HARMONY COMMUNITY SCHOOL
HAMILTON COUNTY

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Mary Taylor, CPA
Auditor of State

HARMONY COMMUNITY SCHOOL
HAMILTON COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Harmony Community School
Hamilton County
c/o Buckeye Community Hope Foundation
3021 East Dublin-Granville Rd.
Columbus, Ohio 43231

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, 2006, 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.

Except as described below, 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.

Auditing Standards Section 337 requires us to obtain audit evidence as to the existence of a condition, situation, or set of circumstances indicating an uncertainty as to the possible loss to an entity arising from litigation, claims, and assessments, the period in which the underlying cause for legal action occurred, the degree of probability of an unfavorable outcome, and the amount or range of potential loss. The School's attorney letter did not provide sufficient audit evidence to satisfy us concerning the accounting for and reporting of pending and threatened litigation, claims and assessments.

In our opinion, except for the possible omission of pending and threatened litigation, claims and assessments and related disclosures for which we were unable to obtain sufficient evidence, the financial statements referred to above present fairly, in all material respects, the financial position of Harmony Community School as of June 30, 2006, 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 discussed in Note 16 to the financial statements, the School has suffered recurring losses from operations and has a net asset deficiency of ($2,152,110). Note 18 describes Management's plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Auditor of State has billed Harmony Community School for audit services provided for the school years June 30, 2005 through June 30, 2009. As of the date of this report the School has unpaid audit fees totaling $118,410.

As described in Note 18, the School was placed on probation by its sponsor, Lucas County Educational Service Center, in November 2005. The current sponsor, Buckeye Community Hope Foundation placed the School on probation in May 2006. The School ceased operations effective December 31, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2009, 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 accounting principles generally accepted in the United States of America 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 financial statements that collectively comprise the School's basic financial statements. The federal awards receipts and expenditure 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. The School did not separately account for federal revenues and expenditures, and did not provide adequate documentation to support revenues and expenditures. Therefore, the accompanying schedule of federal awards receipts and expenditures has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly we express no opinion on it.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 21, 2009

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, 2006. 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 $1,692,308, which represents a 368 percent decrease from 2005. The School felt the major impact for the recognition of the foundation judgment of $1,774,773.

- Total assets decreased $122,168, which represents a 4 percent decrease from 2005. This decrease was primarily due to increased operating expenses and depreciation on the School's capital assets.

- Long-term liabilities decreased $64,381, which represents a 3 percent decrease from 2005. The School continues working towards reducing the outstanding debt obligations to build a sustainable financial condition for the future of the School.

- For the current fiscal year, the School brought on a related building asset and assumable mortgage payable for the Greenland student housing building. The School's initial expense was approximately $24,000 for the building and they are required to make monthly payments of $4,000 as part of the outstanding mortgage.

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 fiscal year 2006?" 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.

Table 1 provides a summary of the School's net assets for fiscal year 2006 and fiscal year 2005:

(Table 1)
Net Assets

	2006	2005
Assets		
Current Assets	$33,047	$383,958
Capital Assets, Net	3,060,669	2,843,037
Total Assets	3,093,716	3,215,885
Liabilities		
Current Liabilities	2,841,084	1,217,674
Long Term Liabilities	2,404,742	2,469,123
Total Liabilities	5,245,826	3,686,797
Net Assets		
Invested in Capital Assets	320,006	311,088
Unrestricted	(2,472,116)	(770,890)
Total Net Assets	($2,152,110)	($459,802)

Total assets decreased $122,169 mainly due to increased salaries of $55,000, operating expenses and depreciation from the School's capital assets. The largest change from 2005 was in current liabilities with the recognition of the foundation judgment payable. In the current fiscal year, the School entered into a land purchase contract for a student housing facility from the Philada Home fund. There is a related mortgage associated with that purchase that is recorded as a current liability.

The School actually decreased long term liabilities by $64,381 as the mortgage payable and capital lease balances were reduced. The School is very realistic about the need to reduce the debt load creating a solid financial operating environment in order to provide what is most important which is educating the children attending the School.

Table 2 shows the changes in net assets from fiscal year 2006 to fiscal year 2005, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	2006	2005
Operating Revenues:		
State Foundation	$3,991,324	$3,571,642
DPIA	60,958	171,260
Special Education	630,597	664,766
Parity Aid	46,026	40,358
Other Operating Revenue	176,095	180,222
Non-Operating Revenues:		
Federal and State Grants	749,339	844,414
Total Revenues	5,654,339	5,472,662
Operating Expenses:		
Salaries and wages	2,423,421	2,367,547
Fringe Benefits and Payroll Taxes	1,177,792	1,682,407
Purchased Services	1,281,196	1,229,117
Materials and Supplies	321,951	370,423
Deprecation	166,790	183,023
Other Expenses	0	45,830
Non-Operating Expenses:		
Loss on Disposal of Capital Assets	666	0
Foundation Judgment	1,774,773	0
Interest Expense	200,058	208,241
Total Expenses	7,346,647	6,086,648
Change in Net Assets	(1,692,308)	(613,986)
Beginning Net Assets	(459,802)	154,184
Ending Net Assets	($2,152,110)	($459,802)

Net assets decreased $1,692,308 from 2005 to 2006 with the recognition of the foundation judgment of $1,774,773. The change, less the judgment, of $82,465 was impacted by the operational activities being reduced with the money being saved without impacting the main purpose of providing an education to children in need through expanding educational programs. As shown above, the State provided the School with more revenue compared to 2005 from their various sources.

Capital Assets

At the end of fiscal year 2006 the School had $3,060,669 invested in building and building improvements, furniture, fixtures, and equipment, and vehicles which represented an increase of $217,632 from 2005. This increase was primarily due to the student housing facility addition. For more information on the School's capital asset refer to note 5 of the financial statements.

Debt Administration

The School retired $70,094 of the mortgage payable during 2006. The mortgage payable will retire in 2023 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 2005-2006 school year, there were approximately 866 students enrolled in the School. The School received its finances mostly from state foundation. Per pupil aid for fiscal year 2006 amounted to $5,233 per student.

Contacting 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 Buckeye Community Hope Foundation, 3021 East Dublin-Granville Road, Columbus, Ohio 43231.

HARMONY COMMUNITY SCHOOL
STATEMENT OF NET ASSETS

JUNE 30, 2006

Assets:	
Current Assets:	
Cash	$ 24,787
Accounts Receivable	8,260
Total Current Assets	33,047
Noncurrent Assets:	
Capital Assets, Net of Depreciation	3,060,669
Total Noncurrent Assets	3,060,669
Total Assets	3,093,716
Liabilities:	
Current Liabilities	
Payables:	
Accounts	151,405
Accrued Wages and Benefits	303,345
Intergovernmental	249,278
Interest	7,241
Line of Credit	19,121
Due within One Year:	
Foundation Overpayment	1,774,773
Capital Leases Payable	15,298
Philada Home Fund Mortgage Payable	240,110
Mortgage Payable	80,513
Total Current Liabilities	2,841,084
Non-Current Liabilities	
Due in More than One Year	2,404,742
Total Liabilities	5,245,826
Net Assets:	
Invested in Capital Assets, Net of Related Debt	320,006
Unrestricted	(2,472,116)
Total Net Assets	$ (2,152,110)

See accompanying notes to the basic financial statements

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

For the Year Ended June 30, 2006

Operating Revenues:	
State Foundation	$ 3,991,324
DPIA	60,958
Special Education	630,597
Parity Aid	46,026
Other Operating Revenues	176,095
Total Operating Revenues	4,905,000
Operating Expenses:	
Salaries and Wages	2,423,421
Fringe Benefits and Payroll Taxes	1,177,792
Purchased Services	1,281,196
Materials and Supplies	321,951
Depreciation	166,790
Total Operating Expenses	5,371,150
Operating Loss	(466,150)
Nonoperating Revenues (Expenses):	
Federal and State Grants	749,339
Loss on Disposal of Capital Assets	(666)
Foundation Judgment	(1,774,773)
Interest Expense	(200,058)
Total Nonoperating Revenues (Expenses)	(1,226,158)
Change in Net Assets	(1,692,308)
Net Assets, Beginning of Year	(459,802)
Net Assets, End of Year	$ (2,152,110)

See accompanying notes to the basic financial statements

HARMONY COMMUNITY SCHOOL
STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2006

Cash flows from operating activities:	
Cash received from State of Ohio - Foundation	$ 3,798,236
Cash received from State of Ohio - DPIA	60,958
Cash received from State of Ohio - State	676,623
Cash received from other operating revenues	169,776
Cash payments for personal services	(3,763,985)
Cash payments for suppliers for goods and services	(1,639,555)
Net cash used by operating activities	(697,947)
Cash flows from noncapital financing activities:	
Cash received from state and federal grants	749,339
Cash flows from capital and related financing activities:	
Acquisition of Capital Assets	(385,088)
Disposal of Capital Assets	(16,802)
Proceeds from Philada Home Fund mortgage	270,000
Proceeds from Capital Leases	39,075
Principal paid on Philada Home Fund mortgage	(29,890)
Principal paid on capital leases	(24,883)
Principal paid on mortgage payable	(70,094)
Principal paid on line of credit	(8,638)
Total interest paid on outstanding obligations	(182,302)
Net cash used by capital and related financing activities	(408,622)
Net change in cash and cash equivalents	(357,230)
Cash and Cash Equivalents at beginning of year	382,017
Cash and Cash Equivalents at end of year	24,787

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

Operating loss	(466,150)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	166,790
Change in assets and liabilities:	
Accounts receivable	(6,319)
Accounts payable	(40,379)
Accrued wages and benefits	(127,503)
Intergovernmental payable	(224,386)
Net cash used by operating activities	$ (697,947)

See accompanying notes to the basic financial statements

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NOTE 1 – DESCRIPTION OF THE SCHOOL AND THE REPORTING ENTITY

Harmony Community School, Hamilton County, Ohio (the School), is a non-profit corporation established by 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 provides 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 the 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.

