



Mary Taylor, CPA
Auditor of State

THE HARTE SCHOOL
FRANKLIN COUNTY

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

The Harte School
Franklin County
350 Columbus City Center Drive
Columbus, Ohio 43215

To the Sponsor:

We were engaged to audit the accompanying basic financial statements of The Harte School, Franklin County, Ohio (Harte) as of and for year ended June 30, 2005. These financial statements are the responsibility of Harte's management.

Harte did not retain or present for examination sufficient competent evidence to support the activities, balances, and disclosures in the accompanying basic financial statements. Additionally, management has not provided a written representation letter, which is required by auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The Auditor of State has billed Harte for audit services provided for fiscal year 2005. As of the date of this report, Harte has unpaid audit fees. AICPA Code of Professional Conduct, Section 100, ET Section 191 considers unpaid audit fees to impair the independence of the Auditor of State.

Due to the significance of the matters discussed in the second preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the basic financial statements of the Harte School, Franklin County, Ohio as of June 30, 2005 and for the year then ended.

As noted in Note 17, Harte ceased operations on March 16, 2007.

As noted in Note 17, Harte was placed in Receivership on April 4, 2007.

As noted in Note 17, a Court Judgment was granted against Harte in favor of the State of Ohio, on July, 9 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2009, on our consideration of Harte'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.

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. Accordingly, the standards require that we apply certain limited procedures consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, as noted in paragraph two above, Harte did not retain sufficient competent evidence for activities, balances or disclosures in the financial statements, and therefore, we are unable to perform required limited procedures. Additionally, we did not audit the information, and express no opinion on it.

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

Mary Taylor, CPA
Auditor of State

October 16, 2009

**THE HARTE SCHOOL
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)**

Our discussion and analysis of The Harte School (School's) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements 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 Standards 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 presented in the MD&A.

Financial Highlights

In total, the School ended its first year with net assets of \$113,795.

The School's activities reflect an operating loss of (\$257,617).

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.

One of the most important questions asked about the School's finances is, "Is the School better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the School as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

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

THE HARTE SCHOOL
FRANKLIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)

As this is the School's first year of operations, fiscal year 2005 figures follow:

	Net Assets
	<u>2005</u>
Current Assets	\$ 107,058
Capital Assets, Net	<u>66,078</u>
Total Assets	173,136
Current Liabilities	<u>59,341</u>
Total Liabilities	59,341
Net Assets:	
Invested in Capital	
Assets	66,078
Unrestricted	<u>47,717</u>
Total Net Assets	<u>\$ 113,795</u>

A significant portion of the School's net assets (58.1%) reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The School uses capital assets to provide services; consequently, these assets are not available for future spending.

Net Assets of the School are \$113,795 and unrestricted net assets reflect a healthy balance of \$47,717.

THE HARTE SCHOOL
FRANKLIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)

Changes in Net Assets

	2005
Operating Revenues:	
Sales	\$ 880
Foundation payments	217,348
Other Operating Revenues	50,905
Non-Operating Revenues:	
Investment Earnings	611
State subsidies	3,000
Federal subsidies	<u>367,801</u>
Total Revenues	640,545
Operating Expenses:	
Salaries & Wages	135,267
Fringe Benefits	36,379
Purchased Services	209,405
Materials & Supplies	83,196
Depreciation	2,664
Miscellaneous	<u>59,839</u>
Total Expenses	526,750
Change in Net Assets	\$ 113,795

The School's operating expenses exceeded operating revenues for the first year of operation. The resulting loss from operations is primarily due to startup expenses for the School. The School will be monitoring operating expenses in the ensuing year to ensure fiscal stability of the organization.

Capital Assets

The School has \$66,078 invested in capital assets net of depreciation. The most significant purchase of the School's capital assets for the 2005 fiscal year was the purchase of computers for student instruction. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (Note 5).

**THE HARTE SCHOOL
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(UNAUDITED)**

Restrictions and Other Limitations

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

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

The second challenge facing the School is the future of state funding. On September 6, 2001 the Ohio Supreme Court found the Ohio School Funding system to be unconstitutional pending some modifications by the legislature. The School is unable to determine what effect, if any, this decision will have on future funding from the State.

The final challenge is the existence of the school in the future. An ongoing lawsuit filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was set for oral argument on November 18th, 2003. The case remains at the Court of Appeals at this time. The effect of this suit, if any, on the School is not presently determinable.

THE HARTE SCHOOL
FRANKLIN COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2005

Assets

Current Assets

Cash and Investments	\$ 30,217
Receivable - State	8,896
Receivable - Federal	60,872
Prepaid items	<u>7,073</u>
Total Current Assets	<u>107,058</u>

Non-Current Assets

Capital assets (Net of Accumulated Depreciation)	<u>66,078</u>
Total Assets	<u>\$ 173,136</u>

Liabilities

Current Liabilities

Accounts Payable	\$ 57,999
Accrued Wages & Benefits	<u>1,342</u>
Total Current Liabilities	<u>59,341</u>
Total Liabilities	<u>59,341</u>

Net Assets

Invested in Capital Assets	66,078
Unrestricted	<u>47,717</u>
Total Net Assets	<u>\$ 113,795</u>

The accompanying Notes are an integral part of the Financial Statements

THE HARTE SCHOOL
FRANKLIN COUNTY

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Operating Revenues	
Sales	\$ 880
Foundation Payments	217,348
Other Operating Revenues	50,905
Total Operating Revenues	<u>269,133</u>
Operating Expenses	
Salaries & Wages	135,267
Fringe Benefits	36,379
Purchased Services	209,405
Materials & Supplies	83,196
Depreciation	2,664
Miscellaneous	59,839
Total Operating Expenses	<u>526,750</u>
Operating Loss	(257,617)
Non-Operating Revenues and (Expenses)	
Interest Earnings	611
State subsidies	3,000
Federal subsidies	367,801
Total Non-Operating Revenues and (Expenses)	<u>371,412</u>
Net Income	113,795
Net Assets Beginning of Year	-
Net Assets End of Year	<u>\$ 113,795</u>

The accompanying Notes are an integral part of the Financial Statements

**THE HARTE SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Cash Flows from Operating Activities

Cash received from sales	\$ 880
Cash received from Foundation Payments	208,452
Cash received from Other Operating Revenues	50,905
Cash payments for personal services	(177,377)
Cash payments for contract services	(181,875)
Cash payments for supplies and materials	(52,727)
Cash payments for Miscellaneous	(59,839)
Net Cash Used for Operating Activities	<u>(211,581)</u>

Cash Flows from Noncapital Financing Activities

Cash from Federal & State Subsidies	309,929
Net Cash from Noncapital Financing Activities	<u>309,929</u>

Cash Flows from Capital and Related Financing Activities

Payments for Capital Acquisitions	<u>(68,742)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(68,742)</u>

