



Dave Yost • Auditor of State

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

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FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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Dave Yost • Auditor of State

ACCOUNTANTS' REPORT

Elite Academy of the Arts
Attn: Elijah Scott, Director/Developer
12200 Fairhill Rd
Cleveland, Ohio 44120

ASHE Culture Center Inc., Sponsor
Attn: Dr. Kwa David Whitaker, Ph.D., Esq., Co-Chair
Attn: Dr. Jorethia L. Chuck, Ph.D., Co-Chair
2125 Superior Avenue
Cleveland, Ohio 44114

Ohio Department of Education, Sponsor
Attn: Stacey Callahan, Education Consultant
25 South Front Street, Mail Stop 307
Columbus, Ohio 43215

To Elite Academy of the Arts and the Sponsors:

We have selectively tested certain accounts, financial records, files, and reports of Elite Academy of the Arts, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2012, following Ohio Admin. Code Section 117-4-02.

Management has not provided the Auditor of State written representations, including but not limited to, management's responsibility for preparing the financial statements in conformity with the Academy's accounting basis; the availability of original financial records and related data, the completeness and availability of all minutes of the legislative or other bodies and committee meetings, management's responsibility for the Academy's compliance with laws and regulations; the identification and disclosure to the Auditor of State of all laws, regulations, and provisions of contracts and grant agreements directly and materially affecting the determination of financial statement amounts and; the presence or absence of regulations, and provisions of contracts and grant agreements, and compliance with any debt covenants.

There are reportable findings and conditions as a result of performing these procedures. Our reportable findings and conditions follow the financial presentation. Our engagement was not designed to result in expressing an opinion on the accompanying financial statements, and we express no opinion on them.

As described in Note 11, the Ohio Department of Education issued a statement in September 2011 that the Academy would be closed effective June 30, 2012 due to academic viability, and consequently, the Academy ceased operations on June 30, 2012.

This report is intended solely for the information and use of officials authorized to receive this report under Section 117.26 of the Ohio Rev. Code, and is not intended to be and should not be used by anyone other than these specified parties.

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

Dave Yost
Auditor of State

February 20, 2014

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY, OHIO
UNCLASSIFIED STATEMENT OF FINANCIAL POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Cash Balance at Beginning of Year	\$103,718
Total Revenues	1,598,220
Total Expenditures	<u>1,685,885</u>
Cash Balance at End of Year	<u><u>\$16,053</u></u>

See Accompanying Notes to the Unclassified Financial Statement.

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**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY, OHIO
NOTES TO THE UNCLASSIFIED FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

1. DESCRIPTION OF THE ENTITY

Elite Academy of the Arts (the Academy) is a non-profit corporation established July 1, 2006 pursuant to Ohio Revised Code Chapters 1702 and 3314. The Academy's goal is to employ educators that thrive on seeing children succeed. The success of the child will increase self-esteem and provide opportunities for a rewarding future. The Academy qualified as an exempt organization under Section 501 (c) (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status.

The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy was approved for operation under a contract with Ohio State Board of Education and commenced operation at the beginning of the 2006-07 school year.

The Academy was approved for operation under the contract with Ashe Culture Center, Inc. (the Sponsor) for a period of three years commencing June 30, 2006. The contract was renewed through June 30, 2012. Ashe Culture Center, Inc. was removed from sponsorship by the Ohio Department of Education in September 2011. At this time, The Ohio Department of Education assumed sponsorship of the Academy. The Sponsor is responsible for evaluating the performance of the school and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a five-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 populations, curriculum, academic goals, performance standards, admissions standards, and qualifications of teachers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The Academy's financial statements consist of an Unclassified Statement of Financial Position.

Auditor of State of Ohio Bulletin No. 2000-005 requires the presentation of all financial activity to be reported within one enterprise fund for year-ending reporting purposes. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprise where the intent is that the cost (expense) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY, OHIO
NOTES TO THE UNCLASSIFIED FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting

The Academy's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the Academy's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid; and accrued expenses and liabilities) are not recorded in these financial statements.

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided for in the Academy's sponsorship agreement. The contract between the Academy and its Sponsor requires a detailed budget for each year of the contract.