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's 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.

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 two 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	5 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 2006 school year totaled $5,478,244.

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.

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 $24,787, and the available bank balance was $85,076. The entire bank balance was insured by the Federal Depository Insurance Corporation (FDIC). During the fiscal year 2006, deposits exceeded FDIC by up to $297,115.

Investments: the School had no investments at June 30, 2006, or during the fiscal year.

NOTE 4 – RECEIVABLES

The School had no intergovernmental receivables at June 30, 2006.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006:

	Balances 6/30/05	Additions	Deletions	Balance 6/30/06
Capital Assets Being Depreciated				
Building and Improvements	$3,000,000	$300,000	$0	$3,300,000
Furniture, Fixtures, and Equipment	110,504	50,958	0	161,462
Vehicles	91,647	34,130	(16,842)	108,935
Total Capital Assets Being Depreciated	3,202,151	385,088	(16,842)	3,570,397
Less Accumulated Depreciation				
Buildings and Improvements	(300,000)	(110,000)	0	(410,000)
Furniture, Fixtures, and Equipment	(35,896)	(54,247)	0	(90,143)
Vehicles	(23,218)	(2,543)	16,176	(9,585)
Total Accumulated Depreciation	(359,114)	(166,790)	16,176	(509,728)
Total Capital Assets Being Depreciated, Net	$2,843,037	$218,298	($666)	$3,060,669

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 2006, the School contracted with Federal Insurance 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

Settled 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.

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, by calling (800) 878-5853 or by visiting the SERS website at www.ohsers.org.

Plan members are required to contribute 10 percent of their annual covered 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 rates 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 2006, 10.58 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, 2006, 2005, and 2004, were $96,731, $90,374; and $54,426; 100 percent has been contributed for fiscal years 2006, 2005, and 2004.

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 beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

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, 2006, 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, 2006, 2005, and 2004, were $199,725; $63,747; and $106,542; 100 percent has been contributed for fiscal years 2006, 2005, and 2004. Contributions to the DB and Combined Plans for fiscal year 2006 were $4,315 made by the School and $4,956 made by the plan members.

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.

All STRS Ohio retirees who participated in the DB and Combined Plans and their 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. All 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 year ended June 30, 2006, 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 $13,863 for fiscal year 2006.

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. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, the minimum pay was established at $35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled $31,269.

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, 2006, were $158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of $295.6 million. SERS had 59,492 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.

NOTE 10 – LONG TERM OBLIGATIONS

The School's long term obligations at June 30, 2006 were as follows:

Long Term Obligations	Principal Outstanding 6/30/05	Additions	Deductions	Principal Outstanding 6/30/06	Amounts Due in One Year
Mortgage-Park National	$1,861,718	$0	$53,038	$1,808,680	$60,294
Mortgage-Jewish Federation	651,900	0	17,056	634,844	20,219
Loans-National City	27,809	0	8,688	19,121	19,121
Philada Home Loan Mortgage	0	270,000	29,890	240,110	240,110
Capital Leases Payable	42,837	39,075	24,883	57,029	15,298
Total	$2,584,264	$309,075	$133,555	$2,759,784	$337,042

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, 2006 are as follows:

	Mortgage Obligations		
Years	Principal	Interest	Total
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	110,762	162,026	272,788
2012-2016	1,627,079	310,656	1,937,735
2017-2021	264,867	86,438	351,305
2022-2023	76,402	3,436	79,838
Totals	$2,443,524	$1,289,296	$3,732,820

NOTE 10 – LONG TERM OBLIGATIONS (continued)

The School participates in the Ohio School Facilities Commission (OSFC) Loan Guarantee Program. This program offers assistance to community schools to help meet their school facility needs. Under this program, OSFC has guaranteed to Park National Bank the repayment by the School of the outstanding and unpaid loan proceeds up to $1,000,000.

The School entered into a land purchase contract for the Philada Home student facility. The School was required to close on the land by July 2006. The School also agreed to make monthly payments to the Philada Home fund to pay the outstanding mortgage on the building acquired during the fiscal year for student housing which also generated rental receipts from students living in the facility to offset the monthly payments.

NOTE 11 – LINE OF CREDIT

In 2004, the School entered into a line of credit with Provident Bank (now National City) with a limit of $36,495 at an interest rate of 0.75 percent above the prime rate. As of June 30, 2006, $19,121 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, equipment and general intangibles, assignment of payments from the State of Ohio.

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 does not specifically exclude State foundation monies and extended beyond year-end, contrary to State statues.

NOTE 12 – CAPITAL LEASES PAYABLE

Capital assets consisting of vehicles and a sign have been capitalized on the statement of net assets in the amount of $114,379. 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 2006 totaled $24,882. 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, 2006.

Fiscal Year Ending June 30,	Liability
2007	$22,706
2008	21,307
2009	15,714
2010	5,868
2011	5,379
Total	70,974
Less: Amount Representing Interest	(13,945)
Present Value of Net Minimum Lease Payments	$57,029

NOTE 13 – CONTINGENCIES

A. 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, 2006.

B. State Funding

The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data of the State, upon which state foundation funding is calculated.

C. 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 2006 were comprised of the following:

Professional Fees	$564,937
Utilities	355,121
Student Development	147,594
Insurance	86,342
Leasing	48,673
Transportation	17,974
Other	60,555
Total	$1,281,196

NOTE 15 – RELATED PARTIES

The spouse of the current Executive Director is employed as a social worker and is paid $49,655 annually. She also served on the Board. The Executive Director's brother-in-law, Cliff Black, is employed by the School. David Braukman is an administrator at the school. His wife, Melanie Braukman, is also employed as a counselor. Two Board members, Kate and Zak Nordyke, are the children of the Board President. Elaine Brandt, sister of the Board President, is employed by the School as a Graphic Design Instructor. She was paid $32,000 for the fiscal year. In calendar year 2006, the Board President, Joan Barlage, donated $52,179 to the School. Floyd Moore is the head of maintenance for the School. His wife, Lois Moore, and his daughter, Amy Moore, both worked for the maintenance department for the School. Deborah Brock-Blanks was the administrator for the 21st Century Grant program. As administrator, she approved expenditures for the program. During the year, she approved expenditures for her children: Romniah Blanks and Monseh Blanks.

NOTE 16 – FISCAL DISTRESS

At June 30, 2006 the School had ending net assets of ($2,152,110). The School's net assets were negative mainly due to the extent of outstanding debt ($2,723,102) and accrued liabilities related to the payroll and benefits ($512,130). The School ceased operations effective December 31, 2008.

NOTE 17 – 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 listed on 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. Of this amount, $1,774,773 is attributable to 2005 and 2006 and is reflected as a liability on the financial statements. The remaining $846,222 is attributable to 2007. The School worked with the Ohio Department of Education to setup a payment plan to repay the findings over several years given the amount. As part of this payment plan, the School agreed to cease operations effective December 31, 2008.

NOTE 18 – SUBSEQUENT EVENTS

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 schools established in Ohio Revised Code Chapter 3314 while failing to administer state mandated tests to grades 7 and 8. In June 2006, the School contracted with Buckeye Community Hope Foundation to be the School's sponsor. Buckeye Community Hope Foundation also placed the School on probation.

The School received an extension on the land purchase contract until December 2006. The School was not able to close the contract and in January 2007 terminated the purchase contract agreement with Philada Home Fund in relation to the student housing facility. The related capital asset and mortgage payable will be removed from the School's financial statements in 2007.

The School entered into a line of credit with National City bank during fiscal year 2007. The School has drawn upon the equity line for the maximum $100,000. The loan is being repaid monthly currently as interest only payments.

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.

At the December 12, 2008 Board meeting, the School announced it would cease operations at December 31, 2008 as an agreement with the Ohio Department of Education on the repayment terms of the finding for recovery described above could not be executed to allow the School to continue to operate.

NOTE 19 – MATERIAL NONCOMPLIANCE

The School paid for evening meals for students without a policy permitting this type of expenditure.

Contrary to Ohio Revised Code Section 3314.03(A)(8) and 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.

Contrary to Exhibit 2 of the School's contract with the sponsor the School did not utilize expense request forms properly.

Ohio Revised Code Section 149.351 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.

Contrary to Ohio Revised Code Section 3314.03(D), there was no evidence that the sponsor properly monitored the activity of the School.

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 School did no consistently employ properly licensed teachers.

Contrary to Ohio Administrative Code, Section 117-6-07(B), the School could not provide proof that their Treasurer was bonded.

The School was out of compliance with 2CFR Part 225, Appendix A, Section A.2, OHB Circular No. A-133, Section .105, and OHB Circular No. A-133, Section .300(a), by not segregating their federal funds, maintaining a listing of federal expenditures, not reporting all activity on the Federal Schedule, and not implementing sufficient controls over their federal programs.

