meeting the goals and standards and its financial status was published and distributed to the sponsor and the parents of all students enrolled in the school.

We recommend that the Academy prepare and submit the required annual report within the prescribed time frame.

FINDING NUMBER	**2004-010**

Uniform School Accounting System (USAS)

Ohio Revised Code Section 3314.03(A)(8) provides that each contract entered into under Section 3314.03 of the Revised Code between a sponsor and the governing authority of a community school shall specify the financial records of the school be maintained in the same manner as are the financial records of a school district. Each community school is required to follow the Uniform School Accounting System (USAS) as prescribed in Sections 117-2-02 to 117-2-21 of the Ohio Administrative Code.

The Academy failed to maintain financial records in the prescribed format.

We recommend the Academy review the agreed upon requirements of the Community School Contract. The above noted sections of the Ohio Revised Code and the Ohio Administrative Code which are part of the contract are very specific as to this requirement. The Academy is statutorily and contractually obligated to implement and use this system.

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

FINDING NUMBER	**2004-011**

Fiscal Officer Designation, Bonding Requirement, and Licensing

Ohio Revised Code Section 3314.011 provides the School designate an individual as the fiscal officer. The Ohio Administrative Code (OAC) Section 117-6-07 requires the fiscal officer execute a bond prior to entering upon the duties of the fiscal officer. The bond amount and surety is to be established by resolution of the governing authority. Bonding is conditioned on the faithful performance of the employee's official duties. Should an error or theft occur without a performance bond, the School may not be able to recover all of its lost revenues.

In addition, Ohio Revised Code Section 3314.011 provides, prior to assuming the duties of fiscal officer, the fiscal officer designee shall be licensed as prescribed by Section 3301.074 of the Revised Code or shall complete not less than sixteen hours of continuing education classes in the area of school accounting as approved by the sponsor of the community school. Any fiscal officer who is not licensed under this section shall complete an additional twenty-four hours of continuing education within one year after assuming the duties of fiscal officer of the school.

The Board did not execute a bond for the position of fiscal officer (treasurer), nor did the Board set the amount of the surety, but the Board did designate an individual as a fiscal officer. Also, the individual designated as fiscal officer failed to obtain the necessary license or training prior to assuming the position of the fiscal officer (treasurer).

We recommend the Academy review the provisions of Ohio Revised Code sections 3314.011 and 3301.074, and OAC Section 117-6-07 and take the necessary steps to ensure that the fiscal officer is identified by the Board, the individual is adequately bonded and is licensed and has completed the required continuing education training.

FINDING NUMBER	**2004-012**

Community School Contract – Board Hiring Approval

Exhibit III to the contract between the Ohio Department of Education and the Academy provides "by a majority vote, the Board shall approve the employment and initial salary of instructional and non-instructional employees" .

During the review of the available minute records of the Board of Trustees, no evidence could be located that the Board had approved the employment contracts or the initial salaries of the Academy's employees.

We recommend that the Board approve all employee employment contracts in accordance with the provisions of the Community Academy contract. In addition, as employees are hired during the school year the Board should approve their employment contracts and salaries; and should also approve any increases and/or decreases in salary amount during the school year.

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

FINDING NUMBER	**2004-013**

Estimated School Budget

Exhibit II to the Community School Contract entered into between the Governing Authority of the Academy and the Ohio State Board of Education requires the Academy prepare a school budget financial plan detailing an estimated school budget or each fiscal year of the agreement. Monthly, the Director of the Academy is required to compare the actual expenditures to the budgeted amounts and report his findings to the finance committee of the Board.

No evidence was provided to support the submission of the budget to the Board or the finance committee of the Board, as required. In addition, we could locate no evidence of the approval of the annual budget by the management of the Academy.

We recommend the Board of Trustees take the necessary steps to ensure compliance with this requirement of the Sponsorship agreement

FINDING NUMBER	**2004-014**

Revenue Receipting Procedures

The Academy has ineffective application controls over receipting money. During the audit period the Academy did not prepare receipt forms documenting the sources of the money received and the date it was collected. Additionally the employees who were authorized to deposit cash to the bank were also allowed to handle and collect cash. There was no evidence of a system in place where amounts were re-checked by a second employee and subsequently recorded in the financial records prior to the amounts being deposited. The result may cause the misappropriation of public funds and an increased risk of fraudulent activity.

AOS recommends two-part receipt forms be prepared when public moneys are received with one part being distributed to the purchaser and the other being retained as a permanent record of the Academy. (Also, for consistency purposes, a two-part receipt form should be prepared and signed for all funds received through wire transfer. The amounts recorded on the school's receipt copy should be checked against the money received by a person other than the one who collected it. The person who performs this function, preferably the Treasurer, should sign the receipt to evidence that the amounts noted on the receipt were reviewed and accounted for. The amounts received should then be recorded in the financial records. After the amounts received are reviewed, they should then be deposited by a person other than the one who entered the amounts in the financial records. After amounts are deposited, a deposit slip obtained from the bank should be forwarded to the Treasurer to reconcile against the amount recorded in the financial records.

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

FINDING NUMBER	**2004-015**

Developing and Implementing an Effective Monitoring Control System

Monitoring controls are comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved. Effective monitoring controls should assist management in assessing the quality of internal control performance over time. This process involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions. Monitoring controls should assist management in identifying unexpected results and/or possible misstatements.