Cash Flows from Investing Activities

Interest on cash and cash equivalents	<u>611</u>
Net cash from investing activities	<u>611</u>

Net increase in cash and cash equivalents :	30,217
Cash and cash equivalents at beginning of year	-
Cash and cash equivalents at end of year	<u>\$ 30,217</u>

**Reconciliation of Operating Loss to Net Cash
Used for Operating Activities**

Operating Loss	(257,617)
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**Adjustments to Reconcile Operating Loss to Net
Cash Used for Operating Activities**

Depreciation	2,664
Changes in Assets and Liabilities:	
Accounts Receivable	(8,896)
Prepaid items	(7,073)
Accounts Payable	57,999
Accrued Wages and Benefits	1,342
Total Adjustments	<u>46,036</u>

Net cash used for operating activities	<u>\$ (211,581)</u>
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The accompanying Notes are an integral part of the Financial Statements

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**THE HARTE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Harte School (Harte) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in kindergarten through fifth grade. Harte, a part of the State's education program, is independent of any school district. Harte can sue and be sued, acquire facilities as needed, and contract for any necessary services for the operation of the school.

Harte is approved for operation under contract with Lucas County Educational Service Center (the Sponsor) for a period of five years commencing July 1, 2004. The Sponsor is responsible for evaluating the performance of Harte and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

Harte operates under the direction of a seven member Board of Directors. The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

Keys to Improving Dayton Schools, Inc. (KIDS) is the contracted fiscal agent for fiscal services, including Treasurer and EMIS services for 2005.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Harte 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. Harte also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of Harte's accounting policies are described below.

A. Basis of Presentation

Harte uses enterprise accounting to maintain its financial records during the school year. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods and services.

B. Measurement Focus and Basis of Accounting

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. Operating statements present increases and decreases in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when earned and expenses are recognized when they are incurred.

**THE HARTE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the school's contract with its Sponsor. The contract between Harte and its Sponsor does not prescribe a budgetary process for the school.

D. Cash and Investments

All monies received by Harte are pooled and deposited in a central bank account. All monies of Harte are maintained in this account or temporarily used to purchase short term investments.

During fiscal year 2005, investments were limited to money market funds, valued at cost.

For purposes of the statement of cash flows and for presentation on the Statement of Net Assets, investments with a maturity of three months or less at the time they are purchased are considered to be cash equivalents.

E. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair values as of the dates received. Harte maintains a capitalization threshold of five hundred dollars. Harte does not possess any infrastructure. Improvements are capitalized, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Property, plant and equipment is depreciated using the straight line method over the following estimated useful lives. Improvements to capital assets are depreciated over the remaining useful life of the related capital assets.

<u>Assets</u>	<u>Years</u>
Building Improvements	20
Furniture and Equipment	10
Computer equipment	5

F. Intergovernmental Revenues

Harte currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

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

**THE HARTE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Intergovernmental Revenues (continued)

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year 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.

Amounts awarded under the above named programs for 2005 school year totaled \$217,348.

NOTE 3- DEPOSITS AND INVESTMENTS

Deposits: The carrying value of Harte' deposits totaled \$30,217, and the bank balance totaled \$40,737, all of which is covered by federal depository insurance.

Investments of the School as of June 30, 2005 were as follows:

<u>Investments</u>	<u>Fair Value</u>	Weighted Average Maturity(Years)
Money market	<u>\$ 30,217</u>	0.00
Total Investments	<u>\$ 30,217</u>	

Interest Rate Risk – Harte's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – The money market fund is covered by federal depository insurance. Harte places no limit on the amount that may be invested in any one issuer.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2005, consisted of intergovernmental receivables of \$69,768.

NOTE 5 - CAPITAL ASSETS

A summary of Harte's capital assets at June 30, 2005, follows:

	Balance 6/30/05
Capital Assets being depreciated	
Building Improvements	\$ 12,415
Furniture and Equipment	43,992
Computer Equipment	<u>12,335</u>
Subtotal	68,742
Less: Accumulated Depreciation	<u>(2,664)</u>
Net Capital Assets	<u>\$ 66,078</u>

**THE HARTE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 6 - RISK MANAGEMENT

A. Property and Liability

Harte is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2005, Harte contracted with Philadelphia Indemnity Insurance Company for property and general liability insurance with a \$1,000,000 single occurrence limit and \$2,000,000 aggregate with a \$500 deductible.

B. Worker's Compensation

Harte pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the annual total gross payroll by a factor determined by the State.

NOTE 7 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Harte contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to School Employees Retirement System, 300 East Broad Street, Suite 100 Columbus, Ohio 43215-3476.

Plan members and the school are required to contribute 10 percent and 14 percent respectively, of their annual covered salary. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The school's required contribution for pension obligations to SERS for the year ending June 30, 2005 was \$2,179. Harte has contributed \$6,929 for fiscal year 2005, and the overpayment to SERS has been recorded as a prepaid item.

B. State Teachers Retirement System

Harte contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

**THE HARTE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 7 - DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement System (continued)

Plan members and the school are required to contribute 10 percent and 14 percent respectively, of their annual covered salary. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Harte's required contribution for pension obligations to STRS for the year ending June 30, 2005 \$16,759. Harte has contributed \$19,082 for fiscal year 2005, and the overpayment to STRS has been recorded as a prepaid item.

NOTE 8 - POSTEMPLOYMENT BENEFITS

Harte provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and partial 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 funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate. The board currently allocates employer contributions equal to 1.0% of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. For Harte, this amount equaled \$1,197 during fiscal year 2005. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and eligible benefit recipients totaled 111,853.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium. The Board currently allocates employer contributions equal to 4.91% of covered payroll to fund health care benefits. For the school, this amount equaled \$981 during 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, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. For the year ended June 30, 2004, the most recent year available, net health care costs paid by SERS were \$223,443,805, and eligible benefit recipients totaled approximately 62,000.

NOTE 9 - OTHER EMPLOYEE BENEFITS

A. Insurance Benefits

Harte has contracted with a private carrier to provide employee health, dental and \$15,000 life insurance. Harte paid 100% of the monthly premium for fiscal year 2005, for single coverage and joint coverage cost an employee \$398.24 per month.

**THE HARTE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 10 - CONTINGENCIES

A. Grants

Harte 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 general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall position of the school at June 30, 2005.

NOTE 11 - DEBT

Harte had a line of credit with National City for \$35,000. It originated in August of 2004 and had a variable rate that is between 8.5%-10.25%. The line of credit was drawn down in its entirety in August 2004. Payments and drawdowns were made to the line of credit throughout the fiscal year. The outstanding balance owed on June 30, 2005 is \$20,559.

The table below shows the fees related to the line of credit.

