



**LEGACY ACADEMY FOR LEADERS AND THE ARTS  
MAHONING COUNTY**

**SPECIAL AUDIT**

**FOR THE PERIOD JULY 1, 2005 THROUGH JUNE 30, 2010**



**Dave Yost • Auditor of State**



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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Legacy Academy for Leaders and the Arts  
1812 Oak Hill Avenue  
Youngstown, OH 44507

We conducted a special audit of the Legacy Academy for Leaders and the Arts (the Academy) by performing the procedures enumerated in the attached Supplement to the Special Audit Report for the period July 1, 2005 through June 30, 2010 (the Period) solely to:

- Determine whether payments to vendors were supported, for valid expenditures and in accordance with Academy policies.
- Examine all Academy bank activity to identify any unusual or unexplained bank activity for the Period and determine whether transactions were related to Academy operations.

This engagement was conducted in accordance with the Quality Standards for Inspections established by the President's Council on Integrity and Efficiency (January 2005). The procedures and associated findings are detailed in the attached Supplement to the Special Audit Report. A summary of our procedures and significant results is as follows:

1. We examined Academy payments to vendors during the Period to determine whether payments to vendors were supported, for valid expenditures and in accordance with Academy policies.

Significant Results – Numerous instances occurred throughout the Period of Academy payments made to vendors without appropriate supporting documentation maintained by the Academy. The Academy also made payments on their facility lease that were not in accordance with the stated terms of the lease agreement, and the Academy paid individuals for professional services without an executed professional services contract on record. We issued six findings for recovery totaling \$352,062.

We issued two noncompliance citations related to records retention and Academy lease payments. Additionally, we made four recommendations regarding lack of policies, financial accountability and check voids, check sequencing, and a related party lease.

2. We examined Academy bank activity to identify any unusual or unexplained bank activity for the Period and determined whether transactions were related to Academy operations.

Significant Results – Throughout the Period, the treasurer and business manager each affixed their own signatures to certain Academy checks through the use of a rubber stamp. We also noted the treasurer signed his and the business manager's signature on Academy checks with no evidence of the business manager's authorization.

Additionally, one check for \$19,500 was issued to an individual who then assigned the check to Academy Treasurer Carl Shye with no documented explanation. A finding for recovery was issued for this payment within Objective 1.

We issued one noncompliance citation for using a rubber stamp to sign Academy checks. Additionally, we made four recommendations regarding bank account reconciliations, authorized signatures on checks, segregation of duties, and developing and implementing an effective monitoring control system.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

April 12, 2011

## Supplement to the Special Audit Report

### Background

While testing nonpayroll expenditures during the Academy's financial audit for the year ended June 30, 2006, the Auditor of State's audit team noted numerous instances of unsupported expenditures, unusual bank activity such as a check to an individual assigned to the Academy treasurer, numerous related party transactions, and expenditures not for Academy operations. Additionally, on certain checks the business manager's signature appeared inconsistent with his actual signature.

This information was considered by the Auditor of State's Special Audit Task Force and on June 30, 2010, the Auditor of State initiated a special audit of the Academy's disbursements and bank account activity.

# Supplement to the Special Audit Report

## Objective No. 1 - Payments to Vendors

### Procedures

We obtained the check registers to determine all vendor payments made by the Academy during the Period.

We examined supporting documentation to determine whether payments were for valid Academy expenditures and in accordance with Academy policies.

### Results

We reviewed 4,902 transactions totaling \$5,610,782<sup>1</sup>. Adequate supporting documentation was not available for numerous payments to vendors. Also, the Academy was unable to provide any policies for purchasing.

### FINDINGS FOR RECOVERY

#### Finding for Recovery - Carl Shye

During the Period, the Academy issued 90 checks to Carl Shye totaling \$483,923 for monthly treasurer fees, loan repayment, software licenses, compilation services, IRS audit meetings, and audit preparation services. Neither the Academy nor Mr. Shye provided us with contracts, loan agreements, bills, invoices or any other valid supporting documentation to substantiate the amounts paid. Additionally, there was no record of the governing board having approved the payments to Mr. Shye.

We interviewed Mr. Shye and he indicated he was typically paid between \$3,500 and \$4,000 per month for his services as treasurer at various community schools. For fiscal year 2006, we noted a number of monthly payments to Mr. Shye for treasurer services in the amount of \$4,167. Therefore, we gave Mr. Shye credit for services provided of \$50,000 per year, or \$250,000 for the Period.

During the Period, Academy checks were typically signed by the treasurer and the business manager. However, 73 of the 90 checks issued to Mr. Shye only included Mr. Shye's signature or the signature for Business Manager Edward Bolling was signed by Mr. Shye. Mr. Shye acknowledged signing on Mr. Bolling's behalf and indicated he received authorization from Mr. Bolling to sign checks on his behalf; however, there was no evidence of such authorization from Mr. Bolling.

