



**Auditor of State
Betty Montgomery**

**DAYTON URBAN ACADEMY
MONTGOMERY COUNTY**

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**DAYTON URBAN ACADEMY
MONTGOMERY COUNTY**

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002**

**RELEVANT INDIVIDUALS AND ENTITIES
AS OF JUNE 30, 2002**

Ohio Cities Governing Authority

18903 South Miles
Warrensville Heights, Ohio 44128

Board Members:

Da'ud Abdul Malik, Chairman
Habibah Amatullah Rahman, Vice Chairperson
Hasina Ranee Shabazz, Treasurer

Affiliated Educational Institutions:

Dayton Urban Academy
P.O. Box 146
Yellow Springs, Ohio 45387

The International Preparatory School (TIPS)
10701 Shaker Boulevard
Cleveland, Ohio 44104

OASIS Development Corporation, Inc.

18903 South Miles
Warrensville, Heights, Ohio 44128

Board Members:

Hasina Ranee Shabazz
Amdullah Bey
Jamiel Abdul Rahman

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Da'ud A. Malik, Chairman
Habibah A. Rahman, Vice Chairperson
Hasina R. Shabazz, Treasurer
Ohio Cities Governing Authority
Dayton Urban Academy
6541 Garlough Road
Springfield, Ohio 45502

To the Governing Authority:

We have conducted a Special Audit of the Dayton Urban Academy (the Academy) and performed the procedures enumerated in the attached Supplement to the Special Audit Report for the period July 1, 2000 through June 30, 2002 (the Period). These procedures were performed solely to determine the purpose of expenditures during the Period; to determine the sources of revenue; to determine adequacy of cash management and substantiate cash balances at June 30, 2002; to determine what amounts were receivable at June 30, 2002; to determine if the Academy had delinquencies with vendors or outside governmental agencies; to determine the location and valuation of fixed assets; to determine the amount of loans owed to OASIS Development Corporation; and to determine if any litigation, claims, and contingent liabilities existed at June 30, 2002.

This engagement was conducted in accordance with consulting standards established by the American Institute of Certified Public Accountants. The procedures and associated findings are detailed in the attached Supplement to the Special Audit Report. A summary of our procedures and findings is as follows:

1. For non-payroll expenditures, we determined if expenditures were for a purpose related to the operations of the Academy.

Significant Results: During the Period, there were 523 non-payroll expenditures totaling \$1,310,708. Of that amount, \$23,149 was not supported.

A Finding for Recovery was issued against Emmanuel Aigbokhan and the Governing Authority of the Academy for a payment of \$110 to the Immigration Naturalization Services to assist Mr. Aigbokhan with immigration paperwork. The nature of the expense does not relate to the Academy's operations.

A Finding for Recovery was issued against the Governing Authority of the Academy and Jamiel Rahman for a payment of \$203 to Hatton's Deli & Restaurant for a breakfast that was served in conjunction with a program held at The International Preparatory School. The cost of the meals had been billed to The International Preparatory School but was paid by Dayton Urban Academy.

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A Finding for Recovery was issued against the Governing Authority of the Academy and Talut Rasul for a payment of \$145 to Mr. Rasul for living expenses. Reimbursement of living expenses was not included as part of Mr. Rasul's approved compensation.

We issued four Noncompliance Citations for failure to maintain supporting documentation for revenues and expenditures, failure to compute an annual estimated per pupil expenditure amount, failure to compare budgeted income and expenses to actual figures monthly, and failure to establish an internal review committee.

2. For payroll expenditures, we reviewed payments to employees to determine whether they were made in compliance with contracts, policies and wage scales, and were accurately reported.

Significant Results: A Finding for Recovery was issued against Habibah Rahman for unauthorized payment of wages and benefits totaling \$17,125.

We issued 5 Noncompliance Citations for failure to conduct criminal records checks on all job applicants, failure to hire teachers licensed in the State of Ohio, failure to conduct employee evaluations by an independent evaluator during probationary periods, failure to provide group health insurance for full time employees, and failure to provide sick leave accrual and carryover between fiscal years for salaried employees.

3. We determined major sources of revenue and whether those revenues were accurately recorded in the Academy's bank accounts.

Significant Results: During the Period, the Academy received revenues totaling \$2,269,252. We were able to trace 100% of intergovernmental revenue (\$1,674,785) and 98% of miscellaneous revenue (\$558,078) from the bank statements to supporting documentation.

We noted internal control weaknesses for failure to use separate funds to account for revenues, for failure to use duplicate receipts or maintain supporting documentation for revenues received, and other matters related to receipt processing procedures.