	Finance Charges	Annual Fee	Late Fee	Overlimit Fee	Total
8/04-6/05	\$ 2,474	\$ 100.00	\$ 80.00	\$ 50.00	\$ 2,704

NOTE 12 - MANAGEMENT CONSULTING CONTRACT

Harte entered into a one-year contract on July 1, 2004 with Harte Crossroads Public School (the Management Company) for management consulting services. Under the contract, the Management Company is required to provide the following services:

- . Superintendent Services
- . Staff Development and Recruiting
- . Program Development
- . Budgeting, Financial Reporting and Audit Preparation
- . Building and Grounds Planning and Maintenance
- . Curriculum Research and Development
- . Marketing and Publicity
- . Testing Program and Analysis
- . Grant Preparation and Management
- . Board Recruitment and Management
- . Personnel Services

For the services listed above, Harte is required to pay a fee to the Management Company. The fee is equal to 10% of the total per pupil allowance received from the State of Ohio. In the event that the year end reconciliation results in a difference between the total amount paid and the agreed fee, with a balance owed, the Management Company has the right to suspend collection until such time as Harte determines that cash flow permits such payment. The total expense paid under this contract for fiscal year 2005 totaled \$165,341.

**THE HARTE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 13 - PURCHASED SERVICES EXPENSES

For the year ended June 30, 2005, purchased service expenses were payments for services rendered by various vendors as follows:

Professional and Technical Services	\$ 184,702
Property Services	3,685
Travel Mileage/Meeting Expense	1,912
Communications	11,753
Utilities	0
Contracted Craft or Trade Services	7,243
Other Purchased Services	110
Total Purchased Services	<u>\$209,405</u>

NOTE 14 - OTHER LEASES

During fiscal year 2005, Harte entered into a lease agreement with the Taubman Company for approximately 23,000 square feet for Harte. The term of the lease commenced October 1, 2004 through July 12, 2005. Thereafter, the lease was on a month to month basis. The monthly rent for the space is \$2,250 payable on or before the first day of each month. At June 30, 2005 the School owed Taubman Company \$11,250 for back rent.

NOTE15 - MANAGEMENT COMPANY

House Bill 364 took effect on April 8, 2003, and added Ohio Rev. Code § 3314.024, which states that a management company that provides services to a community school that amounts to more than 20 percent of the annual gross revenues of the school shall provide a detailed accounting including the nature and costs of the services it provides to the community school. This information shall be included in the footnotes of the financial statements of the school and be subject to audit during the course of the regular financial audit of the community school.

The footnote should list management company expenses during the year by object codes (e.g., salaries, supplies, etc.). This footnote should differentiate between the direct costs and the overhead costs that a management company allocates to a community school.

The management company may elect to have the Auditor audit this information at the management company, which would include examining the books, records, and other supporting documentation prepared and maintained by the management company. Alternatively the Auditor will accept an independently audited financial statement as meeting the requirement provided the audit meets the audit and disclosure requirements set forth by Ohio Rev. Code § 3314.024.

Harte's management company, Harte Crossroads Public Schools did not provide a footnote, audited financial statement, or request the Auditor to examine their books of records. Many of the payments to the Management Company were not supported by invoices.

**THE HARTE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 16- RELATED PARTY TRANSACTIONS

Ms. Anita Nelam founded Harte in the fall of 2004. During 2005, Ms. Nelam was the School's Board President and Director. Furthermore, Ms. Nelam was also the founder, and CEO of Harte Crossroads Public Schools (the Management Company) with Gabrielle Sempf, and James Cowardin as co-directors, which served as the management company responsible for operating the School for 2005. There was no signed contractual agreement in place between Harte and the Management Company. Harte paid approximately 26% or \$165,341 of its funds to the Management Company in 2005.

NOTE 17- SUBSEQUENT EVENTS/PENDING LITIGATION AND CONTINGENCIES

On August 23, 2005 Lucas County ESC notified Harte that they would be put on probation due to the school's failure to meet the student performance requirements, failure to meet generally accepted standards of fiscal management, and for violations of Ohio Revised Code 3314 which applies to community schools. On December 13, 2005, Lucas County ESC notified Crossroads that the sponsor contract would be non-renewed as of June 30, 2006.

Harte contracted with a new sponsor, Richland Academy of the Arts (Richland Academy), starting July 1, 2006.

On March 16, 2007, Harte closed due to its severe financial problems. Since then, numerous claims have been made against the school from former employees, vendors, and state agencies for back payments. These claims were filed with the law firm hired by the Receiver for assistance.

On April 4, 2007, Harte was placed in court ordered Receivership. The Receiver was required to provide creditors with notice of the Receiver's appointment and provide them with an Official Claim form. The Receiver established July 5, 2007 as the last day of filing proofs of claims or interests. The Receiver also retained legal council to serve as counsel to the Receiver with respect of implementation of the claims process, the review of claims, and the negotiations with creditors.

Claims filed by creditors totaled \$1,421,956 against Crossroads (a sister school) and Harte, for FY 2005, 2006, and 2007, jointly and severally. Harte cannot presently determine the outcome of these claims.

On July 9, 2008, the Franklin County Court of Common Pleas found that Plaintiff State of Ohio, Ohio Attorney General and Ohio Department of Education is entitled to judgment in the amount of \$3,288,162.74, plus interest from April 2, 2007, and court costs from the Defendants Harte Crossroads Academy/The Harte School, Harte Crossroads High School/Crossroads Preparatory Academy, and the Harte Crossroads Public Schools Management Company. According to the Ohio Department of Education (ODE), this judgment was for all of the grants, both State and Federal that the schools could not provide proper documentation to substantiate how these funds were spent.

Amounts grantor agencies paid to Harte are subject to review and adjustment by the grantor, principally the federal and state governments. The grantor may require refunding any disallowed costs. The grantor agencies are calling for a refund of a material amount of monies due to the lack of adequate supporting documentation.

**THE HARTE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 17- SUBSEQUENT EVENTS/PENDING LITIGATION AND CONTINGENCIES (continued)

The following amounts for 2005 have been determined to be subject to refund due to lack of adequate supporting documentation:

1. Federal Start Up/Charter Schools Program - \$290,000
2. Misc Federal/State Programs- \$13,308
3. State Foundation Money (CSADM counts)- \$208,452
4. Federal Reimbursement/Food Service \$3,622

In 2005, Harte opened a line of credit with National City for \$35,000 with a variable interest rate between 8.5%-10.25%. The balance at June 30, 2005 was \$20,559. When Harte closed in March of 2007, the outstanding balance was \$35,869.

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Mary Taylor, CPA
Auditor of State

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

Lucas County Educational Service Center
Attn: Jim George, Superintendent
2275 Collingwood Blvd
Toledo, Ohio 43620

To the Sponsor:

We were engaged to audit the financial statements of The Harte School, Franklin County, Ohio, (Harte) as of and for the period ended June 30, 2005, and have issued our report thereon dated October 16, 2009, wherein we disclaimed an opinion due to a lack of sufficient competent evidential matter and lack of written representations from Management. We also noted that Harte ceased operations on March 16, 2007, was placed in Receivership on April 4, 2007, a Court Judgment was granted against them in favor of the State of Ohio, on July 9, 2008, and has unpaid audit fees as of the date of this report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Harte's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Harte's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items: 2005-001 through 2005-021.