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 Carl Shye in the amount of \$233,923 in favor of the Academy.

#### Finding for Recovery - Michelle Nazarovech

During fiscal year 2006, the Academy issued two checks to Michelle Nazarovech totaling \$24,500 for which no supporting documentation was maintained. Ms. Nazarovech was not an employee of the Academy but rather an independent contractor for which the Academy did not provide a professional services contract nor was evidence provided of Board approval for such services. Additionally, one of the two checks in the amount of \$19,500 was assigned to Carl Shye by Ms. Nazarovech with no explanation as to the purpose of such an endorsement. When asked about this transaction, Mr. Shye was unable to explain the reason this check was assigned to him by Ms. Nazarovech.

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<sup>1</sup> Academy bank records were used to quantify total transactions due to errors and omissions in the Academy check registers. Bank records were reviewed in further detail in Objective 2.



## Supplement to the Special Audit Report

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 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 Michelle Nazarovech and against Academy Treasurer Carl Shye, jointly and severally, in the amount of \$24,500 in favor of the Academy.

### Finding for Recovery - Edward Bolling

During fiscal year 2006, the Academy issued two checks to Edward Bolling totaling \$1,500 for which no supporting documentation was maintained. Mr. Bolling was the business manager for the Academy and one of the checks in the amount of \$1,000 indicated "accounting assistance" in the memo line of the check. No contract was provided for these additional services, and there was no evidence the Academy Board approved this additional compensation.

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 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 Edward Bolling and against Academy Treasurer Carl Shye, jointly and severally, in the amount of \$1,500 in favor of the Academy.

### Finding for Recovery – Mt. Calvary Pentecostal Church

During the Period, the Academy issued four checks to Mt. Calvary Pentecostal Church totaling \$15,965 for which no supporting documentation was maintained. These payments did not appear to be rent payments and no additional contract for services or facilities leases was presented to support a purpose for the payments.

The lease agreement, Section 4.1, between Mt. Calvary Pentecostal Church (the "Lessor") and Legacy Academy for Leaders & the Arts (the "Lessee") states the cost of the following utilities and services shall be paid by the Lessor as follows: electricity and natural gas; refuse collection; snow removal; landscape, grounds keeping, and grass cutting; water and sewage charges; security system; buildings and grounds maintenance; and telephone system. During the Period, the Academy issued 24 checks totaling \$50,374 for expenses that should have been paid by the Lessor as part of the lease agreement.

Two checks totaling \$1,179 were signed by Academy Treasurer Carl Shye and Board Member Jerry McKinney, while the remaining 26 checks totaling \$65,160 were signed by Carl Shye and Business Manager Edward Bolling.

## Supplement to the Special Audit Report

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 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 Mt. Calvary Pentecostal Church and against Academy Treasurer Carl Shye, jointly and severally, in the amount of \$66,339, and against Academy Business Manager Edward Bolling, jointly and severally, in the amount of \$65,160, and against Academy Board Member Jerry McKinney, jointly and severally, in the amount of \$1,179 in favor of the Academy.

### Finding for Recovery - George Washington Carver Preparatory Academy

During fiscal year 2006, the Academy issued two checks to George Washington Carver Preparatory Academy totaling \$19,800 for which no supporting documentation was maintained. Also, there was no evidence of a contract in place, board approval for payments, or any other known arrangements between the Academy and George Washington Carver Preparatory Academy. At the time of these transactions, Carl Shye was the treasurer of both schools.

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 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 George Washington Carver Preparatory Academy and against Academy Treasurer Carl Shye, jointly and severally, in the amount of \$19,800 in favor of the Academy.

### Finding for Recovery - CBC, LLC

During fiscal year 2006, the Academy issued four checks to CBC, LLC totaling \$6,000 for which no supporting documentation was maintained. Additionally, these payments were mailed to the home address of, and endorsed by, Gary Brantley, who is the husband of Academy employee Brigitte Brantley and nephew of former Academy Board member C. Wayne Brantley. There was no contract for these services and payments were made to an apparent undisclosed related party.

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 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.

## Supplement to the Special Audit Report

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against CBC, LLC and against Academy Treasurer Carl Shye and Academy Business Manager Edward Bolling, jointly and severally, in the amount of \$6,000 in favor of the Academy. We have referred this issue to the Ohio Ethics Commission.

### NONCOMPLIANCE CITATIONS

#### Records Retention

Ohio Revised Code 149.351(A) states, in pertinent 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 provided for under Sections 149.38 to 149.42 of the Revised Code.