Contrary to 7CFR 245.6 Title I, Section 1115 of ESEA, the School did not maintain all free and reduced price lunch applications.

Contrary to Title I, Section 1115 of ESEA, 2CFR Part 225 Appendix A, Section C(1)(j), 2 CFR Part 225 Appendix B Section 8a, and 2CFR Part 225, Appendix B Section 26C, the School did not maintain support for salary and benefit expenses to document they were for qualified individuals.

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.

Contrary to 2CFR Part 225, Appendix A, Section C(1)(j), the School had unallowable costs for the 21st Century Grant Program.

The School did not properly account for capital assets as required by 2CFR Section 215.34(f).

The School did not comply with procurement, suspension and debarment, maintenance, and level of effort requirements.

NOTE 20 – FINANCIAL MANAGEMENT

Michael Engel served as School Treasurer from July 1, 2005 through November 17, 2005. Robert Steigerwald served as School Treasurer from November 17, 2005 through June 30, 2006.

Deborah Brock-Blanks served as Project Manager for the 21st Century federal grant program. All other federal grants were managed by the Finance Department.

HARMONY COMMUNITY SCHOOL
HAMILTON COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2006

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE				
Passed Through Ohio Department of Education:				
Child Nutrition Cluster				
School Breakfast Program	05-PU	10.553	$18,082	$18,082
National School Lunch Program	LL-P4	10.555	75,945	75,945
Total Child Nutrition Cluster			94,027	94,027
Total U.S. Department of Agriculture			**94,027**	**94,027**
U.S. DEPARTMENT OF EDUCATION				
Passed Through Ohio Department of Education:				
Special Education Cluster:				
Special Education Grants to States (Title VI-B)	6B-SF	84.027	60,743	60,743
Total Special Education Cluster			60,743	60,743
Grants to Local Educational Agencies (Title I)	C1-S1	84.010	263,731	263,731
Safe and Drug Free Schools	DR-S1	84.186	8,321	8,321
21st Century Grant	T1-S1	84.287	299,748	299,748
Title VI -- Innovative Education Program Strategies	C2-S1	84.298	472	472
Title II-D - Technology Literacy Challenge Fund Grants	TJ-S1	84.318	4,093	4,093
Improving Teacher Quality	TR-S1	84.367	12,837	12,837
Total U.S. Department of Education			**649,945**	**649,945**
Totals			**$743,972**	**$743,972**

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

HARMONY COMMUNITY SCHOOL
HAMILTON COUNTY

NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts an 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.

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
c/o Buckeye Community Hope Foundation
3021 East Dublin-Granville Road
Columbus, Ohio 43231

To the Board of Directors:

We have audited the financial statements of the business-type activities of Harmony Community School, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2006, which comprise the School's basic financial statements. We have issued our report thereon dated September 21, 2009, wherein we noted the School has a negative net asset balance of ($2,152,110) as of June 30, 2006, was placed on probation by its sponsor, Buckeye Community Hope foundation and subsequently ceased operations on December 31, 2008. We also noted that the School has unpaid audit fees totaling $118,410 as of the date of this report. Furthermore, we noted we were unable to obtain sufficient audit evidence to satisfy us concerning the accounting for and reporting of pending and threatened litigation, claims and assessments. Except as noted, 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider findings 2006-004 through 2006-010 and 2006-013 described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. Of the significant deficiencies described above, we believe findings 2006-005, 2006-006, and 2006-013 are also material weaknesses.

We also noted certain internal control matters that we reported to the School's management in a separate letter dated September 21, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the School'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 that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2006-001 through 2006-004, 2006-006, 2006-007, 2006-011, 2006-012, and 2006-014 through 2006-016.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated September 21, 2009.

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

We intend this report solely for the information and use of management, Board of Directors, the Community School's sponsor, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 21, 2009

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
c/o Buckeye Community Hope Foundation
3021 East Dublin-Granville Road
Columbus, Ohio 43231

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, 2006. 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 findings 2006-017, and 2006-019 through 2006-024 in the accompanying schedule of findings and questioned costs, the School did not comply with requirements regarding Activities Allowed, Allowable Costs/Cost Principles, Reporting, Cash Management, Equipment and Real Property Management, Matching and Level of Effort, Period of Availability, Procurement and Suspension and Debarment, and Eligibility that are applicable to its 21st Century and Title I Grants. Compliance with these requirements is necessary, in our opinion for the School to comply with requirements applicable to those programs.

In our opinion, because of the effect of the noncompliance issues described in the preceding paragraph, the School did not comply, in all material respects, with the requirements referred to above that are applicable to its 21st Century and Title I major federal programs for the year ended June 30, 2006.

The results of our auditing procedures also disclosed an other instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying schedule of findings and questioned costs as item 2006-018.

Internal Control Over Compliance

The School's management is responsible for establishing and maintaining effective internal control over compliance with the 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the School's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to administer a federal program such that there is more than a remote likelihood that the School's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 2006-017 through 2006-024 to be significant deficiencies.

A material weakness is significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that the School's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements. We consider findings 2006-017 through 2006-022 and 2006-024 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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

We intend this report solely for the information and use of 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 21, 2009

HARMONY COMMUNITY SCHOOL
HAMILTON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2006-001

Finding for Recovery – Utility Payments for Apartment Building

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper "Public Purpose" states that governmental entities may not make expenditures of public monies unless they are for a valid public purpose. First, the expenditure is required for the general good of all inhabitants and second, the primary objective of the expenditure is to further a public purpose, even if an incidental private end is advanced.

The School paid $7,126.99 to Time Warner Cable for cable services for the student apartment building. Section four of the rental agreement between the students and the School, pertains to utilities and states that "the Lessor will pay for all water supplied to the premises, regular waste removal, gas, and electricity. Excessive meter readings (leaving heat/air conditioning on when unit is unoccupied), can result in the billing being sent to the Lessee. Telephone services, cable television service, etc. are the responsibilities of the Lessee." The School provided an unsigned copy of the rental agreement but was unable to provide signed copies of the rental agreement between the School and students living in the apartment building. Additionally, the School was unable to provide evidence that the payment of cable television was related to proper public purpose or that the students reimbursed the School for cable services.

The following payments were issued to Time Warner Cable related to cable services for the apartment building:

Check #:	Date:	Amount:	Signed by:
11734	10/24/2005	$892.32	Deland McCullough Joan Barlage
12567	01/31/2006	2,452.91	Deland McCullough Robert Steigerwald
12690	02/20/2006	808.50	Deland McCullough Joan Barlage
13045	04/11/2006	1,299.62	Deland McCullough Joan Barlage
13195	05/08/2006	842.04	Deland McCullough Joan Barlage
13380	06/05/2006	831.60	Deland McCullough Joan Barlage

In accordance with the foregoing facts and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Deland McCullough, Executive Director in the amount of $7,126.99 in favor of Harmony Community School's General Fund.

Additionally, under Ohio law, any public official who either authorized an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is 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),

FINDING NUMBER 2006-001
(Continued)

18 Ohio St.3d 228. Public officials controlling public funds or property are 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. Therefore, the following are jointly and severally liable for approving the payments: Joan Barlage in the amount of $4,674.08; and Robert Steigerwald in the amount of $2,452.91; to the extent that recovery is not obtained from Deland McCullough.

Executive Director:

Harmony Community School entered an agreement to purchase the apartment building on Greenland Place (eventually called Harmony Pavilion) in 2005 to house adult aged students. These students all signed rental agreements which were put in their student file. As validation of the agreements existence, representatives from the Ohio Department of Education reviewed them on at least three occasions. The review of these signed agreements and other documents actually led to ODE confirming Harmony Pavilion students Ohio residency. The rental agreement provided to ODE was one of many versions Harmony used during the time the apartments were utilized.

As it relates to individual units paying separately for cable service, this practice never happened. The reason being that the complex was under a building service where every apartment had cable under a building rate. This format would not allow for an individual apartments cable service to be turned off anyway. Furthermore, Harmony determined very early in this process that the amount that tenants paid for rent would pay the cable as it also covered utilities, meals, building upkeep, etc. Cable came out to to less than $23 per apartment. Considering that most apartments housed 2-4 tenants that paid rent on a per person (not per room) rate, it was deemed practical that the cable could just be part of the overall rent collected from 2-4 people per room.

Therefore, there was no separate tracking of cable in that collected rents encompassed cable and the all aforementioned items. This rent was collected from the tenants via cash, money order and check. The total monthly rents were ultimately submitted in full to the school treasurer via the Executive Director and the school enrollment clerk. The proper coding, delineation, depositing, and overall accounting practices related to these funds were the responsibility of the treasurer (Robert Steigerwald) as the school fiscal officer.

See also Officials' Response Section after finding 2006-024

Auditor of State Conclusion:

Harmony provided several rental agreements none of which were dated or signed.

FINDING NUMBER 2006-002

Finding for Recovery - Payment of Expenditures Without Evidence of Proper Public Purpose

Ohio Revised Code Section 149.351 states, in part, that "all records are the property of the public office concerned and shall not 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."

FINDING NUMBER 2006-002
(Continued)

The School issued checks to Sam's Club at the request of Deborah Brock Blanks, 21st Century Grant Project Manager. The School provided no invoices or receipts to support these payments. The Executive Director and Board President signed these checks for payment; however, there was no documentation that the payments related to a school purpose and were for proper public purposes.