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

Compliance and Other Matters

As part of reasonably assuring whether Harte'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 as items: 2005-001 through 2005-013.

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

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

Mary Taylor, CPA
Auditor of State

October 16, 2009

THE HARTE SCHOOL
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2005

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

FINDING NUMBER 2005-001

**Material Non-Compliance/Material Weakness/Reportable Condition - Finding For Recovery -
Federal Start Up/Public Charter Schools Program (PCPS)**

Education Department General Administrative Regulations (EDGAR), 34 C.F.R. Section 75.730 states that a grantee shall keep records that fully show:

- (a) The amount of funds under the grant;
- (b) How the grantee uses the funds;
- (c) The total cost of the project;
- (d) The share of that cost provided from other sources; and
- (e) Other records to facilitate an effective audit.

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

- (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, 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**.

In fiscal year 2005, Harte drew down \$290,000 in community school start up funds from the Federal Government through the Ohio Department of Education (ODE). As a part of this start up grant, ODE attempted to review the schools financial records to assure these funds were spent for allowable purposes, however, Harte did not comply with ODE's request to produce grant expenditure records.

On April 4, 2007, the State of Ohio, Ohio Attorney General, and the Ohio Department of Education sought a Judgment Entry against the Harte Crossroads Academy/The Harte School, Harte Crossroads High School/Crossroads Preparatory Academy, and the Harte Crossroads Public Schools, Harte's management company for \$3,288,162.74 and the judgment was granted by the Franklin County Common Pleas Court on July, 9, 2008. An additional \$210,000 of PCPS grants for fiscal years 2006 and 2007 was part of this Judgment for a total of \$500,000 of PCPS grants from 2005 through 2007.

Had this been a federal Single Audit the amounts mentioned above could have been questioned costs.

**THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2005
(Continued)**

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

FINDING NUMBER 2005-001 (continued)

Material Non-Compliance/Material Weakness/Reportable Condition - Finding For Recovery - Federal Start Up/Public Charter Schools Program (PCPS) (continued)

In accordance with the foregoing facts, and pursuant to the Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against The Harte School in favor of ODE in the amount of \$290,000.

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, 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.

In accordance with the foregoing facts, and pursuant to the Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Anita Nelam, school President/CEO, and in favor of ODE in the amount of \$290,000.

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

FINDING NUMBER 2005-002

Material Non-Compliance/Material Weakness/Reportable Condition – Finding For Recovery – Other Federal Funds

2 C.F.R. Part 225 (formerly, OMB Circular A-87), Appendix A, Section C.1.j provides that for a cost to be allowable, the expenditure must be adequately documented. Appendix C, Section A.1 also provides that all costs and other data used to distribute the costs should be supported by formal accounting and other records that will support the costs assigned to Federal awards.

In fiscal 2005, the grant funds described below were forwarded to Harte’s management company who did not provide invoices to the school to support the grant expenditures.

Program	2005
Title I Disadvantaged Children Targeted Assistance, CFDA 84.010	\$13,211
Title II, Part D, Technology, CFDA 84.318	39
Improving Teacher Quality State Grants (Title II, Part A), CFDA 84.367	58
Total	\$13,308

Education Management Information System (EMIS) allows ODE to provide the different levels of government with data required to determine funding, such as the percentage of Highly Qualified Teachers, Special Educations information, and other data used to determine federal funding.

THE HARTE SCHOOL
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2005
(Continued)

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

FINDING NUMBER 2005-002 (continued)

**Material Non-Compliance/Material Weakness/Reportable Condition – Finding For Recovery –
Other Federal Funds (continued)**

Harte also did not maintain student attendance records; therefore we could not determine how many students attended school and if they were entitled to this funding.

On April 2, 2007, the State of Ohio, Ohio Attorney General, and the Ohio Department of Education sought a Judgment Entry against the Harte Crossroads Academy/ The Harte School (Harte), Harte Crossroads High School / Crossroads Preparatory Academy (Crossroads), and Harte Crossroads Public Schools, the schools' management company, for \$3,288,162.74 and the judgment was granted by the Franklin County Common Pleas Court on July 9, 2008. The \$13,308 of federal grants noted above was part of this Judgment which also incorporated grants for fiscal years 2005 through 2007 totaling \$57,224.

Had this been a federal Single Audit the amounts mentioned above could have been questioned costs.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against The Harte School, and in favor of ODE in the amount of \$13,308.

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, 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.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Anita Nelam, School President/CEO, and in favor of ODE in the amount of \$13,308.

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

THE HARTE SCHOOL
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2005
(Continued)

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

FINDING NUMBER 2005-003

**Material Non-Compliance/Material Weakness/Reportable Condition – Finding For Recovery -
Undocumented Enrollment for State Foundation Funding**

Ohio Rev. Code, Section 3314.03(A)(11)(a), states that the contract between a sponsor and the governing authority must specify that the school will provide learning opportunities to a minimum of twenty five students for a minimum of nine hundred twenty hours per school year.

Enrollment numbers are submitted through the EMIS system to the Ohio Department of Education and are used to determine the amount of State Foundation money each school receives. Ohio's State Funding Formula is a foundation program with an assumed local share of charge-off being subtracted from the basic program cost to determine the state formula aid. The basic program cost is the current year formula amount times the current year formula average daily membership plus the sum of four base-funding supplements, called "building blocks." These building blocks are funding for intervention, professional development, data based decision making and professional development for data based decision making. The per pupil formula amount is set by the legislature.

During the period of July 1, 2004 through March 16, 2007, there were no:

- student files to show how many students attended the school and the duration of attendance.
- records documenting how many hours the school was in session or what type of instruction was offered.
- attendance sheets.
- documentation over enrollment/withdrawal dates of its students.
- official student rosters.

Therefore, the assurance of 920 hours of instruction to each student could not be determined. Further, the Ohio Department of Education (ODE) made unsuccessful attempts to conduct a student enrollment audit. Therefore, no assertions can be made to the validity of attendance numbers reported by Harte to ODE.

As a result, State Foundation payments totaling \$208,452 in fiscal year 2005 were unsubstantiated.

On April 2, 2007, the State of Ohio, Ohio Attorney General, and the Ohio Department of Education sought a Judgment Entry against the Harte Crossroads Academy/ The Harte School (Harte), Harte Crossroads High School / Crossroads Preparatory Academy (Crossroads), and Harte Crossroads Public Schools, the schools' management company, for \$3,288,162.74 and the judgment was granted by the Franklin County Common Pleas Court on July 9, 2008. The \$208,452 of foundation money noted above was part of this Judgment totaling \$1,667,735 of state foundation funding for the fiscal years 2005 through 2007.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against the Harte School and in favor of ODE in the amount of \$208,452.