D. Cash and Cash Equivalents

All monies received by the Academy are maintained in a demand deposit account. For internal accounting purposes, the Academy segregates its cash. The Academy has no investments.

E. Revenues

The Academy 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 have been met.

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

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

The Academy also participates in various federal and state programs through the Ohio Department of Education.

Under the above programs the Academy received \$1,588,556 this fiscal year.

Also included in revenues are miscellaneous items including, but not limited to, interest, proceeds from lines of credit, and donations. The total amount of miscellaneous revenues totaled \$9,664.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY, OHIO
NOTES TO THE UNCLASSIFIED FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Expenses

Expenses are all costs associated with the operation of the Academy.

The Academy's major expenditures for fiscal year 2012 were payroll, building leases, transportation, and support services.

3. CASH AND CASH EQUIVALENTS

The following information classifies deposits by category of risk as defined in GASB Statement No.3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," as amended by GASB Statement No.40, "Deposit, and Investment Risk Disclosures".

The Academy maintains its cash balances at one financial institution located in Ohio. The Academy has a general and payroll account. At June 30, 2012, the bank balance of the Academy's deposits was \$16,053. The entire bank balance was covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial credit risk for deposits is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at 105% of the carrying value of deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

The Academy had no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the Academy or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee to secure repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured. At June 30, 2012, none of the bank balance was exposed to custodial credit risk.

4. RISK MANAGEMENT

A. Property & Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year 2012, the Academy contracted with Pinkney and Perry Insurance Co. for all of its insurance.

B. Workers' Compensation

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

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY, OHIO
NOTES TO THE UNCLASSIFIED FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

4. RISK MANAGEMENT (Continued)

C. Employee Medical and Dental Benefits

The Academy offers medical and dental insurance benefits through United Health to all full time employees.

5. RETIREMENT SYSTEMS

The Academy participates in the School Employees Retirement System (SERS) and State Teachers Retirement System of Ohio (STRS). SERS and STRS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribed contribution rates. For fiscal year 2012, SERS and STRS members contributed 10 percent of their gross salaries and the Academy contributed an amount equal to 14 percent of annual covered payroll. The Academy has paid all contributions for fiscal year 2012.

6. CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. Amount received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amount which may be disallowed, if any, are not presently determinable.

B. Full-Time Equivalency

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

7. SPONSORSHIP – ASHE CULTURE CENTER

The Academy contracted with Ashe Culture Center Inc. as its sponsor and oversight services as required by law, until it was revoked of its ability to sponsor the Academy in September 2011, which is described further in Note 11. Sponsorship fees are calculated as three percent of state funds received by Academy from the State of Ohio, as foundation. For the fiscal year ended June 30, 2012, the Academy issued no disbursements to Ashe Culture Center, Inc.

**ELITE ACADEMY OF THE ARTS
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE UNCLASSIFIED FINANCIAL STATEMENT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012
 (Continued)**

8. MANAGEMENT COMPANY

The Academy contracts with Greater Education Services, Inc for management services that include management of personnel and human resources, the program of instruction, technology, marketing, data management, purchasing, strategic planning, public relations, recruiting, compliance issues, and equipment and facilities.

Per the management agreement with the Academy, Greater Education Services Centers, LLP is entitled to a management fee that is equivalent to 15% of school revenue. During our audit, we noted Dr. Elijah Scott, Superintendent/Developer of the Academy, is the owner of Greater Educational Service Center. The Academy made payments totaling \$3,500 to Greater Education Service Center.

9. RELATED PARTY TRANSACTIONS

Dr. Jorethia Chuck, co-chair of Ashe Culture Center, the Academy's sponsor until September 2011, owns Exceptional Psychological Services. During fiscal year 2012, the Academy made payments totaling \$5,700 to Exceptional Psychological Services.