Check #:	Date:	Payee:	Amount:	Signed by:
11191	08/09/2005	Sam's Club	$995.59	Joan Barlage Tanquray Dale
13095	04/19/2006	Sam's Club	696.68	Deland McCullough Robert Steigerwald

The failure to maintain adequate support for expenditures could result in a loss of accountability over the School's finances, make it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Deborah Brock Blanks, 21st Century Project Manager, in the total amount of $1,692.27, and in favor of the Harmony Community School General Fund, in the amount of $1,692.27.

Additionally, 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 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 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.

Therefore, because the following individuals approved the payments they are jointly and severally liable in the following amounts: Joan Barlage and Tanquray Dale in the amount of $995.59; Deland McCullough and Robert Steigerwald in the amount of $696.68, to the extent that recovery is not obtained from Deborah Brock Blanks.

See Officials' Response Section after finding 2006-024

FINDING NUMBER 2006-003

Finding for Recovery – Overpayment to Woods Group

The School issued check #11299 on August 30, 2005 to Woods Group, Service Provider. The School paid Woods Group for 28 hours at $52.50/hour ($1,470.00). However, the timesheet indicated 25 hours at an hourly rate of $52.50/hour ($1,312.50). The School overpaid Woods Group by $157.50. Deborah Brock-Blanks signed the timecard indicating her review and approval. The School Executive Director and Board President signed this check.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Woods Group, in the amount of $157.50, and in favor of the Harmony Community School General Fund, in the amount of $157.50.

FINDING NUMBER 2006-003
(Continued)

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.

Therefore, because Joan Barlage, Deborah Brock-Blanks, and Deland McCullough approved the payments they are jointly and severally liable in the amount of $157.50, and in favor of the Harmony School General Fund to the extent that recovery is not obtained from Woods Group.

See Officials' Response Section after finding 2006-024

FINDING NUMBER 2006-004

Significant Deficiency/Noncompliance Citation – Evening Meals for Students

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a public entity should serve a proper public purpose. *McClure* indicates that as a general rule, the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary and unreasonable. Even if a purchase is reasonable, 1982 Op. Att'y Gen. No. 82-006 indicates that 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. Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper "Public Purpose" states that the Auditor of State's Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

The School paid $13,136.58 for evening meals for students. The School did not have a policy permitting this type of expenditure, nor did the School receive prior approval for this expenditure from the Board,

The following payments were issued to Golden Corral:

Check #:	Date:	Amount:	Signed by:
11294	08/30/2005	$237.10	Deland McCullough Tanquray Dale
11341	09/06/2005	1,106.51	Deland McCullough Joan Barlage
11363	09/08/2005	259.98	Deland McCullough Joan Barlage
11379	09/12/2005	1,217.91	Deland McCullough Joan Barlage
11453	09/19/2005	1,067.77	Deland McCullough Joan Barlage
11514	09/26/2005	1,146.09	Deland McCullough Joan Barlage
11591	10/05/2005	790.63	Deland McCullough Joan Barlage
11616	10/10/2005	1,305.51	Deland McCullough Joan Barlage

FINDING NUMBER 2006-004
(Continued)

11697	10/17/2005	882.97	Deland McCullough Joan Barlage
11736	10/24/2005	890.92	Deland McCullough Joan Barlage
11853	11/07/2005	1,232.13	Deland McCullough Joan Barlage
11959	11/18/2005	597.96	Deland McCullough Joan Barlage
12040	11/28/2005	668.32	Deland McCullough Joan Barlage
12170	12/05/2005	342.96	Deland McCullough Joan Barlage
12256	12/12/2005	430.90	Deland McCullough Robert Steigerwald
12374	01/06/2006	659.83	Deland McCullough Joan Barlage
12402	01/09/2006	158.29	Deland McCullough Joan Barlage

The following payment was issued to Lee's Famous Recipe for evening meals for students:

Check #:	Date:	Amount:	Signed by:
11432	09/16/2005	140.80	Deland McCullough Michael Engel

We recommend expenditures of public funds for evening meals, and other amenities have prior authorization by the Board, indicating their approval and the reasons why such expenditure(s) constitute a proper public purpose.

We further recommend the Board approve a comprehensive proper public purpose policy that provides guidance and direction to employees and officials as to which expenditures are viewed as a proper public purpose that accomplish the goals and mission of the School. Such a policy may entail:

- The permissiveness of various expenditure types or classifications to the School as a whole;
- Dollar limitations on the expenditure of funds for certain expenditure types or classifications;
- Restrictions on expenditures for specific types of School programs or activities;
- Designation regarding the appropriate uses of, allowable types of, dollar limitations to, and types of documentation that must be maintained for gifts, rewards, and incentives.

Officials' Responses:

Director of Students:

All expenditures were presented to our Board and they were totally aware of and agreed with the meals for our athletes. Unfortunately, an official authorization was probably not adopted.

FINDING NUMBER 2006-004
(Continued)

Executive Director:

Harmony Community School entered an agreement to purchase the apartment building on Greenland Place (eventually called Harmony Pavilion) in 2005 to house adult aged students. These students all signed rental agreements which were put in their student file. As validation of the agreements existence, representatives from the Ohio Department of Education reviewed them on at least three occasions. The review of these signed agreements and other documents actually led to ODE confirming Harmony Pavilion students Ohio residency. The agreement provided to ODE was one of many versions Harmony used during the time the apartments were utilized.

Upon purchasing the facility, Harmony School deactivated all the stoves in the apartments for insurance reasons, etc and opted to rather provide meals as part of the adult aged student rent. Therefore, a portion of their paid rent went towards one meal per day at Golden Coral, Lees Chicken, etc. Tenants paid rent with a confirmed understanding that they would be provided evening meals and they were. Utilizing the tenants paid rent, Harmony allocated a part of it to pay for a meal. Especially since Harmony would not allow these tenants to cook in their apartments, etc.

Again, the total monthly rents were ultimately submitted to the school treasurer via the Executive Director and the school enrollment clerk. The proper coding, delineation, depositing, etc of these funds were the responsibility of the treasurer (Robert Steigerwald) as the school fiscal officer.

Auditor of State Conclusion:

The School's human resource policies should include obtaining and verifying evidence related to professional credentials, bonds, etc. for all its credentialed employees, including employees asserting educational or fiscal certification. For example, the School should have obtained Mr. Steigerwald's CPA number, and/or verified the certification with the Ohio Accountancy Board. Harmony provided several rental agreements none of which were dated, signed or addressed meals.

FINDING NUMBER 2006-005

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 is 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;

FINDING NUMBER 2006-005
(Continued)

- all access to payroll information will be restricted, properly authorized and reviewed on a periodic basis;

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 the School 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 hours worked, withholding percentages, and pay rates submitted.

When designing the public office's system of internal control and the specific control activities, management should ensure that all transactions are properly authorized in accordance with management's policies and ensure adequate security of assets and records, and performing analytical procedures to determine the reasonableness of financial data.

As noted above, the School lacks management oversight in the posting of payroll activity. This lack of oversight is illustrated by the following:

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

  This practice increases the risk of undetected errors, theft or fraud. 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.

- Harmony did not use employment contracts for the 2005-2006 school year so the School could not verify which individuals should have been issued a W-2 as an employee and which should have been issued a 1099 as an independent contractor. The Board minutes also failed to identify which individuals were hired as employees or independent contractors.
- Sixteen employees were issued a 1099 in addition to a W-2 to report their normal compensation earned. Four employees were issued a 1099 only. All wage amounts should have been included on their respective W-2 forms, and federal taxes should have been withheld by Harmony for the services performed.
- We were unable to determine if 13 employees were paid the correct amount because the gross amount paid did not agree to the salary notice on file or a salary notice could not be located. Many salary notices on file were dated prior to fiscal year 2006. Salary changes were not approved in the minutes. Per Harmony's contract with the sponsor and Board approved policies, the Executive Director authorized rates of compensation rather than the Board. However, salary notices for employees tested were not always signed by the Executive Director.
- We were unable to determine if the number of hours paid to Amy Moore were correct because a "Time Out" was not documented on the Employee Detail Report (EDR) for 5 days. The "Total" time documented for each day on the EDR did not agree to the hours actually paid that was hand-written on the EDR.

FINDING NUMBER 2006-005
(Continued)

- The total hours paid to Tracy Hodges did not agree to the time worked on the EDR. Also, there was no “Time Out” documented on the EDR for December 7, 2005.
- Floyd Moore, maintenance supervisor, signed his daughter, Amy Moore’s, time sheet and check.
- Of the personnel files tested: 8% of files did not contain a W-4 form; 90% did not contain a state tax withholding form, 26% did not contain a retirement form; and 34% did not contain a job application.
- We are unable to determine if the correct pay dates and/or percentages of pay were used to calculate accrued wages due to the lack of actual employee contracts.
- There were 21 instances in which timesheets/invoices related to the 21st Century grant were not calculated properly or did not contain adequate information.

The lack of management oversight over the transactions processed by the service organization as well as the lack of oversight over the items noted above could result in a material misstatement to the financial statements.

Monitoring controls should be put into place to help assure that the work performed meets the School’s objectives and is accurate. In addition to implementing controls over the service organization noted above, the following procedures should be implemented:

- The School should approve all salary changes in the minutes. All salary change documentation should be maintained in the employee’s personnel file.
- 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.
- A supervisor should review all time sheets to ensure they are filled out correctly. Any discrepancy should be evaluated and corrected immediately. A supervisor should sign all time sheets to indicate their review and approval.
- Someone, other than Mr. Moore, should approve his daughter’s timesheet and sign her payroll checks.
- The School should maintain all pertinent personnel documents, such as payroll deductions and retirement forms in each employee’s personnel file.