THE HARTE SCHOOL
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2005
(Continued)

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

FINDING NUMBER 2005-003 (continued)

Material Non-Compliance/Material Weakness/Reportable Condition – Finding For Recovery - Undocumented Enrollment for State Foundation Funding (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 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, 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.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Anita Nelam, School President/CEO, and in favor of ODE in the amount of \$208,452.

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

FINDING NUMBER 2005-004

Material Non-Compliance/Material Weakness/Reportable Condition – Finding for Recovery - Food Service Operations

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. 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.

7 C.F.R. Section 210.7(b) & (c) states, in part, that the total general and special cash assistance reimbursement paid to any school food authority for lunches served to children during the school year are not to exceed the sum of the products obtained by multiplying the total reported number of lunches, by type, served to eligible children during the school year by the applicable maximum per lunch reimbursements prescribed for the school year for each type of lunch. Additionally, to be entitled to reimbursement under this part, each school food authority shall ensure that Claims for Reimbursement are limited to the number of free, reduced price and paid lunches and meal supplements that are served to children eligible for free, reduced price and paid lunches and meal supplements, respectively, for each day of operation. To ensure that the Claim for Reimbursement accurately reflects the number of lunches and meal supplements served to eligible children, the school food authority shall, at a minimum:

- (i) Correctly approve each child's eligibility for free and reduced price lunches and meal supplements based on the requirements prescribed under 7 CFR part 245;
- (ii) Maintain a system to issue benefits and to update the eligibility of children approved for free or reduced price lunches and meal supplements.

THE HARTE SCHOOL
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2005
(Continued)

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

FINDING NUMBER 2005-004 (continued)

Material Non-Compliance/Material Weakness/Reportable Condition – Finding for Recovery - Food Service Operations (continued)

For the year ended June 30, 2005, Harte contracted with a local food service vendor to provide both breakfast and lunch for its students. Harte was to submit a daily lunch count the day before the food was to be delivered.

No meal count records could be found for the year ended June 30, 2005. Harte also did not maintain consistent attendance records for the period, as noted in Finding Number 2005-003. Because of the lack of documentation maintained by Harte, it could not be determined if the amount of meals purchased from the food service vendors were reasonable based on the number of students in attendance each day. Below is a summary of federal reimbursements for food services expenditures during 2005:

Program	2005
School Breakfast, CFDA 10.553	\$ 188
National School Lunch, CFDA 10.555	3,434
Total	\$ 3,622

On April 2, 2007, the State of Ohio, Ohio Attorney General, and the Ohio Department of Education sought a Judgment Entry against the Harte Crossroads Academy/ The Harte School (Harte), Harte Crossroads High School / Crossroads Preparatory Academy (Crossroads), and Harte Crossroads Public Schools, the schools' management company, for \$3,288,162 and the judgment was granted by the Franklin County Common Pleas Court on July 9, 2008. The \$3,622 noted above was part of this Judgment totaling \$40,580 of food service grants for the fiscal years 2005 through 2007.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against The Harte School, and in favor of ODE in the amount of \$3,622.

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, 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.

THE HARTE SCHOOL
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2005
(Continued)

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

FINDING NUMBER 2005-004 (continued)

Material Non-Compliance/Material Weakness/Reportable Condition – Finding for Recovery - Food Service Operations (continued)

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Anita Nelam, School President/CEO, and in favor of ODE in the amount of \$3,622.

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

FINDING NUMBER 2005-005

Material Non-Compliance/Material Weakness/Reportable Condition - Supporting Documentation for Expenditures

Harte did not maintain proper supporting documentation for all expenditures. **Ohio Rev. Code Section 3314.03(A)(11)(d)** requires that each contract entered into between a sponsor and the governing authority of a community school shall specify that the school will comply with Section 149.43 of the Ohio Rev. Code. **Ohio Rev. Code Section 149.43(B)** states, in part, that all public records shall be promptly prepared and made available for inspection to any person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division. In addition, Ohio Rev. Code Section 3314.03(A)(8) requires that each contract entered into between a sponsor and the governing authority of a community school shall require the school to maintain financial records in the same manner as all public school districts in the State of Ohio.

After numerous requests, Harte could not locate invoices or other supporting documentation for \$132,869 or approximately 25 percent of disbursements, of which \$97,005 was paid to the management company.

The lack of appropriate supporting documentation limits the ability to determine if the expenditure is for a proper public purpose and contributed to the issuance of a disclaimed financial statement opinion.

THE HARTE SCHOOL
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2005
(Continued)

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

FINDING NUMBER 2005-006

Material Non-Compliance/Material Weakness/Reportable Condition - Receipts

Ohio Rev. Code Section 3314.03(A)(11)(d) requires that each contract entered into between a sponsor and the governing authority of a community school shall specify that the school will comply with Section 149.43 of the Ohio Rev. Code. **Ohio Rev. Code Section 149.43(B)** states, in part, that all public records shall be promptly prepared and made available for inspection to any person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division. In addition, Ohio Rev. Code Section 3314.03(A)(8) requires that each contract entered into between a sponsor and the governing authority of a community school shall require the community school to maintain financial records in the same manner as all public school districts in the State of Ohio.

The following control weaknesses were noted in the internal control system for processing receipts:

- Adequate supporting documentation, including duplicate receipts, were not maintained for field trip fees, lunch fees, etc.
- Duplicate receipts books were not maintained or unable to be located for the period of July 22, 2004 through January 11, 2005.
- Amounts recorded in duplicate receipt books could not be traced to a deposit slip or bank statement due to the lack of detailed documentation associated with deposits. Only 10 of the estimated 249 duplicate receipts could be traced to bank deposits.
- Receipts and receipt books were commingled between Harte and sister school Crossroads.
- There was no evidence that the Treasurer reconciled duplicate receipts with amounts posted to the accounting system or to deposit.

Due to these weaknesses, we were unable to gain assurance over the completeness, existence, accuracy, or rights of all receipts of Harte which contributed to the issuance of a disclaimed financial statement opinion.

FINDING NUMBER 2005-007

Material Non-Compliance/Material Weakness/Reportable Condition - Payroll

Ohio Rev. Code Section 3314.03(A)(11)(d) requires that each contract entered into between a sponsor and the governing authority of a community school shall specify that the school will comply with Section 149.43 of the Ohio Rev. Code. Ohio Rev. Code Section 149.43(B) states, in part, that all public records shall be promptly prepared and made available for inspection to any person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division. In addition, Ohio Rev. Code Section 3314.03(A)(8) requires that each contract entered into between a sponsor and the governing authority of a community school shall require the school to maintain financial records in the same manner as all public school districts in the State of Ohio.