10. CLOSEOUT OF ACADEMY'S FUNDS

	<u>Enterprise Fund</u>
Cash Balance at July 1, 2012	\$16,053
Total Revenues	20,895
Total Expenses	36,948
Cash Balance at December 31, 2012	\$0

11. MANAGEMENT PLAN

Ashe Culture Center, the Academy's sponsor, renewed its sponsorship of the Academy and the current agreement would have expired on June 30, 2012. However, the Ohio Department of Education removed Ashe Culture Center's authority to sponsor charter schools in September of 2011. Pursuant to the Ohio Revised Code, the Academy may not operate without a sponsor. The Ohio Department of Education took over sponsorship of the Academy at that time. On August 25, 2011 the Ohio Department of Education Office of Community Schools issued a statement that the Academy would be closed effective June 30, 2012 due to academic viability in 2010 and 2011, and consequently, the Academy ceased operations on June 30, 2012.

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Dave Yost • Auditor of State

ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

Elite Academy of the Arts
Attn: Elijah Scott, Director/Developer
12200 Fairhill Rd
Cleveland, Ohio 44120

ASHE Culture Center Inc., Sponsor
Attn: Dr. Kwa David Whitaker, Ph.D., Esq., Co-Chair
Attn: Dr. Jorethia L. Chuck, Ph.D., Co-Chair
2125 Superior Avenue
Cleveland, Ohio 44114

Ohio Department of Education, Sponsor
Attn: Stacey Callahan, Education Consultant
25 South Front Street, Mail Stop 307
Columbus, Ohio 43215

To Elite Academy of the Arts and the Sponsors:

We have selectively tested certain accounts, financial records, files, and reports of Elite Academy of the Arts, Cuyahoga County, Ohio, (the Academy), as of and for the year ended June 30, 2012, following Ohio Admin. Code Section 117-4-02. We also noted the Academy ceased operations on June 30, 2012. Additionally, Management did not provide written representations.

Our engagement was not designed to result in expressing an opinion on the accompanying unclassified statement of financial position, internal control over financial reporting, or compliance. We, therefore, express no opinion on these matters.

Internal Control Over Financial Reporting

During our procedures related to the internal control over financial reporting we noted matters that, in our opinion, may have adversely affected the Academy's ability to record, process, summarize and report financial data consistent with assertions in the unclassified financial statement. In addition, these matters may have resulted in the occurrence of misstatements caused by error or fraud that would not be detected in a timely manner by employees when performing the assigned functions. These matters are reported in the accompanying Schedule of Findings as items 2012-002, 2012-004, 2012-006 and 2012-007.

Compliance and Other Matters

We tested compliance with certain provisions of laws, regulations, contract, and grant agreements applicable to the Academy. The results of our tests disclosed instances of noncompliance or other matters that are reported in the accompanying Schedule of Findings as items 2012-001 through 2012-010.

We intend this report solely for the information and use of officials authorized to receive this report under Section 117.26 of the Ohio Rev. Code, and it is not intended to be and should not be used by anyone other than these specified parties.

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

Dave Yost
Auditor of State

February 20, 2014

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2012**

FINDINGS RELATED TO THE UNCLASSIFIED FINANCIAL STATEMENT

FINDING NUMBER 2012-001

Unsupported Expenditures – Finding for Recovery and Noncompliance

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 a 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.

Furthermore, the Academy's policy on Credit and Debit Card documentation states "when expenses are paid or will be paid on behalf of the school and a debit/credit card is used, proper documentation is required. Proper documentation is the original receipts or invoices attached to the Credit Card Documentation form."

During the audit period, the Academy issued checks and debit card transactions in the amount of \$11,083 in which the Academy did not provide supporting documentation (receipts, vendor invoices, or contracts/leases for these payments). Based on this lack of supporting documentation for these transactions, we were unable to determine if these expenditures were for a proper public purpose.