See Officials’ Response Section after finding 2006-024

FINDING NUMBER 2006-006

Material Weakness/Noncompliance Citation – Bank Reconciliations

Ohio Revised Code, Section 3314.03(A)(8), provides that a contract entered into between a sponsor and the governing authority of a community school shall require financial records of the school to be maintained in the same manner as are financial records of school districts.

FINDING NUMBER 2006-006
(Continued)

Ohio Admin. Code, Section 117-2-02 (A), states all 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 and liabilities, document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

Harmony did not properly reconcile its general checking account during the audit period as indicated by the following:

- The reconciled bank balance was $30,137 higher than the general ledger balance at June 30, 2006 on the reconciliation performed by the GAAP converter.
- The outstanding check list for June 30, 2006 prepared by the converter included four checks totaling $2,394, which cleared the bank in June 2006.
- The outstanding check list for June 30, 2006, prepared by the converter, excluded checks from the outstanding check list prepared with the School's software totaling $25,449. The list also excluded outstanding payroll checks of $48,080.
- The reconciled bank balance was $40,999 lower than the general ledger balance at June 30, 2006 when accounting for the outstanding checks that were omitted and the checks which cleared the bank in June 2006.

Failure to accurately prepare and reconcile the accounting records reduces the accountability over school funds and reduces the Board's ability to monitor financial activity, increases the likelihood that monies will be misappropriated and not detected, and increases the likelihood that the financial statements will be misstated. 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.

We recommend that the Treasurer perform reconciliations between the bank balance and computer generated general ledger balance monthly. 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. We also recommend that a board member review and sign off on the reconciliation thereby indicating approval and assist in the timeliness of reconciliations.

See Officials' Response Section after finding 2006-024.

FINDING NUMBER 2006-007

Significant Deficiency/Noncompliance Citation

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

FINDING NUMBER 2006-007
(Continued)

Furthermore, Ohio Administrative Code Sections 117-2-02(D) and (E) states all local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records should include capital asset records including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number. Local governments preparing financial statements using generally accepted accounting principles will want to maintain additional data. Fixed assets are tangible assets that normally do not change form with use and should be distinguished from repair parts and supply items.

The School lacks management oversight over their capital asset records. This lack of oversight is illustrated by the following:

- 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.

- The breakdown between furniture, fixtures, and equipment and vehicles was not correct. Beginning balances for vehicles should be increased and furniture, fixtures, and equipment should be decreased by $38,228. Beginning depreciation for vehicles should be increased and furniture, fixtures, and equipment should be decreased by $3,938.

- Harmony Community School did not record on the capital asset listing 12 pieces of equipment valued at $21,886 and one van valued at $21,126. There was a van that was listed twice on the capital asset listing. This overstated vehicles by $16,842.

- According to the School's Fixed Asset Policy, all fixed assets should be depreciated over five years or more. Numerous assets on their fixed asset listing had asset lives of less than five years.

- In addition, the notes to the financial statements did not agree with the School's policy.

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.

Monitoring controls should be put into place to help assure that capital asset records are accurate. The following procedures should be implemented:

- 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 2006-007
(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.

See Officials' Response Section after finding 2006-024

FINDING NUMBER 2006-008

Significant Deficiency

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

The School lacks management oversight over their GAAP conversion process. This lack of oversight is illustrated by the following:

- Accrued wages and benefits were footed incorrectly. Also, gross pay for administrative employees was erroneously included. While testing accrued wages and benefits, we noted Intergovernmental Payable related to accrued wages were also calculated incorrectly. These miscalculations resulted in Accrued Wages being understated by $93,368 and Intergovernmental Payable being understated by $34,588.
- The School failed to report their Intergovernmental Payable liability to Ohio Department of Job and Family Services of $164,368 on their financial statements.

The School made adjustments to the accompanying financial statements for the above items. Failure to properly post liabilities can result in inaccurate financial statements. We recommend the School properly post liabilities. The School should review activity posted to the financial statements for accuracy. Comparisons between years may aid in the proper posting of activity. To improve accountability and record keeping, we recommend that the School use due care in preparing their financial statements.

See Officials' Response Section after finding 2006-024.

FINDING NUMBER 2006-009

Significant Deficiency

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

Furthermore, sound internal controls require a school to establish policies over the collection, recording, safeguarding, and deposit of all receipts. Also, a duplicate receipt book should be maintained for all cash receipts, including but not limited to, state and local funding, student fees, field trip fees, and fundraiser monies and other miscellaneous receipts. The duplicate receipts should be reconciled to all validated bank deposits.

FINDING NUMBER 2006-009
(Continued)

The School lacks management oversight in the posting and collection of receipts. This lack of oversight is illustrated by the following:

- Federal and State grants of $99,394 were incorrectly posted to Miscellaneous Revenue.
- School Foundation receipts of $835 were incorrectly posted to Miscellaneous Revenue.
- A duplicate receipt book was not maintained for student fees, field trip/event monies, fundraiser monies, rental income, and other miscellaneous receipts.
- No records were presented other than a system generated receipts ledger, which lacked sufficient detail regarding the type of receipts being recorded. We confirmed with the Ohio Office of Budget and Management and the Ohio Department of Education, state and federal receipts were received and deposited by the school; however, we were not presented with any supporting documentation of miscellaneous receipts, which were included as other operating revenues on the financial statements, such as student fees, field trips, rental income, fundraisers or other. Additionally, bank deposit slips were not found for over-the-counter receipts.
- The School failed to maintain support for rental income receipts of approximately $5,832 to $10,500 monthly. 36 students were listed as living in the apartment per the CSADM database and monthly rent per the agreement was $162. Interviews with the Executive Director indicated 70 students were living in the apartment and the rent was $150 per month. The Director also said rent was tracked on an Excel spreadsheet which was not provided for audit. We recommend the School maintain all support for rental income.

Because of the lack of documentation provided for receipts, we were unable to gain any assurances of accuracy and completeness over the miscellaneous receipts described above that were recorded by the School. These conditions and the lack of management oversight greatly increase the risk of misappropriation of cash receipts. The lack of proper management oversight could result in material misstatement relating to financial data.

We recommend the School utilize pre-numbered duplicate receipts and maintain support and bank deposit slips for all over-the-counter receipts. To improve record keeping and accountability of receipts we recommend that all state and federal revenue receipts be posted properly.

See Officials' Response Section after finding 2006-024.

FINDING NUMBER 2006-010

Significant Deficiency

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

The School lacks management oversight in the posting of debt activity. This lack of oversight is illustrated by the following:

- Mortgage Principal Payments were overstated by $11,360. The principal of the line of credit was understated by $195. Accrued Interest Payable was understated by $1,194. Proceeds of Mortgage and Mortgage Payable was overstated by $5,734.

FINDING NUMBER 2006-010
(Continued)

- The School recognized the retirement of the Ford lease as capital outlay and was not recognized in the notes to the financial statements. The School adjusted the financial statements to move $7,834 to principal retirement and $1,378 to interest.

- A short term $30,000 loan was made to the School. Proceeds were posted to Miscellaneous Revenue. The converter backed out both the proceeds and the repayment.

- The School did not account for a van lease and a sign lease. A capital lease payable of $20,626 should have been recognized for the van and a capital lease payable of $18,449 should have been recognized for the sign. Payments were posted to Materials and Supplies and Capital Outlay.

The School posted the necessary adjustments to the financial statements and accounting records for the items noted above.

Monitoring controls should be put into place by the School to help assure that debt activity is properly posted.

See Officials' Response Section after finding 2006-024.

FINDING NUMBER 2006-011

Noncompliance Citation

Exhibit 2 (Financial Controls) of the School's contract with their sponsor requires that an expense request form be approved by the School's director prior to a purchase being made. 58 out of the 60 transactions tested (97%) had no expense request forms. One expense request form did not have a date. Therefore, we could not determine that 59 out of 60 (98%) expenditures tested were encumbered properly.

Without having expense request forms, we could not determine if Harmony Community School encumbered properly. Failure to properly certify the availability of funds can result in overspending funds and negative cash balances. 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:

We did not receive a response from Officials for the finding above.

FINDING NUMBER 2006-012

Noncompliance Citation

Ohio Revised Code, Section 149.351, provides that no public record shall be removed or disposed of, in whole or part, except as provided by law or under the rules adopted by the records commissions provided for under Ohio Revised Code, Section 149.28 to 149.42.

- Harmony Community School did not provide an invoice for the October 24, 2005 Graybar payment via check #11732. The check was for $4,292.86.

- The Director said rental income was tracked on an Excel spreadsheet which was not provided for audit.

FINDING NUMBER 2006-012
(Continued)

- No Treasurer's contract for Michael Engel or Robert Steigerwald was provided.

- The School did not maintain support for all federal receipts during fiscal year 2006. We were able to trace the receipts to the Distribution Transaction List, Federal Subsidy Report, and the CCIP application on the Ohio Department of Education's website.

Failure to maintain supporting documentation can result in incorrect posting of financial activity. We recommend that the School keep all records.

See Officials' Response Section after finding 2006-024.