THE HARTE SCHOOL
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2005
(Continued)

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

FINDING NUMBER 2005-007 (Continued)

Material Non-Compliance/Material Weakness/Reportable Condition – Payroll (Continued)

The following control weaknesses were noted in the internal control system for processing payroll:

- The Board of Directors did not approve new hires and payroll information such as: pay rates for employees, stipends (i.e. after school, substitution rates), benefits, and information about at-will employees (i.e. rate, maximum hours, etc.).
- Leave forms were not maintained indicating leave time taken.
- Leave balances were not tracked or maintained.
- Formal time sheets with supervisory approval were not maintained documenting hours spent on after school activities or substituting for another teacher.
- Harte did not maintain copies of teacher contracts for 4 out of 15 employees, resulting in \$49,799 paid with no approved contract.
- Harte did not maintain other employee information, i.e. retirement enrollment, income tax withholding forms, insurance enrollment forms, etc. The following could not be located: retirement forms for 4 out of 15 employees; federal tax withholding forms for 8 out of 15; state and local withholding forms for 9 out of 15 employees.
- Harte did not maintain remittance forms, for \$8,744, or 29%, of withholding remittances.
- Harte did not maintain copies of all canceled checks related to payroll or maintain a separate ledger of amounts paid from the payroll account.

Due to these weaknesses, we were unable to gain assurance over the completeness, existence, and accuracy of Harte's payroll transactions and contributed to the issuance of a disclaimed financial statement opinion.

FINDING NUMBER 2005-008

Material Non-Compliance/Material Weakness/Reportable Condition - Availability of Public Records

Ohio Rev. Code Section 3314.03(A)(11)(d) requires that each contract entered into between a sponsor and the governing authority of a community school shall specify that the school will comply with Section 149.43 of the Ohio Rev. Code. **Ohio Rev. Code Section 149.43(B)** states, in part, that all public records shall be promptly prepared and made available for inspection to any person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division. Ohio Administrative Code 117-2-02(A) states that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

THE HARTE SCHOOL
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2005
(Continued)

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

FINDING NUMBER 2005-008 (Continued)

Material Non-Compliance/Material Weakness/Reportable Condition - Availability of Public Records (Continued)

There were significant delays in receiving requested records. Records presented for audit were disorganized and incomplete. In several cases, the information requested was never located by management or received by the auditors.

The lack of organized and complete accounting records decreased Harte's ability to monitor its financial position.

FINDING NUMBER 2005-009

Material Non-Compliance/Material Weakness/Reportable Condition - Management Company Footnote

Ohio Revised Code Section 3314.024 states that a management company providing services to a community school and charging more than twenty percent of the school's annual gross revenues shall provide a detailed accounting, including the nature and costs of the services it provides to the community school. This information shall be included in the footnotes of the financial statements of the school and be subject to audit during the school's regular financial audit. This footnote should list management company expenses during the year by object codes (e.g., salaries, supplies, etc.). Also, this footnote should differentiate between the direct costs and any overhead costs a management company allocates to a community school. Auditor of State Bulletin 2004-009, also outlines the note disclosure requirements of management companies.

Harte's management company, Harte Crossroads Public Schools, received 26% percent or \$165,341 of the school's annual gross revenues from July 1, 2004 through June 30, 2005, but did not provide Harte with detailed accounting required for footnote information.

FINDING NUMBER 2005-010

Material Non-Compliance/Material Weakness/Reportable Condition - Five Year Forecast

Harte's sponsorship agreement requires that Harte follow Ohio Revised Code Section 5705.391. Ohio Rev. Code Section 5705.391(A) and Ohio Admin. Code Sec 3301-9204 state in part, that school districts are required to prepare five year projections of revenues and expenditures. The projections are required to be submitted to the Ohio Department of Education (ODE) no later than October 31 of any fiscal year. A revised 5 year projection must be filed with the Department of Education between April 1 and May 31 of each fiscal year.

Harte prepared a five-year forecast, however, the forecast was not submitted to ODE by the required dates, and Harte did not update its projections throughout the year. Additionally, the assumptions in the forecast did not appear reasonable based on the actual financial activity of Harte.

THE HARTE SCHOOL
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2005
(Continued)

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

FINDING NUMBER 2005-011

Material Non-Compliance/Material Weakness/Reportable Condition - Deposit of Public Funds

Ohio Rev. Code Section 9.38 requires public money to be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipt. Public money collected for other public offices must be paid to the proper public official of the proper public office the moneys so received during the current week by the first business day of the week following the date of collection.

This section also stipulates that if the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public offices may adopt a policy permitting officials who receive money to hold it past the next business day, but the deposit must be made no later than three days after receiving it. The policy must include provisions and procedures to safeguard the money during the intervening period. If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money on the next business day.

Harte did not have a formal written policy for the depositing of cash. The informal policy was to deposit cash once a week and keep it locked in the Treasurer's office until it was deposited. Due to inadequate records of when cash or checks were received, we were unable to determine if cash collected was deposited within 24 hours as required. Due to missing or incomplete records, only 10 of Harte's approximate 249 receipts could be traced to deposits and of those. The validated deposit slips reflected receipts were deposited between 7 and 14 days from the dated of the receipt. In addition, during audit fieldwork conducted in June 2006, an envelope marked "December 2004 lunch receipts" containing cash was found among Harte's records. It could not be determined if this money was subsequently deposited.

FINDING NUMBER 2005-012

Material Non-Compliance/Material Weakness/Reportable Condition - Spending Authority

Article XI Section 2 of the School's Code of Regulations states that disbursements in excess of Ten Thousand Dollars (\$10,000) shall require the signature of the Treasurer and one other officer. Expenditures in excess of Twenty Thousand Dollars (\$20,000) shall require approval of the Board of Directors. Further, Ohio Rev. Code section 149.43(B)(1) states that "all public records shall be promptly prepared and made available for inspection to any member of the of the general public at all reasonable times during regular business hours." "Record" for the purposes of the public records law, means any document, device, or item, regardless of physical form or characteristic, created, received by, or coming under the jurisdiction of any public office which serves to document the organization, functions, policies, decisions, procedures, operations, or other activities of the public office. In addition, Ohio Rev. Code section 3314.03(A)(8) requires all community schools to maintain financial records in the same manner as all public school districts in the State of Ohio.

Harte wrote seven checks that exceeded \$10,000. Three of these seven checks could not be located and, therefore, we were unable to determine if they had the appropriate signatures. Three of these seven checks were not signed by both the Treasurer and another officer.

THE HARTE SCHOOL
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2005
(Continued)

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

FINDING NUMBER 2005-012 (Continued)

**Material Non-Compliance/Material Weakness/Reportable Condition - Spending Authority
(Continued)**

One expenditure exceeding \$20,000 was not approved by the Board.