1. On July 15, 2011, one debit card purchase in the amount of \$74 to the Akron/Canton Airport was issued by the Academy. David Schneider was the Treasurer of the Academy at the time. The debit card purchase was unsupported; therefore, we could not determine the purpose of the expenditure.
2. On July 30, 2011, check number 3138 from the Academy's Chase bank account was issued in the amount of \$5,000 to Budget Office Interiors. David Schneider was the Treasurer of the Academy at the time. The purchase was unsupported; therefore, we could not determine the purpose of the expenditure.
3. On September 27, 2011, one debit card purchase in the amount of \$651 to Bed, Bath & Beyond was issued by the Academy. David Schneider was the Treasurer of the Academy at the time. The debit card purchase was unsupported; therefore, we could not determine the purpose of the expenditure.
4. On December 5, 2011, one debit card purchase in the amount of \$94 to Amazon.com was issued by the Academy. David Schneider was the Treasurer of the Academy at the time. The debit card purchase was unsupported; therefore, we could not determine the purpose of the expenditure.
5. On March 12, 2012, check number 3340 from the Academy's Chase bank account was issued in the amount of \$50 to Ford Credit. David Schneider was the Treasurer of the Academy at the time. The purchase was unsupported; therefore, we could not determine the purpose of the expenditure.
6. On March 23, 2012, one debit card purchase in the amount of \$59 to Shark Seafood and DE was issued by the Academy. David Schneider was the Treasurer of the Academy at the time. The debit card purchase was unsupported; therefore, we could not determine the purpose of the expenditure.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2012**

FINDINGS RELATED TO THE UNCLASSIFIED FINANCIAL STATEMENT

(Continued)

FINDING NUMBER 2012-001

(Continued)

Unsupported Expenditures – Finding for Recovery and Noncompliance (Continued)

7. On April 12, 2012, check number 3180 from the Academy's Chase bank account was issued in the amount of \$5,000 to Buckley King. David Schneider was the Treasurer of the Academy at the time. The purchase was unsupported; therefore, we could not determine the purpose of the expenditure.
8. Also on April 12, 2012, one debit card purchase in the amount of \$27 to Register.com was issued by the Academy. David Schneider was the Treasurer of the Academy at the time. The debit card purchase was unsupported; therefore, we could not determine the purpose of the expenditure.
9. On June 14, 2012, one debit card purchase in the amount of \$128 to Verizon Wireless was issued by the Academy. David Schneider was the Treasurer of the Academy at the time. The debit card purchase was unsupported; therefore, we could not determine the purpose of the expenditure.

Without appropriate documentation, it is not possible to determine if the expenditures were made for a proper public purpose. The failure to maintain adequate support for expenditures could result in a loss of accountability over the Academy's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

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. *Steward 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 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 of public monies is hereby issued against David Schneider, Treasurer, and The Hanover Insurance Group Inc., his bonding company, is jointly and severally liable in the amount of \$11,083 and in favor of the Ohio Department of Education.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2012**

FINDINGS RELATED TO THE UNCLASSIFIED FINANCIAL STATEMENT

(Continued)

FINDING NUMBER 2012-002

Condition of Accounting Records – Noncompliance and Control Weakness

Ohio Admin. Code Section 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.

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

- The Academy did not provide financial statements, notes to the financial statement or a management discussion and analysis section to the financial statements. A creation of unclassified cash financial statements by the Auditor of State's Office was required;
- The Academy did not maintain accounting system records from January 2012 through the conclusion of the fiscal year;
- The Academy did not provide bank reconciliations for one of its three Chase bank accounts in the second half of fiscal year 2012 nor its other two Chase bank accounts at all during the fiscal year;
- The Academy did not provide the necessary withdrawn student records to test for timely removal of withdrawn students; and
- The Academy did not provide adequate support for nine of the 37 non-payroll disbursements tested.

During our testing of payroll disbursements, we noted the following:

- In nine of 35 payroll disbursements tested, we were unable to agree the employee's approved contracts/salaries to the amounts actually paid;
- We noted that two of 35 employees had little or no federal taxes withheld from their pay and the Academy did not maintain supporting documentation regarding this matter;
- The Academy does not maintain complete employee personnel files. There were several important documents missing from all personnel files, such as: deduction authorization form, retirement participation form, Federal Tax withholding form, State Income Tax withholding form, Local Income Tax withholding form, etc.; and
- Three employees were noted as 1099, but still issued payroll disbursements. We were also to obtain contracts for these three individuals.

Failure to implement and maintain a system of controls over the Academy's financial records increased the chances of theft and other fraudulent activities and led to a disclaimer opinion.