FINDING NUMBER 2006-013

Material Weakness

Requiring depositories to provide as security an amount equal to the funds on deposit in excess of FDIC coverage is a strong control to protect School assets. Such security may consist of federal deposit insurance, surety company bonds, or pledged securities among others.

The School's deposits were not adequately covered by collateral at all times during the audit period. During the audit period deposits exceeded legal security (FDIC) by up to $297,115. Failure to maintain proper security of deposits could result in loss of funds.

The notes to the financial statements were adjusted to indicate that deposits were uncollateralized.

We recommend the School obtain insurance or a security agreement with their financial institution to provide as security an amount equal to the funds on deposit at all times.

See Officials' Response Section after finding 2006-024.

FINDING NUMBER 2006-014

Noncompliance Citation

Ohio Revised Code, Section 3314.03(D), states the contract shall specify the duties of the sponsor which shall be in accordance with the written agreement entered into with the department of education under division (B) of section 3314.015 of the Revised Code and shall include the following:

(1) Monitor the community school's compliance with all laws applicable to the school and with the terms of the contract;

(2) Monitor and evaluate the academic and fiscal performance and the organization and operation of the community school on at least an annual basis;

FINDING NUMBER 2006-014
(Continued)

(3) Report on an annual basis the results of the evaluation conducted under division (D)(2) of this section to the department of education and to the parents of students enrolled in the community school;

(4) Provide technical assistance to the community school in complying with laws applicable to the school and terms of the contract;

(5) Take steps to intervene in the school's operation to correct problems in the school's overall performance, declare the school to be on probationary status pursuant to section 3314.073 of the Revised Code, suspend the operation of the school pursuant to section 3314.072 of the Revised Code, or terminate the contract of the school pursuant to section 3314.07 of the Revised Code as determined necessary by the sponsor;

(6) Have in place a plan of action to be undertaken in the event the community school experiences financial difficulties or closes prior to the end of a school year.

There is no evidence Lucas County Educational Service Center (the Sponsor from beginning of audit period to June 1, 2006) properly monitored the activity of the School. We recommend the Sponsor monitor the activity of the School and maintain documentation of their review.

Note: All the sponsor's duties and responsibilities were transferred to Buckeye Community Hope Foundation at June 1, 2006.

Officials' Response:

We did not receive a response from Officials for the finding above.

FINDING NUMBER 2006-015

Noncompliance Citation

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.

For 11 of 30 teachers and teacher's aides tested, or 37%, no license or permit could be provided for audit.

This practice could result in students being taught by unqualified/unlicensed teachers. We recommend that the 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.

This matter will be referred to the Ohio Department of Education.

Officials' Response:

We did not receive a response from Officials for the finding above.

FINDING NUMBER 2006-016

Noncompliance Citation

Ohio Administrative Code, § 117-6-07(B), requires a community school fiscal officer to execute a bond prior to entering upon the duties of the fiscal officer as provided for in Ohio Rev. Code § 3314.011. The governing authority prescribes the bond amount and surety by resolution. The School could not provide proof that the Treasurer was bonded.

Treasurer (Robert Steigerwald) submitted a bond to the School. However, the bond submitted to the school failed to contain a bond number. The bonding companies listed on the bond have no record of any bond being issued to Robert Steigerwald.

Failure to obtain the proper bond could result in possible loss of funds if fraud or misappropriation of assets would occur. We recommend the School implement procedures to ensure that fiscal officers are properly bonded.

Officials' Responses:

Director of Students:

As stated above, Mr. Robert Steigerwald used the initials, CPA after his name. After leaving Harmony, it was discovered that Mr. Steigerwald not only falsified the fact that he was a CPA (this was reported to the CPA Board) but had also falsified his own Bond.

Auditor of State Conclusion:

The School's human resource policies should include obtaining and verifying evidence related to professional credentials, bonds, etc. for all its credentialed employees, including employees asserting educational or fiscal certification. For example, the School should have obtained Mr. Steigerwald's CPA number, and/or verified the certification with the Ohio Accountancy Board.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

FINDING NUMBER 2006-017

Noncompliance Citation / Material Weakness / Questioned Costs – Federal Schedule Reporting and Allowable Costs / Cost Principles

Finding Number	2006-017
CFDA Title and Number	10.553 National School Breakfast 10.555 National School Lunch 84.010 Title I 84.027 Special Education Grants to States (IDEA B) 84.186 Safe and Drug Free Schools 84.287 21st Century Grant 84.298 Title VI-Innovative Education Program Strategies 84.318 Title II-D-Technology Literacy Challenge Fund 84.367 Improving Teacher Quality

FINDING NUMBER 2006-017
(Continued)

Federal Award Year	2006
Federal Agency	U.S. Department of Agriculture U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

2 C.F.R. Part 225 (formerly known as OMB Circular A-87), Appendix A, Section A(2)(a)(2) states that governmental units assume responsibility for administrating Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award. 2 C.F.R. Part 225 Appendix A, Section C(1)(j) also provides that for a cost to be allowable, the expenditure must be adequately documented.

OMB Circular No. A-133, Section .105 defines questioned costs as a cost that is questioned by the auditor because of an audit finding where the costs, at the time of the audit, are not supported by adequate documentation. OMB Circular No. 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, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to 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.

OMB Circular No. A-133 Section __.310 (b) states that the auditee shall prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements.

Due to the following deficiencies we could not determine if funds were reported accurately on the Schedule of Federal Awards Revenues and Expenditures or expended in accordance with each of the Federal program requirements:

- The School did not segregate the federal funds on their financial records thus federal funds were commingled.
- The School did not provide a list of Title I expenditures to support the amount reported on the Federal Schedule.
- The School did not report National School Breakfast revenues and expenditures of $18,082 and National School Lunch revenues and expenditures of $75,945. We recommend the School include all federal receipts and expenditures on their Federal Schedule.
- Final Expenditure Reports (FER), which are required by the Ohio Department of Education, were not supported with adequate documentation and were not filed timely. See also Finding 2006-021.

FINDING NUMBER 2006-017
(Continued)

- Harmony was unable to provide source documentation for grant expenditures and therefore we are questioning amounts equal to the Federal awards received during the year ended June 30, 2006 as follows:

Title I	$263,730.50
Special Education Grants to States (IDEA B)	60,743.08
Safe and Drug Free Schools	8,321.29
Title VI-Innovative Education Program Strategies	471.49
Title II-D-Technology Literacy Challenge Fund	4,093.40
Improving Teacher Quality	12,837.24

- The School only provided documentation for $250,644.42 expended using 21st Century funds. Total expenditures per the FER are $299,748.00. The remaining balance of $49,103.58 will be questioned costs.
- We were unable to determine if the School complied with maintenance and level of effort requirements, period of availability requirements, or procurement and suspension and debarment requirements due to the School not providing support for the amount reported on their Federal schedule for Title I funds. See also Finding 2006-024.

In addition, the School did not establish and maintain effective internal control over compliance with the requirements for period of availability, procurement and suspension and debarment, and identifying Schools and LEA's needing improvement applicable to their Title I and 21st Century Grant programs as evidenced by the following:

- The 21st Century Grant Project Manager did not consistently sign expense request forms before items were ordered. Out of 86 expenditures, the Project Manager did not sign nine forms, three of which were for the purchase of capital assets. Eight forms could not be located. The Project Manager approved 17 timesheets of her children. She also approved a reimbursement expense for herself. A total of 35 expense reports/timesheets were not properly approved or 41% of reports/timesheets tested. We recommend the Project Manager review and approve all expense reports/timesheets, with the exception of the expenses for herself and her children. Another member of management should approve expense reports/timesheets for the Project Manager and her children.
- Documentation was not maintained for pay rates established and that W-4's were not maintained in personnel files. 17 out of 50 employees tested did not have their job application in their file.

We recommend the School:

1. Segregate their federal funds on their financial records by utilizing the Uniform School Accounting System;
2. Ensure proper reporting of federal receipts and expenditure;
3. Maintain and provide adequate documentation in support of all federal expenditures and comply with all requirements of the grant agreements; and
4. Establish and maintain effective controls over their Federal programs.

FINDING NUMBER 2006-017
(Continued)

Failure to identify federal funds, provide adequate documentation, establish controls, and comply with grant requirements, resulted in questioned costs and potential loss of Federal financial assistance.

See Officials' Response Section after finding 2006-024.

FINDING NUMBER 2006-018

Noncompliance Citation / Material Weakness / Questioned Costs - Eligibility

Finding Number	2006-018
CFDA Title and Number	10.553 National School Breakfast 10.555 National School Lunch
Federal Award Year	2006
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

7 C.F.R. § 245.6 provides, in part that to qualify a child for meals/milk served free or at reduced price under the program(s), the child's family must annually submit an application to the School Food Authority, in this case the School. The application must be approved and maintained on file. The application must establish that the child's family income and family size place him/her within income eligibility standards issued by the State agency in accordance with guidelines published by the Food and Nutrition Services (FNS) of the U.S. Department of Agriculture (USDA).

7 C.F.R. § 245.6(a) requires that by December 15th of each school year, the School must verify the information presented on a sample of the applications that it has approved for free or reduced price meals. The verification sample size is based on the number of approved applications on file as of October 31st. The School Food Authority may select the sample by either (1) random sampling (the lesser of 3,000 approved applications or 3 percent of total approved applications on file, all randomly selected), or (2) focused sampling, in which the School Food Authority must verify a sample that is, at a minimum, the sum of:

> (1)- The lesser of one percent or 1,000 of the total number of approved applications (both income and categorical) selected from households claiming income within $100 monthly or $1,200 annually of the income eligibility guidelines for free and reduced price meals; and
>
> (2)- The lesser of .5 percent or 500 of the total number of applications that were approved based on categorical eligibility, selected from applications with a Food Stamp Program or TANF cases number.