As a result of these conditions, the risk of misappropriation of assets was increased. Harte should have ensured all checks in excess of \$10,000 were signed by both the Treasurer and an officer.

FINDING NUMBER 2005-013

Material Non-Compliance/Material Weakness/Reportable Condition - Interest in Public Contract

Ohio Rev. Code Section 3314.03(A)(11)(e) requires a community school to comply with Chapter 102 of the Revised Code except that nothing in that chapter shall prohibit a member of the school's governing board from also being an employee of the school and nothing in that chapter or section 2921.42 of the Revised Code shall prohibit a member of the school's governing board from having an interest in a contract into which the governing board enters that is not a contract with a for-profit firm for the operation or management of a school under the auspices of the governing authority.

However, **Ohio Ethics Commission Advisory Op. No. 2003-001** states, in part, that R.C. 102.03(D) and 2921.42(A)(1) prohibit a member of the board of a community school from participating, in any manner as a board member, in board actions to approve any kind of contract in which she has an interest.

Ohio Rev. Code Section 2921.42(A)(1) states that no public official shall knowingly authorize, or employ the authority or influence of the public official's office to secure authorization of any public contract in which the public official, a member of their family, or any of their business associates has an interest. In addition, **Ohio Rev. Code Section 102.03(D)** states that no public official or employee shall use or authorize the use of the authority or influence of office or employment to secure anything of value or the promise or offer of anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties.

Anita Nelam was the Board President of Harte and sister school Crossroads (Schools) and the Schools Director/Superintendent, as well as the CEO of Harte Crossroads Public Schools, (the Management Company) with whom the Schools contracted to provide all school related services for 2005. During this period of time Ms. Nelam approved requisition forms and purchase orders for School payments made to the Management Company, and signed convenience checks written on a line of credit obtained by the Schools, payable to the Management Company.

This issue will be referred to the Ohio Ethics Commission.

THE HARTE SCHOOL
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2005
(Continued)

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

FINDING NUMBER 2005-014

Material Weakness/Reportable Condition – Unpaid Claims – Receivership

Sound accounting practices include paying vendors for amounts owed in a timely manner. When instances arise where vendors can't be paid in a timely manner, a comprehensive listing of amounts owed to each vendor should be maintained.

Upon being placed in court appointed Receivership in April 2007, employees and vendors filed claims against the Schools; below is a summary of the claims that have been filed against Harte and Crossroads from July 1, 2004 through March 16, 2007. However, providing assurances on the completeness and accuracy of these claims was not an objective of our audit, and accordingly, we do not express assurances on it. This list only includes those claims submitted against the Schools by individuals and vendors as of the Receiver's deadline.

Type	Amount
School Employees	\$ 231,256.52
School Vendors	469,410.72
Misc. Govt. Agencies	2,291.94
Legal Fees	6,906.48
ODJFS	15,610.31
Ohio Dept of Taxation	8,740.47
STRS	12,230.12
Richland Trust Co	431,608.29
Lien Holders	241,360.00
Bureau of Worker's Compensation	2,540.75
Total	<u>\$ 1,421,955.60</u>

Harte and Crossroads did not maintain any accounting records detailing amounts owed to vendors for goods or services received, nor did they maintain invoices in a manner that would report what had been purchased, paid or what was still owed a vendor. Expenditures were made by the Director/CEO, and Business Manager/Treasurer, without any knowledge of the Schools' cash position or ability to identify or calculate outstanding liabilities at any time. The Schools' Management and Board obligated the Schools in numerous vendor and loan transactions at a time in which they could not assure in a fiduciary capacity, repayment, and could not assure the Schools' ability to remain a going concern.

The lack of accounting records, not paying vendors timely, and not maintaining an accurate outstanding payment listing led to financial difficulties of Harte and contributed to the issuance of a disclaimed financial statement opinion.

It should be noted that this list of unpaid claims includes both Harte and Crossroads. The Receiver did not require individual or agencies to submit separate claims for each school.

**THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2005
(Continued)**

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

FINDING NUMBER 2005-015

Material Weakness/Reportable Condition - Management Company

Harte, which was incorporated with the State of Ohio as a Non-Profit Organization on June 1, 2004, began with a five-member Board of Directors (increased to seven members in October 2004) of which Anita Nelam, founder of the School, was elected President.

Harte made its first payment to Harte Crossroads Public Schools, a management company, in August 2004. Harte Crossroads Public Schools (the management company) was incorporated with the State of Ohio as a Non-Profit Organization on March 16, 2004. Anita Nelam, Gabrielle Sempf, and James Cowardin were listed as initial directors on the Initial Articles of Incorporation. These same individuals also served on the original Board of Directors for Harte.

Harte could not provide or locate a copy of a formal contract for the fiscal year ended June 30, 2005, with the management company and the Board of Directors did not approve such contract in an open Board meeting. Because of the lack of a written contract, we could not substantiate the amount of fees being paid to the management company were proper.

Ms. Nelam, as Executive Director and Board President of Harte, appeared to independently manage Harte. Since Ms. Nelam was also the CEO of the management company it is very difficult to determine when she was acting on behalf of the management company and when she was acting on behalf of Harte. Harte's Board did not monitor the management company to ensure it was fulfilling its responsibilities.

In addition, it appeared that Harte and the management company became financially intertwined during the fiscal year. For example, Harte obtained a \$35,000 line of credit from National City Bank. The management company made withdrawals on the line of credit for school expenses which were never recorded on the books of Harte. During the year, both the management company and the school made payments on this line of credit.

In addition, Harte paid over \$97,005 to the management company with no supporting documentation. Due to an overall lack of supporting documentation for payments made, we were unable to determine if the expenditures were for a proper public purpose or if they related to Harte. See Finding 2005-005.

The lack of a management company agreement and clear financial distinction between Harte and the management company limited the Board's ability to monitor the management company's performance and increased the risks of errors and fraud. See Finding 2005-013 which is being referred to the Ethics Commission.

THE HARTE SCHOOL
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2005
(Continued)

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

FINDING NUMBER 2005-016

Material Weakness/Reportable Condition - Payroll Account Reconciliation

Harte established a payroll account to be used as a "clearing account" for payroll disbursements. In a typical clearing account, all receipts should be transfers from an operating account for gross payroll costs.

Harte did not properly account for the activity in the clearing account and performed no account reconciliation on the payroll account. Harte did not include a payroll check register in any of their payroll records so that a true reconciliation of amounts recorded and amounts cleared could be performed. As a result, the risk of misappropriation was increased because errors and omissions could not be detected timely by Harte's management or governing board.

The following were noted:

- Receipts totaling \$6,512 were not recorded in any financial ledger.
- Disbursements totaling \$6,968 were not recorded in any financial ledger, including \$414 in non-sufficient fund fees assessed by the financial institution.
- \$659 in withholdings were transferred to the payroll account, however, the actual payment was made from the general operating account. This variance was maintained throughout the remainder of the fiscal year as a reconciling item on the general account bank reconciliation.
- \$633 in employee dental and medical withholdings were transferred into the payroll account, but then the actual payment was made from the general operating account. These expenses were in effect double booked (included in gross payroll and in health care payments).