Ohio Revised Code Section 149.011(G) defines "records" for purposes of the public records law, as any document, device, or item, regardless of physical form or characteristic, including an electronic record as defined in section 1306 of the Revised Code, 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.

During the Period, numerous instances were noted where vendor payments were not supported with adequate documentation to substantiate the purpose of the expenditures. Also, during the Period, various deductions were made from the Academy's bank account through electronic funds transfers for payments to certain vendors. However, the Academy did not maintain any supporting documentation as to the purpose of such electronic funds transfers. The Academy does not have a records retention policy.

Failure to maintain copies of vouchers and supporting documentation increases the likelihood the Academy will pay an invoice more than once or will pay an amount that is incorrect or not for a proper public purpose. This also limits the ability of Academy management to reconstruct historical transactions.

We recommend the Academy establish a Board-approved records retention policy. We also recommend the Academy maintain all records and supporting documentation until such records have been subject to auditing procedures and only dispose of records in accordance with a Board-approved records retention policy.

#### Lease Payments

The Academy held classes and operated from Mt. Calvary Pentecostal Church (the Church). At the start of our audit period, the Academy was in the third year of a five year lease agreement to use church property for operating the Academy. That lease was renewed on October 23, 2007, with the same terms as the original contract.

The following payment terms were noted in the lease agreement:

- For the first year of the lease, the annual rent shall be \$218,000, payable in monthly installments of \$18,166.67, in advance on or before the first day of the month.
- During the remaining four years of the lease, the annual rent shall be \$540,000, payable in monthly installments of \$45,000, in advance on or before the first day of the month.

During the Period, the amount of lease payments did not agree with the stated terms of the lease agreement. The Academy paid the Church amounts ranging from \$5,000 to \$36,333.34 per month. It is unclear whether the Academy may have negotiated to pay the Church reduced lease payments. We were not provided with any amendments to either lease agreement.

# Supplement to the Special Audit Report

We recommend the Academy and the Church amend the lease agreement to more accurately reflect the monthly lease payments. If the lease agreement has already been amended, the Academy should ensure they maintain an accurate record of any amendments.

## MANAGEMENT RECOMMENDATIONS

### Lack of Policies

The Academy has not established policies for purchasing. Additionally, the Academy did not have policies for internet and phone usage, equipment, or travel reimbursements.

Failure to establish Board-approved policies limits the ability of management to ensure Academy operations are conducted within appropriate guidelines as stipulated by the Board. Such policies provide an appropriate mechanism for the Board to communicate to Academy employees and officials allowable and unallowable activities.

We recommend the Academy design and implement Board-approved policies for the purchasing cycle of the Academy as well as for any other areas requiring policies and procedures, as determined by the Board.

### Financial Accountability and Check Voids

The Academy maintained a check register to record and compile its financial transactions. During the Period 156 checks were not reflected in the check register and did not clear the bank. The majority of those checks were not maintained by the Academy and therefore we could not determine if the checks were voided. Also, the reasons for known voided checks were not documented, and no one reviewed voids to verify they were for valid reasons.

Failure to document missing or voided checks in the check register creates an inaccurate accounting of Academy financial activity and increases the risk of fraud, theft or disbursements that do not serve a proper public purpose.

We recommend the Board implement procedures to review voided checks on a periodic basis to determine the reasonableness of the void, whether documentation for the void exists, and verify the voided check is marked "void". In addition, voided checks should be posted to the Academy's accounting system to ensure all checks are accounted for within Academy ledgers. The Academy should also retain original voided checks to ensure voided checks do not inappropriately clear the Academy bank account.

### Check Sequence

During the Period, several errors in the sequences of check numbers were noted within the Academy check register.

Failure to issue checks in sequential order could result in errors or omissions not being detected in a timely manner as well as difficulties performing bank to book reconciliations.

We recommend the Academy use all check numbers in numeric sequence to ensure a complete presentation of the Academy's accounting activity and to ensure internal control over Academy checks.

## Supplement to the Special Audit Report

### Related Party Lease

During the Period, Edward Bolling was business manager of the Academy and also fiscal officer for the Mt. Calvary Pentecostal Church (the Church). Mr. Bolling signed the lease agreements between the Academy and the Church on behalf of the Academy. Late in 2010, Mr. Bolling indicated to us that he was no longer the business manager for the Academy; however, he was still a fiscal officer for the Church.

Allowing an individual to sign a lease agreement on behalf of the Academy who is also an employee of the lessor, decreases the likelihood the lease agreement will include terms that are in the best interest of the Academy.

We recommend the Academy's governing board review the lease for any potential conflicts of interest on behalf of Mr. Bolling.