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

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2012**

FINDINGS RELATED TO THE UNCLASSIFIED FINANCIAL STATEMENT

(Continued)

FINDING NUMBER 2012-003

Interest in a Public Contract – Noncompliance

Ohio Rev. Code Section 2921.42(A)(1) prohibits a public official from authorizing or using the authority or influence of the public official's office to secure a public contract in which the public official, a member of the public official's family, or any of the public official's business associate has an interest.

Additionally, Ohio Rev. Code Section 2921.42(A)(4) states that no public official shall knowingly have an interest in the profits or benefits of a public contract entered into by or for the use of the political subdivision or governmental agency or instrumentality with which the public official is connected.

Dr. Elijah Scott, Superintendent/Developer of the Academy, is also the owner of Greater Educational Service Center, a management company the Academy was contracted with during fiscal year 2012. During the fiscal year, the Academy made payments totaling \$3,500 to Greater Educational Service Center.

As stated above, a public official is prohibited from having an interest in a public contract.

This matter will also be referred to the Ohio Ethics Commission.

FINDING NUMBER 2012-004

Developing and Implementing an Effective Monitoring Control System – Noncompliance and Control Weakness

Ohio Admin. Code Section 117-2-01 (A) states that all public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices in certain categories. Subsection (C) (5) provides that internal control consists of the following component, among others: monitoring, which is a process that assesses the quality of internal control performance over time.

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

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2012**

FINDINGS RELATED TO THE UNCLASSIFIED FINANCIAL STATEMENT

(Continued)

FINDING NUMBER 2012-004

(Continued)

Developing and Implementing an Effective Monitoring Control System – Noncompliance and Control Weakness (Continued)

Some effective monitoring controls include:

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

The Academy failed to perform adequate monitoring over financial activities. The lack of effective monitoring controls could lead to the misallocation or misstatement of Academy funds, expenditure of funds contrary to the directives of the Board of Trustees, and non-compliance with federal or state laws or regulations. This could result in a loss of funding from federal and state sources, and errors or irregularities occurring in financial transactions which affect the bank reconciliations could go undetected.

FINDING NUMBER 2012-005

Closing Procedures – Noncompliance

Ohio Rev. Code Section 3314.015 (E) requires the Ohio Department of Education to adopt procedures for use by a community school governing authority and sponsor when the school permanently closes and ceases operation. The guidance covers requirements of law, including aspects of federal and state funding requirements; actions taken and not taken by sponsors in the past; as well as relevant information which may be needed at some future point, after a school closes.

Ohio Rev. Code Section 3314.03 (D) states the contract shall specify the duties of the sponsor which shall be in accordance with the written agreement entered into with the department of education under division (B) of section 3314.015 of the Revised Code and shall include the following: (6) Have in place a plan of action to be undertaken in the event the community school experiences financial difficulties or closes prior to the end of a school year. When the school closes the following actions should be taken:

- Notify ODE that the school is closing and send the board resolution or an official sponsor notice from the superintendent or CEO within 24 hours of the action which includes the date of closing the school.
- Notify parents that the school is closing through a formal letter from the school GA and the sponsor superintendent or CEO within 24 hours of the action.
- Notify the Ohio State Teachers Retirement System and School Employees Retirement System.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2012**

FINDINGS RELATED TO THE UNCLASSIFIED FINANCIAL STATEMENT

(Continued)

FINDING NUMBER 2012-005

(Continued)

Closing Procedures – Noncompliance (Continued)

- The Sponsor shall take control of and secure all school records, property, and assets immediately when the school closes. This includes the following:
 1. Student records shall be put into order and transcript materials produced immediately;
 2. A final FTE review shall be requested while student records are on site at the closed school and original student records shall be retained for the final state audit;
 3. Copies of student records shall be provided by the school's Chief Administrative Officer to all resident districts within seven business days of closure of the school as defined in section 3314.44 of the revised code; original records shall be sent by the sponsor to resident districts upon completion of the final state audit. In the interim, sponsors retain original records until completion of the audit; and
 4. Special education records shall be provided directly to receiving school special education administrators for all students with disabilities, particularly for students with physical needs or low incidence disabilities.