4. We reviewed bank statements for the Period to determine adequacy of cash management and to substantiate cash balances at June 30, 2002.

Significant Results: Bank balances for all accounts at June 30, 2002, totaled \$238. Bank reconciliations were not performed, and during the Period, the Academy incurred overdraft, returned check and stop payment fees totaling \$1,240.

A Finding for Recovery was issued against Habibah Rahman for public money illegally expended in the amount of \$371 for a partial payment of Mrs. Rahman's salary, which was an unauthorized expense.

We issued 4 Noncompliance Citations for failure to utilize the Uniform School Accounting System (USAS) and report on a GAAP basis, failure to prepare and file an annual report of activities for fiscal year 2002, failure to establish the Academy as a nonprofit corporation, and failure of the building administrator to provide monthly reports to the Governing Authority.

5. We determined what amounts, if any, the Academy should report as a receivable at June 30, 2002.

Significant Results: The Academy's substantiated receivables totaled \$160,493 at June 30, 2002, including a \$24,583 receivable from the Internal Revenue Service, a \$132,081 receivable from OASIS Development Corporation, and a \$3,829 receivable from Swartzel Affiliated Insurance Service.

A Finding for Recovery was issued against Habibah Rahman for public money collected but unaccounted for in the amount of \$3,829. Two insurance refund checks were received from Swartzel Affiliated Insurance Service but were not deposited in an Academy account.

A Finding for Recovery was issued against the Governing Authority of OASIS Development Corporation totaling \$132,081 for monies due the Academy at June 30, 2002. This amount includes a \$72,000 security deposit for property rental which was not returned to the Academy upon termination of the rent agreement, a \$33,000 overpayment of notes payable, and a \$27,081 Internal Revenue Service Form 941 overpayment received at OASIS but not forwarded to the Academy.

6. We determined delinquent amounts owed by the Academy to various vendors and intergovernmental entities at June 30, 2002.

Significant Results: The Academy's substantiated payables totaled \$672,989, which included \$175,213 due to OASIS Development Corporation for unpaid rents and consulting fees, \$191,101 due to employees and other vendors, \$93,229 due to Ohio Department of Education for overpayment of Foundation Funds, \$96,970 due to Ohio Auditor of State for audit costs as of November 26, 2003, and \$116,476 due to other intergovernmental entities. We issued a Management Comment for the Academy to pay its former employees for substantiated claims of unpaid wages and benefits totaling \$9,288.

Findings for Recovery were issued against the Governing Authority for \$5,090 of federal income taxes withheld, \$4,161 of state income taxes withheld, \$2,930 of Dayton city income taxes withheld, \$11,756 of State Teachers Retirement withheld, and \$48,886 of School Employees Retirement contributions withheld but not accounted for.

Findings for Recovery were issued against the Governing Authority for \$4,207 of Medicare taxes, \$4,206 of Bureau of Workers' Compensation premiums, and \$765 of Federal Unemployment Tax due but not collected.

Findings for Recovery were issued against the Governing Authority for a total of \$224,674 due to various governmental agencies for unpaid services provided to the Academy during the Period.

In addition to the Findings for Recovery and Management Comment above, we will refer this report to the Internal Revenue Service, State of Ohio Department of Taxation, and the Office of the Secretary of State for further review of issues related to the Academy filing tax returns under the federal tax identification number for OASIS Development Corporation, and not filing as a not-for-profit corporation with the State of Ohio.

7. We determined locations and valuations of fixed assets.

Significant Results: Fixed assets at June 30, 2002 totaled \$41,191. The location of \$15,220 of fixed assets was verified.

We issued 2 Noncompliance Citations for failure to include a fiscal funding or cancellation clause in rental lease agreements, and for failure to review, update, and tag fixed asset inventory for fiscal year 2002.

8. We determined loans payable to OASIS Development Corporation at June 30, 2002.

Significant Results: During the Period, the Academy borrowed a total of \$70,500 from OASIS Development Corporation and TIPS, and repaid \$58,000. On April 5, 2001, OASIS Development Corporation forgave \$45,500 of debt. As a result of the debt forgiveness, the Academy overpaid loans by \$33,000. A Finding for Recovery was issued against OASIS and in favor of the Academy for this overpayment of \$33,000.

9. We determined if litigation, claims, and contingent liabilities existed at June 30, 2002.

Significant Results: The Academy was party to legal proceedings during the Period concerning termination of two Academy employees. The case was tried to conclusion in November 2001, and the judgment was for the plaintiffs against Dayton Urban Academy. As of September 27, 2002 a motion was pending, filed by the plaintiffs, for additional interest, attorney fees, and litigation expenses. It was anticipated that any judgment amount will be paid by the liability insurer of the Academy. The Academy and its legal counsel are of the opinion that the ultimate disposition of claims will not constitute any loss contingency.