# Supplement to the Special Audit Report

## Objective No. 2 - Academy Bank Activity

### Procedures

We obtained the bank statements and disbursement detail for the Academy bank account.

We examined available bank information for any unusual or unexplained bank activity.

### NONCOMPLIANCE CITATION

#### Facsimile Signatures

Ohio Rev. Code § 9.11 states that any elected or appointed public official of this state or of any political subdivision or instrumentality thereof, or any member, agent, or employee of any board, commission, bureau, or other public body established by law, who is permitted or required in the performance of his duties to affix his signature on any check, draft, warrant, voucher, or other instrument for the payment of money, may adopt a facsimile thereof, in lieu of such manual signature, and affix such facsimile to any such instrument.

Furthermore, Ohio Rev. Code § 9.10 states that “facsimile signature” includes, but is not limited to, the reproduction of any authorized signature by a copper plate or by a photographic, photostatic, or mechanical device, but does not authorize the use of a rubber stamp by the official or authorized employee on the face of any instrument mentioned in the previous section.

During the Period, the treasurer’s signature was affixed on 3,044 checks through the use of a rubber stamp and the business manager’s signature was affixed on 391 checks through the use of a rubber stamp.

We recommend the treasurer and business manager either manually sign all checks or use a type of facsimile signature that is not expressly prohibited. We further recommend the Academy develop a Board-approved policy for the use of such facsimile signatures.

### MANAGEMENT RECOMMENDATIONS

#### Reconciling Bank Accounts

There was no evidence that monthly or periodic bank reconciliations were performed by Academy officials. During the Period, instances were noted of the same check numbers being cashed by the Academy’s financial institution on two separate dates. Additionally, numerous instances were noted throughout the Period in which Academy checks cleared the bank but were not included within the check register.

Failure to perform monthly bank reconciliations increases the likelihood that errors, omissions and unauthorized activity will not be detected by Academy management.

We recommend the Academy promptly reconcile their bank accounts to detect and rectify errors, omissions and unauthorized activity in a timely manner.

# Supplement to the Special Audit Report

## Authorized Signatures

The Academy does not have a policy or other documentation to identify the individuals authorized to sign checks on its behalf. The majority of the checks we reviewed included the signature of the treasurer and business manager either manually signed or applied via rubber stamp. However, 233 checks issued by the Academy included signatures of the business manager, Edward Bolling, that were inconsistent with his known signature. During an interview with treasurer Carl Shye, Mr. Shye acknowledged signing on Mr. Bolling's behalf and indicated he received authorization from Mr. Bolling to sign checks on his behalf; however, there was no evidence of such authorization from Mr. Bolling.

Failure to identify authorized signatories and to ensure checks are signed authentically by those signatories limits the ability of management to ensure appropriate internal control over the Academy's spending authority and increases the likelihood of unauthorized checks being issued.

We recommend the Academy Board establish a policy stipulating procedures to be followed for signing checks and identifying individuals authorized to sign checks on behalf of the Academy. Such a policy should require authorized signatories to authentically affix their signatures to all Academy checks.

## Segregation of Duties

An adequate segregation of duties should be established for the individuals responsible for processing and issuing checks, approving vendor disbursements, maintaining supporting documentation, and reconciling the Academy bank account. During the Period, numerous instances were noted for which the Academy treasurer controlled all aspects of the vendor disbursement process without compensating internal controls and without any or only limited oversight and monitoring of his activities by another responsible employee or the Academy Board.

The lack of segregation of duties over these procedures resulted in the loss of adequate checks and balances to reduce the risk of errors and unauthorized activity for Academy disbursements during the Period.

We recommend the Academy establish segregation of duties to reduce the opportunity for any one person to control all aspects of the vendor disbursement process.

## Developing and Implementing an Effective Monitoring Control System

Monitoring controls are management and governing board activities established to ensure compliance with established policies and procedures, achievement of operational and educational objectives, and proper and effective use of available resources.

Our audit noted the following conditions which are indicative of poor or nonexistent management and governing board monitoring of school activities:

- A general lack of adequate supporting documentation for disbursement of Academy funds.
- Lack of Board-approved contracts for professional services.
- Inconsistencies between Academy financial ledgers and bank account activity.
- Lack of Board-approved policies governing the activities of the Academy.

We recommend the Academy Board implement monitoring controls to ensure that adequate documentation is maintained to support the nature and purpose of school disbursements, that professional services decisions are presented to the board for approval, that bank to book reconciliations are accurately and timely prepared, and that management activities are periodically examined for reasonableness and consistency with Board-approved policies.

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# Dave Yost • Auditor of State

**LEGACY ACADEMY FOR LEADERS AND THE ARTS**

**MAHONING 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  
JULY 7, 2011**