- In concert with the governing authority, notify the school's staff of the decision to close the school:
 1. Provide a clear written timeline of the closing process;
 2. Ensure that STRS and SERS contributions are current;
 3. Clarify COBRA benefits and when medical benefits end;
 4. Remind the faculty of their obligation to teach up to the date of closing or otherwise determine that the school is properly staffed up to the time of closing;
 5. Ensure that each faculty's LPDC information is current and available to teachers; and
 6. Provide sponsor contact person information to all staff.

- If the governing authority does not retain a treasurer to oversee the remaining financial activity, the sponsor shall act as or appoint a receiver to oversee the closing of the financial records in the absence of a fiscal officer.

- Keep State and Federal assets separated for purposes of disposition. Federal dollars cannot be used to pay state liabilities. Account for all school property throughout the closing process by distinguishing state from federal dollars:
 1. Review the financial records of the school;
 2. Establish the fair market value via fixed assets policy for all fixed assets;
 3. Establish check off list of purchasers with proper USAS codes, state codes, the price of each item and identify the source of the funds;
 4. Identify staff who will have legal authority for payment processes;
 5. Establish disposition plan for any remaining items; and
 6. Identify any State Facilities Commission guarantees.

- Prepare documentation for disposition of the school's fixed assets:
 1. Consistent with section 3314.051, offer real property acquired from a public school district to that school district's board first at fair market value. If the district board does not accept the offer within 60 days, dispose of the property in another lawful manner below.
 2. For Federal Title and other consolidated and competitive funds, follow EDGAR liquidation procedures in 34 CFR 80.32 including disposition for items valued at \$5,000 or greater.
 3. Public Charter School Program (PCSP) assets must first be offered to other community schools with requisite board resolutions consistent with the purpose of the PCSP. If there are no takers, then an auction sale must be held to dispose of the assets along with the state funded assets:
 1. Notify Office of Community Schools, then public media (print media, radio) of the date and location of any property disposition auction;

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2012**

FINDINGS RELATED TO THE UNCLASSIFIED FINANCIAL STATEMENT

(Continued)

FINDING NUMBER 2012-005

(Continued)

Closing Procedures – Noncompliance (Continued)

2. Follow EDGAR liquidation procedures in 34 CFR 80.32 for items valued at \$5,000 or greater;
3. Provide board resolutions and minutes of any assets transferred at no cost to another school;
4. Provide OCS with a report of the property, and if available, a bill of sale; and
5. After the above steps have been taken, any remaining assets may be offered to any public school district with documented board resolutions by the community school and the accepting district.
4. Cafeteria equipment purchased with funds from the National School Lunch Program can only be liquidated through written guidance issued by the Office for Child Nutrition.
5. Return to eTech hardware and software acquired with eTech grants.
- Utilize only state dollars, auction proceeds, foundation dollars and any other non-federal dollars to pay the following in order:
 1. Federal and state taxes, Medicare, Workers Compensation, and city wage tax;
 2. STRS/SERS/retirement systems and other adjustments;
 3. Teachers and Staff;
 4. Private creditors or those entities that have secured a judgment against the school, including audit preparation and audit costs; and
 5. Any remaining funds shall be forwarded to ODE for redistribution to resident school districts consistent with Ohio Revised Code Section 3314.074 and Chapter 1702 of the Ohio Revised Code.
- Review and prepare the following itemized financials:
 1. Year-end financial statements and if applicable schedule of federal awards;
 2. A cash analysis for determination of the cash balance as of the closing date;
 3. Compile bank statements for the year;
 4. List of investments in paper hard copy format;
 5. List of all payables and indicate when a check to pay the liability clears the bank;
 6. List all unused checks;
 7. List any petty cash;
 8. List of bank accounts, closing the accounts once all transactions were cleared;
 9. List of all payroll reports including taxes, retirement or adjustments on employee contract;
 10. List of all accounts receivable;
 11. List of assets and their disposition;
 12. Final FTE audit information;
 13. Arrange for and establish a date for the Auditor of State to perform a financial closeout audit.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2012**

FINDINGS RELATED TO THE UNCLASSIFIED FINANCIAL STATEMENT

(Continued)

FINDING NUMBER 2012-005

(Continued)

Closing Procedures – Noncompliance (Continued)

- The Sponsor shall continually monitor the condition of the closed school and be prepared to receive or transmit funds on behalf of the school as directed by an appropriate agency. Receipt of funds can happen more than a year after a school's closure, and the sponsor must be agile in serving as the recipient of such funds and adjustments:
 1. Receive any funds or adjustments credited to the account of the closed school;
 2. Determine if any portion of any funds or adjustments can be applied to satisfy any remaining debt; and
 3. Send all or the remaining portion of the Ohio Department of Education, Office of Policy and Payments, for final disposition.