No free and reduced price lunch income determination forms other than those selected for the verification process were retained by the School. Therefore, we could not determine whether all potential applications were valid and were comprised of eligible participants. Accordingly, a questioned cost is issued in the amount of $94,027.02, the amount the School received as reimbursement for eligible meals served during fiscal year 2006.

FINDING NUMBER 2006-018
(Continued)

From re-performing the verification process, we determined that for one application (3 students), the students were changed to free and should have been kept at reduced price lunch. We determined that for another application (one student), the student stayed at reduced price lunch and should have been switched to paid lunch.

We recommend the School implement procedures to ensure all free and reduced lunch applications are accurately completed and submitted annually for each eligibility period. The School should retain all applications to provide verification of student eligibility for free and reduced lunches. We recommend the School take due care over the verification process. The School should also contact the Ohio Department of Education to determine if repayment of these funds is necessary.

Officials' Responses:

Director of Students:

Although this paperwork was distributed to our parents, unfortunately, it was difficult to collect all documentation from some of our families in a timely manner. Since our philosophy was to service students, we probably did serve meals to students without all proper paperwork.

FINDING NUMBER 2006-019

Noncompliance Citation / Material Weakness / Questioned Costs / Eligibility

Finding Number	2006-019
CFDA Title and Number	84.010 Title I
Federal Award Year	2006
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Title I, Section 1115 of the Education and Secondary Education Act, (ESEA), (20 U.S.C. 6315), requires that Title I, Part A funds be used to provide services and benefits to eligible children residing or enrolled in eligible school attendance areas. Once funds are allocated to eligible school attendance areas a school operating a targeted assistance program must use Title I funds only for programs that are designed to meet the needs of children identified by the school as failing, or most at risk of failing, to meet the State's challenging academic achievement standards. In general, eligible children are identified on the basis of multiple, educational-related, objective criteria established by the Local Education Agency and supplemented by the school.

Children who are economically disadvantaged, children with disabilities, migrant children, and limited English proficient (LEP) children are eligible for Part A services on the same basis as other children who are selected for services. In addition, certain categories of children are considered at risk of failing to meet the State's student academic achievement standards are eligible for Title I services because of their status.

FINDING NUMBER 2006-019
(Continued)

Children include: children who are homeless; children who participated in a Head Start, Even Start, Early Reading First, or Title I preschool program at any time in the preceding years; children who received services under the Migrant Education Program under Title I, Part C (or its predecessor authority) at any time in the two preceding years; and, children who are in a local institution for neglected or delinquent children or attending a community day program. From the pool of eligible children, a targeted assistance school selects those children who have the greatest need for special assistance to receive Part A services.

The School used enrollment in the National School Lunch Program as a basis for determining the School's eligibility for Title I services. As discussed in finding 2006-017, the School did not maintain the 2005-2006 school year free and reduced lunch applications that were completed by parents at the beginning of the 2005-2006 school year. Accordingly, a questioned cost is issued in the amount of $263,730.50 (also questioned in Finding 2006-017), the amount the School expended in Title I funding during fiscal year 2006.

We recommend the School verify student eligibility in accordance with established requirements and maintain complete and accurate support to demonstrate compliance. The School should also contact the Ohio Department of Education to determine if repayment of these funds is necessary.

Officials' Responses:

Director of Students:

Although this paperwork was distributed to our parents, unfortunately, it was difficult to collect all documentation from some of our families in a timely manner. Since our philosophy was to service students, we probably did serve meals to students without all proper paperwork.

FINDING NUMBER 2006-020

Noncompliance Citation / Material Weakness / Questioned Cost – Activities Allowed or Unallowed and Allowable Costs / Cost Principles

Finding Number	2006-020
CFDA Title and Number	84.010 Title I
Federal Award Year	2006
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Title I, Section 1115 of the Elementary and Secondary Education Act, (ESEA),(20 U.S.C. 6315), requires that in a targeted assistance school, funds available under Part A may be used only for programs that are designed to help participating children meet the State's student academic achievement standards expected of all children.

Allowable activities in these schools include, but are not limited to instructional programs, counseling, mentoring, other pupil services, college and career awareness and preparation, services to prepare students for the transition from school to work, services to assist preschool children in the transition to elementary school programs, parental involvement activities, and professional staff development.

FINDING NUMBER 2006-020
(Continued)

If health, nutrition, and other social services are not otherwise available from other sources to participating children, Part A funds may be used as a last resort to provide such services. The School's plan will provide a description of the general nature of the services to be provided with Part A funds.

2 C.F.R. Part 225 Appendix A Section C(1)(j) (formerly known as OMB Circular A-87) states that to be allowable under Federal awards, costs must be adequately documented.

2 C.F.R. Part 225 Appendix B Section 8(a) (formerly known as OMB Circular A-87) states in part that the costs of compensation for personnel services are allowable to the extent that the total compensation for individual employees:

(1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied for both Federal and non-Federal activities;

(2) Follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal Law; and

(3) Is determined and supported as provided in subsection h.

- Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

- Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards.

2 C.F.R. Part 225 Appendix B Section 26(c) (formerly known as OMB Circular A-87) states that only materials and supplies used for the performance of a Federal award may be charged as direct costs.

According to the Final Expenditure Report, during fiscal year 2006, the School paid salaries and benefits of $163,480 to various employees. These employees neither prepared certificates nor personnel activity reports. Because there were no activity reports, it was undeterminable as to the extent these salaries and benefits would be within the scope of the Title I program objectives.

A portion of each employee's salary and fringe benefits went towards Title I Salaries and Fringe Benefits. The School was not approved to operate a school wide program. Of the 30 teachers tested, 11 were not properly licensed.

Accordingly, a questioned cost is issued in the amount of $163,480.50 (part of questioned costs in Finding 2006-017) that the School expended on salaries and benefits for the Title I grant program during fiscal year 2006.

The School should ensure that documentation supporting direct costs of the Title I Program is maintained to demonstrate expenditures meet the direct costs provisions for expenditures incurred. The School should also contact the Ohio Department of Education to determine if repayment of these funds is necessary.

See Officials' Response Section after finding 2006-024.

FINDING NUMBER 2006-021

Noncompliance Citation / Material Weakness / Questioned Costs - Reporting

Finding Number	2006-021
CFDA Title and Number	84.010 Title I 84.027 Special Education Grants to States (IDEA B) 84.186 Safe and Drug Free Schools 84.287 21st Century Grant 84.298 Title VI-Innovative Education Program Strategies 84.318 Title II-D-Technology Literacy Challenge Fund 84.367 Improving Teacher Quality
Federal Award Year	2006
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

The Ohio Department of Education established grant guidelines as part of the 2006 Comprehensive Continuous Improvement Plan (CCIP) Application dated August 16, 2005, which include the following requirements:

1. 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)
2. 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.

21st Century– CFDA #84.287	**Budgeted Expenditures**	**Actual Expenditures per Expenditure Report**	**110% 0f Budgeted Amount**	**Amount Exceeding 10 % over Budgeted Amount**
Capital Outlay	$0	$17,780.50	$0	$17,780.50

As noted in Finding 2006-017, total 21st Century Grant expenditures per the FER are $299,748.00, however, the School only provided documentation for $250,644.42. The remaining balance of $49,103.58 was unsupported.

FINDING NUMBER 2006-021
(Continued)

The FER reports for the School's Consolidated and 21st Century Grants were not filed on a timely basis.

Furthermore, as noted in Finding 2006-017, the School lacked effective controls over period of availability for Title I and the 21st Century Grant and we were unable to determine if the School complied with period of availability requirements for Title 1 due to the lack of documentation for expenditures.

Based on the above deficiencies, we are questioning amounts equal to the Federal awards identified above which were received during the fiscal year ended June 30, 2006. Except for the $17,780.50 of 21st Century Grant noted above, the award amounts were questioned in Finding 2006-017. 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."

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. Furthermore, we recommend the School develop and maintain effective controls over all grant requirements.

See Officials' Response Section after finding 2006-024.

FINDING NUMBER 2006-022

Noncompliance Citation / Material Weakness – Allowable Costs / Cost Principles

Finding Number	2006-022
CFDA Title and Number	84.287 21st Century Grant
Federal Award Year	2006
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

FINDING NUMBER 2006-022
(Continued)

2 C.F.R. Part 225 (formerly known as OMB Circular A-87), Appendix A, Section C(1)(j) provides that for a cost to be allowable, the expenditure must be adequately documented.

2 C.F.R. Part 225 (Appendix C, Section A(1)) also provides that all costs and other data used to distribute the costs included in the plan should be supported by formal accounting and other records that will support the propriety of the costs assigned to Federal awards.