Some effective monitoring controls include:

- Regular review of monthly financial statements;
- Review of revenues and expenses with independently accumulated information (budgets, past performances, peer group representatives, etc.);
- Review of large or unusual transactions;
- Identification of unusual fluctuations;
- Comparison of financial statement position with financial projections and other internally prepared projections of financial position and operating results;
- Comparison of predefined key performance indicators based on the financial statements;
- Review of items which have been outstanding for extended periods of time (outstanding check listing for payroll and non payroll transactions);
- Monitoring compliance with grant agreements;
- Ensuring that an adequate segregation of duties exists; and
- Review of monthly bank reconciliations by someone independent of their preparation.

The lack of effective monitoring controls could lead to the misallocation or misstatement of Academy funds, expenditure of funds contrary to the directives of the governing board, non-compliance with federal or state laws or regulations, which could result in a loss of funding from these sources, and errors or irregularities occurring in financial transactions affecting the bank reconciliations which go undetected.

We recommend that management prepare monthly financial statements and submit them to the Board at each regularly scheduled meeting. The Board should then review these financial statements and when satisfied as to their accuracy approve them through the minute records. In addition, management should ensure that any reports required by the grantor agencies, per the terms of grant agreements, are completed accurately and filed with the respective grantor agencies in a timely manner. Management should also ensure that proper segregation of duties exists, including an independent review of the monthly bank reconciliations.

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

FINDING NUMBER	**2004-016**

Development and Implementation of Purchasing Cycle Controls

The Academy does not require written authorization prior to a purchase being initiated. In addition, verbal authorizations obtained from management are not regularly documented (e.g. as part of the minutes). The Academy does require the use of a payment record form for payment for goods and services. We noted 19 out of 60 applicable transactions did not have the required payment record form filed. Formal purchase requisitions, purchase orders, or tally sheets were not utilized and there was no process in place to match invoices, tally sheets and checks prior to making payment. Monthly financial statements were not prepared during the year.

We recommend the Academy utilize purchase requisitions and/or purchase orders along with the payment record and obtain proper authorization before committing Academy funds. Academy personnel should provide written acknowledgment when goods and services are received. Management should compare invoices, purchase orders, and receiving acknowledgments prior to authorizing payment. Board approval of monthly financial statements and the implementation of an accounting package would provide the necessary financial information to allow the Academy to make informed financial decisions.

FINDING NUMBER	**2004-017**

Development and Implementation of Payroll Processing Procedures

We were unable to locate Board approval for salaries and wages of the Academy employees and we were provided employment contracts for 5 of the 12 Academy employees.

Procedures for payroll disbursements should include, but are not limited to:

- Approval by the Board of Trustees of all pay rates;
- Comparison of all employees' gross wages paid with the approved pay rates as documented in employee contracts; and
- Approval and tracking of sick time usage and balances for each employee.

The Board should formally approve employment contracts or pay scales for all employees. Without this approval, it is possible that employees could be paid amounts which were not in accordance with the direction of the Board. Also, we recommend the Board monitor the amounts paid to employees.

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

FINDING NUMBER	**2004-018**

<u>Condition of Accounting Records</u>

Management is responsible for implementing and maintaining a system of controls designed to enable management to determine the accuracy of financial transactions of the School. Also, management is responsible for developing and maintaining complete and accurate financial records. In lieu of complete and accurate financial records, we noted that the records consisted of the following:

- Supporting documentation for non-payroll expenditures was lacking or non existent;
- No records existed of Board approval for employee salary and/or wage rates;
- There was no evidence of the Board reviewing or approving any of the financial activity of the School; and,
- Monies deposited were commingled and these funds were not identified on individual receipt records.

We recommend the Academy develop and maintain a system of controls and financial records which exhibit the financial position of the Academy, and at a minimum, consist of the following:

- Revenue ledgers which record all sources of monies received, purpose of the receipt, and from whom received;
- Sequentially numbered duplicate receipts prepared for all monies received;
- Copies of all deposit transactions to the bank;
- Reconciliations of bank deposits to duplicate receipts and revenue ledgers;
- Development of a system to document approvals for expenditures made;
- Expenditure ledgers which record all expenditures of monies and the purpose of the expenditure;
- Files which consist of the original invoices received for all expenditures made which cross reference to the checks prepared for the payment of the invoices (if invoices are not filed with the canceled checks);
- Files of all canceled checks returned from the bank;
- Complete and accurate listings of all outstanding checks at the end of each month;
- Complete and accurate monthly bank to book reconciliations;
- Preparation of monthly financial statements;
- Development of Board policies which enumerate and describe the financial records to be maintained by the School;
- Development by management of a complete system of controls to help ensure the completeness, accuracy, and validity of the School's financial transactions; and,
- Evidence of review of the financial statements and supporting documentation by the Board and management.

The Academy management has available numerous sources of information describing the process of internal controls, recordkeeping requirements and reporting procedures. It is the responsibility of management to ensure that all responsible parties have access to this literature and training sessions.

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

FINDING NUMBER	**2004-019**

Policy Regarding Potential Conflicts of Interest

The Academy did not have a conflict of interest policy. Without an effective process for identifying and monitoring potential conflicts, the possibility of misuse or improper influence over purchasing or receipting is increased.

We recommend that the Academy develop and implement a policy that includes, but is not limited to the following provisions:

(a) Public officials or employees are prohibited from using or authorizing the use of the authority or influence of office or employment to secure anything of value or promise or to offer anything of value that is of such character as to manifest a substantial and improper influence upon the public official or employee with respect to that persons duties.

(b) Public officials or employees are prohibited from soliciting or accepting anything of value that is of such character as to manifest a substantial and improper influence upon the public official or employee with respect to that persons duties.

No Officials Response was received for comments 2004-004 through 2004-019.

Mary Taylor, CPA
Auditor of State

MARCUS GARVEY ACADEMY

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 22, 2008

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