No evidence was provided that all of the above closeout procedures were performed.

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

FINDING NUMBER 2012-006

Undocumented Enrollment for State Foundation Funding – Noncompliance and Control Weakness

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 Education Management Information System (EMIS) to the Ohio Department of Education (ODE) 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 costs 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.

For fiscal year 2012, the Academy was unable to provide:

- Student files documenting how many students attended the school and the duration of attendance;
- Records documenting how many hours the Academy was in session or what type of instruction was offered and the assurance of 920 hours of instruction to each student;
- Student attendance sheets; and
- Documentation over enrollment/withdrawal dates of its students.

As a result, State Foundation payments totaling \$1,437,151 in fiscal year 2012 were unsubstantiated.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2012**

FINDINGS RELATED TO THE UNCLASSIFIED FINANCIAL STATEMENT

(Continued)

FINDING NUMBER 2012-007

Annual Financial Reporting – Noncompliance and Control Weakness

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The report shall be certified by the proper officer or Board and filed with the Auditor of State within one hundred fifty days of the end of the fiscal year if GAAP statements are filed. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. In part this report shall contain the amount of collections and receipts, and accounts due from each source and amount of expenditures for each purpose.

Ohio Admin. Code Section 117-2-03(B) further clarifies the filing requirements of Ohio Revised Code Section 117.38. This section requires that community schools file annual financial reports which are prepared using generally accepted accounting principles. Generally accepted accounting principles (GAAP) require the following:

- Management's Discussion and Analysis;
- Balance sheet as prescribed by GAAP standards;
- Income and expense statement as prescribed by GAAP standards;
- Cash flow statement as prescribed by GAAP standards; and
- Notes to the financial statements as prescribed by GAAP standards.

The Academy did not complete nor file a financial report for fiscal year 2012 with the Auditor of State.

In addition, Ohio Rev. Code Section 117.38 provides, in part, that "at the time the report is filed with the Auditor of State, the chief fiscal officer, except as otherwise provided in Section 319.11 of the Ohio Rev. Code, shall publish notice in a newspaper published in the political subdivision or taxing district, and if there is no such newspaper, then in a newspaper of general circulation in the political subdivision or taxing district. The notice shall state that the financial report has been completed by the public office and is available for public inspection at the office of the chief fiscal officer."

No evidence was provided, by the Academy, that this required notice was published. This may prevent the public from being aware of the transparency available in the Academy.

By not filing their financial reports and annual notice, the Academy is not fulfilling their duties of accountability and transparency to the public.

FINDING NUMBER 2012-008

Five Year Projection – Noncompliance

Ohio Rev. Code Section 3314.03(A)(15) requires the Academy prepare a financial plan detailing an estimated school budget for each year of the period of the contract and specifying the total estimated per pupil expenditure amount for each such year. The plan shall specify the yearly base formula amount that will be used for purposes of funding calculations under section 3314.08 of the Ohio Rev. Code. This base formula amount for any year shall not exceed the formula amount defined under section 3317.02 of the Ohio Rev. Code.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2012**

FINDINGS RELATED TO THE UNCLASSIFIED FINANCIAL STATEMENT

(Continued)

FINDING NUMBER 2012-008

(Continued)

Five Year Projection – Noncompliance (Continued)

Ohio Admin. Code Section 3301-92-04 (A) states that upon the adoption of an annual appropriation measure but no later than October thirty-first of each fiscal year, a board of education shall submit to the Department of Education a five-year projection of revenues and expenditures for the current fiscal year and the ensuing four fiscal years. Subsection (F) states that a board of education shall update its five-year projection between April first and May thirty-first of each fiscal year and submit it to the Department of Education.

The Academy did not submit a five year forecast prior to May 31, 2012. Furthermore, although the Academy submitted a projection in October 2011, it was not approved by the Academy's Board.