There were 17 instances in which 21st Century Grant federal funds were used for unallowable expenditures or expenditures for which we did not receive documentation to support (invoices) resulting in questioned costs totaling $7,952.62 as follows

Check #:	Date:	Amount Questioned:	Vendor:	Description:
10987	07/01/2005	$500.00	Vera Pass	Catering for closing ceremony cookout.
11071	07/21/2005	467.00	Vera Pass	Catering for summer camp cookout.
11191	08/09/2005	995.59	Sam's Club	Food and supplies – no invoice.
11299	08/30/2005	157.50	Woods Group	Overpayment for services provided.
11408	09/14/2005	380.84	Deborah Brock-Blanks	Reimbursement for refrigerator, microwave, and television.
11472	09/22/2005	471.25	Sam's Club	Food and supplies.
11606	10/07/2005	1,200.00	Joan Barlage	Reimbursement for hotel payment.
11771	10/27/2005	319.11	Sam's Club	Food and supplies.
11956	11/16/2005	324.94	Sam's Club	Food and supplies.
12104	12/01/2005	75.97	Sam's Club	Evening meals.
12241	12/06/2005	440.80	Salt Fort Resort	Seminar – no invoice.
12618	02/08/2006	581.72	Sam's Club	Food and supplies.
12646	02/13/2006	131.33	Sam's Club	Food and supplies.
12719	02/23/2006	430.00	Miami University	Registration for summit - no invoice.
13095	04/19/2006	696.68	Sam's Club	Food and supplies - no invoice.
13395	06/05/2006	450.00	Vera Pas	Catering for closing ceremony cookout.
13439	06/09/2006	329.89	Sam's Club	Food and supplies.

We recommend the School use the 21st Century grant funds for expenditures allowable under Circular A-87. The School should maintain supporting documentation for all expenditures. The two expenditures to Sam's Club above (Check #11191 an #13095) are noted in the Finding for Recovery (Finding Number 2006-003).

The School entered into a lease agreement for a van in fiscal year 2006. The total lease payments for the 2 vans leased in fiscal year 2005 and the newly leased van in fiscal year 2006 were $17,780.50. The van lease payments were paid using 21st Century grant funds. The vans were not used exclusively for 21st Century grant activities. The School did not submit a Cost Allocation Plan for the van usage. Therefore, the lease payments are questioned costs. We recommend the School use capital assets acquired with 21st Century grant funds exclusively for 21st Century grant activities or submit a cost allocation plan.

This matter will be referred to the Ohio Department of Education.

See Officials' Response Section after finding 2006-024.

FINDING NUMBER 2006-023

Noncompliance Citation / Significant Deficiency – Equipment and Real Property Management

Finding Number	2006-023
CFDA Title and Number	84.287 21st Century Grant
Federal Award Year	2006
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

2 C.F.R. Section 215.34(f) requires recipient property management standards for equipment acquired with Federal funds to include all of the following:

(1) Equipment records shall be maintained accurately and shall include the following: description of equipment; identification number; source of equipment, including award number; whether title vests with recipient or Federal government; acquisition date; information for calculating percentage of Federal participation in cost; location and condition of equipment; unit acquisition cost; and disposition data.

(2) Equipment owned by the Federal Government shall be identified to indicate Federal ownership.

(3) A physical inventory shall be taken and the results reconciled with equipment records at least once every two years.

(4) A control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft of the equipment.

(5) Adequate maintenance procedures shall be implemented to keep equipment in good condition.

(6) Where the recipient is authorized or required to sell equipment, proper sales procedures shall be established which provide for competition and result in the highest possible return.

The School did not maintain a list of capital asset additions acquired with 21st Century grant funds during the audit period. The School did purchase capital assets during the fiscal year. These assets were not listed on the School's capital assets additions list.

We recommend the School maintain a separate list of assets purchased with 21st Century Grant funds. The list should be updated annually to include assets acquired or deleted. We recommend the School take a physical inventory and reconcile this inventory with equipment records at least once every two years. We recommend the School implement a control system to safeguard assets and implement adequate maintenance procedures.

See Officials' Response Section after finding 2006-024.

FINDING NUMBER 2006-024

Noncompliance Citation / Material Weakness / Questioned Cost – Procurement and Suspension and Debarment; Maintenance and Level of Effort

Finding Number	2006-024
CFDA Title and Number	84.010 Title I
Federal Award Year	2006
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

<u>Procurement and Suspension and Debarment</u>

Schools that receive federal funds must comply with the EDGAR regulations found at 34 CFR 80.36; Procurement and 34 CFR 74.40; Purpose of Procurement Standards. Since EDGAR is a general administrative rule for all of USDOE's federal programs, adherence with these rules apply to all schools receiving federal dollars and all grants administered by them. A similar regulation is found for all federal agencies that grant funds to state and local entities through the adoption of OMB Circular A-102. This means a school must ensure a procurement process is developed and implemented for purchased goods and services. The procurement process must be conducted in a manner providing full and open competition consistent with the standards of 34 CFR 80.36.

34 CFR 80.35 Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension."

<u>Maintenance and Level of effort</u>

20 USC 7901 states an LEA may not use Title I, Part A funds for activities that it would have conducted in the absence of these federal funds (Title I, Part A). To meet MOE, combined fiscal effort (per student or the aggregate expenditures of the LEA and the State) cannot be less than 90% of the combined fiscal effort for the second preceding fiscal year.

20 USC 6321(b) states an LEA may use program funds only to supplement and, to the extent practical, increase the level of funds that would, in the absence of the Federal funds, be made available from non-Federal sources for the education of participating students. In no case may an LEA use Federal program funds to supplant funds from non-Federal sources.

As noted in Finding 2006-017, due to the lack of supportive documentation we were unable to determine the School's compliance with the requirements noted above.

The School should maintain adequate documentation to ensure compliance. In addition, the School should develop and implement effective controls over the grant compliance requirements.

FINDING NUMBER 2006-024
(Continued)

Officials' Responses:

The Director of Students provided the following response to Findings 2006-001, 2006-002, 2006-003, 2006-005, 2006-006, 2006-007, 2006-008, 2006-009, 2006-010, 2006-012, 2006-013, 2006-017, 2006-020, 2006-021, 2006-022, 2006-023, and 2006-024:

Harmony's hiring practice was to find teachers and staff who were excellent in their professional fields of study and who would support and promote the school's core philosophy and mission to educate our students and encourage and guide their families. Therefore, it was assumed that both Treasurers, Michael Engel and Robert Steigerwald were highly competent CPAs, as Mr. Engel had his own business and presented references from impressive clients. (Later, it was found that Mr. Steigerwald had falsified both his CPA claim and his bond.) With this assumption in mind and assurance from both of these individuals that they would competently and honestly handle their duties as treasurer, and further, with occasional spot checks of their procedures, it was with confidence that all essential and substantiated paperwork could be produced to accompany the checks that were put forth to be signed.

Auditor of State Conclusion to Findings 2006-001, 2006-002, 2006-003, 2006-005, 2006-006, 2006-007, 2006-008, 2006-009, 2006-010, 2006-012, 2006-013, 2006-017, 2006-020, 2006-021, 2006-022, 2006-023, and 2006-024:

The School's human resource policies should include obtaining and verifying evidence related to professional credentials, bonds, etc. for all its credentialed employees, including employees asserting educational or fiscal certification. For example, the School should have obtained Mr. Steigerwald's CPA number, and/or verified the certification with the Ohio Accountancy Board.

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HARMONY COMMUNITY SCHOOL
HAMILTON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
FOR THE YEAR ENDED JUNE 30, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2005-001	Finding for recovery against School and Jamie Jamison regarding service hours.	No	Not corrected – not repaid as of September 21, 2009.
2005-002	Finding for recovery against School and Jamie Jamison regarding Transitional Program.	No	Not corrected – not repaid as of September 21, 2009.
2005-003	Finding for recovery against School and Jamie Jamison regarding Plus Program.	No	Not corrected – not repaid as of September 21, 2009.
2005-004	Finding for recovery against the School regarding ACE Program.	No	Not corrected – not repaid as of September 21, 2009.
2005-005	Finding for recovery repaid under audit against Deland McCullough.	Yes	Repaid under audit on July 8, 2008.
2005-006	Finding for recovery against School regarding Student Residency.	No	Not corrected – not repaid as of September 21, 2009.
2005-007	Ohio Revised Code, Section 3314.03(A)(11)(a), failure to provide a minimum of 920 hours of learning opportunities.	No	Compliance for the year ended June 30, 2006 was tested during the audit for the year ended June 30, 2005.
2005-008	Failure to maintain accurate and complete student files.	No	Compliance for the year ended June 30, 2006 was tested during the audit for the year ended June 30, 2005.
2005-009	Ohio Administrative Code, Section 117-2-02, failure to maintain adequate accounting records.	No	Not corrected. Reissued as Finding 2006-006.
2005-010	Failure to development and implement procedures over capital asset records.	No	Not corrected. Reissued as Finding 2006-007.

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2005-011	Failure to implement controls over payroll processing by third-party administrator.	No	Not corrected. Reissued as Finding 2006-005.
2005-012	Failure to complete and approve expense request forms.	No	Not corrected. Reissued as Finding 2006-011.
2005-013	Ohio Revised Code, Section 149.351(A), failure to maintain records.	No	Not corrected. Reissued as Finding 2006-012.
2005-014	Ohio Revised Code, Section 3314.03(A)(10), failure to employ licensed teachers.	No	Not corrected. Reissued as Finding 2006-015.
2005-015	OMB Circular A-133, Section .300, failure to prepare a federal schedule and to segregate federal funds.	No	Not corrected. Reissued as Finding 2006-017.
2005-016	34 CFR Section 80.30(C)(1), failure to submit accurate final expenditure reports.	No	Not corrected. Reissued as Finding 2006-021.

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
NOVEMBER 12, 2009