Due to these weaknesses, we were unable to gain assurance over the completeness, existence, and accuracy of Harte's payroll transactions and contributed to the issuance of a disclaimed financial statement opinion.

**THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2005
(Continued)**

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

FINDING NUMBER 2005-017

Material Weakness/Reportable Condition - Expense Account and Signatories

Harte opened three bank accounts and an expense account through National City Bank in fiscal year 2004. Harte initially transferred \$1,000 to the expense account from the operating account and then transferred an additional \$396.70 on October 29, 2004, to replenish the account. Harte incorrectly recorded the transfers as materials and supplies expense. On January 27, 2005, an additional \$300 was deposited to the expense account from unknown sources. This \$300 was not recorded in the School's ledgers.

The Bank was unable to confirm how many people had access to the account, how many ATM cards were issued, or who the authorized signatories were.

Harte did not establish any internal control procedures over the expense account. During October and November 2004, the account had the following withdrawals:

- \$670.00 in cash withdrawals
- \$15.25 in ATM fees for withdrawals at non-National City ATMs
- \$165.88 in fuel purchases
- \$54.48 in grocery purchases
- \$59.56 in car rentals
- \$246.76 in purchases at Staples
- \$181.20 for psychological assessment expense
- \$37.00 in stamps
- \$193.56 in miscellaneous supplies (Sam's Club, Factory Card Outlet)

Of these withdrawals:

- None of these purchases were supported by receipts or a description of why the cash was needed
- Numerous purchases were made with the card on the same day, sometimes at the same store
- Multiple cash withdrawals were made on the same day at the same ATM
- Multiple cash withdrawals on the same day were made at up to three different ATMs including \$230 in cash which was withdrawn on November 1, 2004, at three different ATM locations.

We were not provided with enough information to determine who was responsible for these transactions or if they were for a proper public purpose.

**THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2005
(Continued)**

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

FINDING NUMBER 2005-017 (continued)

Material Weakness/Reportable Condition - Expense Account and Reconciliation (continued)

In addition to the issues noted above, Harte also improperly recorded the establishment of the account and reimbursements to it. The School recorded the transfer of funds from the operating account to the expense account as materials and supplies expense when the transfer occurred. An expense should not have been recorded until the funds were expended out of the expense account and should have been recorded in the proper line item.

Harte should have established internal controls over the bank and expense accounts including at a minimum: authorized users, documentation requirements, supervisory approval of activity, accounting and reconciliation requirements, and controls for monitoring the activity in the expense account.

The lack of proper controls over Harte's expense account led to \$1,623.69 in undocumented expenditures and the improper recording of expenses.

Harte subsequently closed the expense account.

FINDING NUMBER 2005-018

Material Weakness/Reportable Condition - Capital Assets

An entity should identify each asset by tag number and location and should include the cost of each asset, purchase date, the estimated useful life, the current year and accumulated depreciation, and the current book value. The listing should be updated each time an asset is purchased or deleted. Additions and deletions should be documented on a capital asset form. A copy of the documentation (i.e. invoice, acceptance of donation, etc.) for the addition should be maintained with the addition form. Purchases and disposals of assets should be approved by the Board.

The failure to maintain detailed accounting records for capital assets increased the risk of misuse and loss of Harte's assets and limited management's ability to monitor the financial position of Harte and to make decisions about additional purchases.

Harte did not maintain any accounting records for capital assets. As a result we could not determine the accuracy or completeness of the Harte's capital assets which contributed to the issuance of the disclaimed financial statement opinion.

THE HARTE SCHOOL
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2005
(Continued)

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

FINDING NUMBER 2005-019

Material Weakness/Reportable Condition - Board Monitoring

Effective monitoring controls over financial operations were not implemented by Harte's Board of Directors. We found no evidence that management or the Board completed the following:

- Regular review of financial summaries (detailed revenue, expenditure, and fund balance reports)
- Review of monthly bank reconciliations
- Review of unusual or significant and long outstanding items
- Monitoring grant expenditures in accordance with grant requirements
- Equipment and building issues (contract agreements, equipment purchase/lease, renovations, etc.)
- Debt information (line of credit agreements, debt agreements, etc.)
- Academic information (enrollment, academic plan, proficiency testing results and planned response, etc.)
- Review and monitoring of the School's management company operations against established criteria
- Ensuring adequate segregation of duties exists

A draft policies and procedures manual was formulated in December 2004, but it was never adopted or approved by the Board or distributed to employees.

The Board of Directors only met four times during the fiscal year, according to the Board minutes, and with the exception of the initial meeting, did not approve or review any specific activity of Harte. As a result, the risk of undetected misstatements in the financial statements and misappropriation of assets was greatly increased. Additionally, Management did not provide a written representation letter, which is required by auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. This condition contributed to the issuance of a disclaimed financial statement opinion.

FINDING NUMBER 2005-020

Material Weakness/Reportable Condition - Canceled and Voided Checks

Harte did not maintain accountability over all checks, including checks that were disbursed and those that were voided.

Twenty four percent (24%) of checks tested for non-payroll disbursements and 75 voided non-payroll checks could not be located by Harte. In addition, Harte did not maintain copies of any of the canceled or voided checks for payroll disbursements.

This lack of record management compromised management's ability to ensure expenditures were authorized and allowable.

THE HARTE SCHOOL
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2005
(Continued)

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

FINDING NUMBER 2005-021

Material Weakness/Reportable Condition - Expense Reimbursement Policy

Harte should have established policies and procedures over expense reimbursements. Such policies and procedures should include, but are not limited to, types of expenses that will be reimbursed, required supporting documentation, supervisory approval, maximum daily amounts, required review/recalculation of form by the supervisor or Treasurer, etc.

Despite a high volume of reimbursements, Harte did not have a travel and/or expense reimbursement policy. Employees were reimbursed for mileage, gas, school supplies and other expenses. Employees filled out an expense reimbursement form, but there was no review of this form by a supervisor or other school official.

The lack of established policies and procedures could have led to over payments for expense reimbursements and increased the risk of payments being made for an unauthorized or improper public purpose.

Harte should have established a written travel and expense reimbursement policy. Such policy would at a minimum, include types of expenses that will be reimbursed, required supporting documentation, supervisory approval, and maximum daily amounts. In addition, the Treasurer should have established procedures to review and recalculate all expense reimbursements to ensure that the proper amount was reimbursed and that it was only reimbursed once.

Officials' Response: We did not receive a response from Officials to the findings reported above.



Mary Taylor, CPA
Auditor of State

THE HARTE SCHOOL
FRANKLIN 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
FEBRUARY 4, 2010