Without a forecast or evidence of approval of a forecast, the Board does not have the necessary information to develop a financial plan for the school year. It is also possible the Board could authorize the expenditure of funds in excess of the estimated amount available.

FINDING NUMBER 2012-009

Anti-Bullying Policy – Noncompliance

Ohio Rev. Code Sections 3313.666(A), (B), and (C), and 3314.03(A)(11)(d) Anti-Bullying Provisions require the Board of Education of each city, local, exempted village, and joint vocational school district and the governing authority of each community (charter) school must adopt an anti-bullying policy in consultation with parents, school employees, school volunteers, students, and community members.

The policy must prohibit the harassment, intimidation, or bullying of any student on school property or at a school sponsored activity. It also must define the term "harassment, intimidation, or bullying" in a manner that includes the definition prescribed in HB 276. The act defines that term as "an intentional written, verbal, or physical act that a student has exhibited toward another student more than once and the behavior both (1) causes mental or physical harm to the other student, and (2) is sufficiently severe, persistent, or pervasive that it creates an intimidating, threatening, or abusive educational environment for the other student."

Each policy must also include additional items per Ohio Rev. Code Sections 3313.666(A), (B), and (C), and 3314.03(A)(11)(d).

While the Academy established an anti-bullying policy, the policy lacked the following required items:

- A requirement that the Academy's administration semiannually provide the president of the Board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.
- A provision to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2012

FINDINGS RELATED TO THE UNCLASSIFIED FINANCIAL STATEMENT

(Continued)

FINDING NUMBER 2012-010

Fiscal Officer Continuing Education – Noncompliance

Ohio Rev. Code Section 3314.011 requires that the fiscal officer be licensed under Ohio Rev. Code Section 3301.074 or must complete not less than sixteen hours of continuing education classes, courses or workshops in school accounting as approved by the sponsor of the community school.

Any fiscal officer not licensed under Ohio Rev. Code Section 3301.074 must complete an additional twenty-four hours of continuing education classes, courses or workshops in school accounting as approved by the sponsor of the school within one year after assuming the duties of fiscal officer.

In each subsequent year, any fiscal officer not licensed under Ohio Rev. Code Section 3314.074 must complete eight hours of continuing education classes, courses or workshops in school accounting as approved by the sponsor of the school.

The Academy did not provide the Treasurer's License or evidence of continuing education classes.

Official's Response: The Academy declined to respond to the above findings.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	Finding for Recovery – Unsupported Expenditures	No	Reissued as Finding 2012-001
2011-002	Finding for Recovery – Overpayment of Management Fees	Yes	No longer valid
2011-003	Condition of Accounting Records	No	Reissued as Finding 2012-002
2011-004	Interest in a Public Contract	No	Reissued as Finding 2012-003
2011-005	Developing and Implementing an Effective Monitoring Control System	No	Reissued as Finding 2012-004
2011-006	Undocumented Enrollment for State Foundation Funding	No	Reissued as Finding 2012-006
2011-007	Sponsor Monitoring	Yes	Corrected
2011-008	Annual Financial Reporting	No	Reissued as Finding 2012-007
2011-009	Five Year Projection	No	Reissued as Finding 2012-008
2011-010	Anti-Bullying Policy	No	Reissued as Finding 2012-009
2011-011	Fiscal Officer Continuing Education	No	Reissued as Finding 2012-010
2011-012	System of Internal Controls for Title I and ARRA Title I Funds	Yes	No longer valid



Dave Yost • Auditor of State

ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Elite Academy of the Arts
Cuyahoga County
12200 Fairhill Rd
Cleveland, Ohio 44120

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Elite Academy of the Arts (the Academy) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board did not amend its an anti-harassment policy to include the following requirements listed in Ohio Rev. Code Section 3313.666.
 - (1) A requirement that the Academy's administration semiannually provide the president of the Board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.
 - (2) A requirement to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and Academy's sponsor, and is not intended to be and should not be used by anyone other than these specified parties.

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

February 20, 2014



Dave Yost • Auditor of State

ELITE ACADEMY OF THE ARTS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 1, 2014**