10. On October 30, 2003, we held an Exit Conference with the following members of the Governing Authority:

Da'ud A. Malik, Chairman
Habibah A. Rahman, Vice Chairperson
Hasina R. Shabazz, Treasurer

The attendees were given five days to respond to this Special Audit.

This report is intended solely for the information and use of the Dayton Urban Academy and is not intended to be and should not be used by anyone other than these specified parties. However, reports issued by the Auditor of State are a matter of public record and use by other components of federal or state or local government officials is not limited.



Betty Montgomery
Auditor of State

December 10, 2003

**DAYTON URBAN ACADEMY
MONTGOMERY COUNTY**

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002**

BACKGROUND INFORMATION

During the course of the fiscal year 2001 annual financial audit of Dayton Urban Academy (the Academy), performed by the Office of the Auditor of State of Ohio (AOS), it became evident that numerous accounting records for the Academy were missing and financial activity was not posted to the Academy's records during the Period. Due to the inadequacy of the Academy's financial records, the audit could not be completed and the AOS issued a "Ninety Day Letter" on December 18, 2001, pursuant to Ohio Revised Code Section 117.41, which gave the Academy 90 days from the date of the letter to prepare financial records that could be audited.

On March 21, 2002, the Ohio Department of Education (ODE) issued a Notice of Suspension of Operations, pursuant to Ohio Revised Code Section 3314.072. ODE cited the Governing Authority's "failure to meet generally accepted standards of fiscal management, violations of provisions of the contract between the State Board and the Governing Authority of the Dayton Urban Academy pertaining to the financial plan and financial records of the school, and other good cause."

In the Notice of Suspension of Operations, ODE cited specific conditions concerning the Academy's debt, projected expenses exceeding revenues, delinquent processing of employee payroll, and delinquent payments to State Teachers' Retirement System (STRS) and State Employees' Retirement System (SERS), along with indications that the Academy owed vendors significant past due payables. ODE also commented that the Academy lacked "sufficient resources to satisfy these debts."

As a result of the Academy's inability to meet its financial obligations, an eviction notice was issued by the landlord on June 12, 2002. On June 17, 2002, the Academy was forcibly evicted by the Montgomery County Sheriff's Office.

The above information was presented to the AOS Special Audit Committee, and on August 14, 2002, the Committee voted to initiate a Special Audit of the Dayton Urban Academy.

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**DAYTON URBAN ACADEMY
MONTGOMERY COUNTY**

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)**

ISSUE 1 - Review of Non-payroll Transactions

For non-payroll expenditures, we determined if expenditures were for a purpose related to the operations of the Academy.

PROCEDURES

1. Using available expenditure ledgers, check registers, and bank statements, we prepared a schedule detailing all non-payroll expenditure transactions.
2. We obtained and reviewed available canceled checks, purchase orders, vouchers, travel expense forms, invoices, and other supporting documentation for expenditures made by the Academy. For significant expenditures where supporting documentation did not exist, we contacted the vendor and requested copies of the invoices, sales receipts, and contracts, which supported the payments. We interviewed Habibah and Jamiel Rahman concerning the validity of certain expenditures and determined whether expenditures were made for a public purpose and were authorized.
3. We requested copies of fiscal years 2001 and 2002 vendor payment histories and expenditure transaction ledgers from The International Preparatory School (TIPS).¹ We reviewed the expenditure listings of both TIPS and the Academy, checking for duplicate expenditures at both schools.
4. We reviewed the Ohio Revised Code and Auditor of State Bulletin 2000-005 for compliance requirements applicable to the Academy. Additionally, we obtained a copy of the Academy's contract with the Ohio Department of Education and identified any additional requirements. We conducted interviews with Habibah Rahman, the Academy's Superintendent, regarding any questionable compliance issues.

RESULTS (Fiscal Year 2001)

1. There were 321 non-payroll expenditure transactions, totaling \$665,940 during fiscal year 2001. We observed the following during our testing of non-payroll expenditures:
 - 123 voided checks.
 - 15 checks totaling \$12,365 that were written but never cleared the bank. We could not determine whether or not the checks were actually disbursed to the payees.
 - 86 checks, totaling \$173,417, that were not clearly endorsed by the payee. Many checks were either manually or electronically endorsed with: "For Deposit Only" or "Guaranteed Deposit to Payee's Account".
 - 8 checks, totaling \$16,338, where the endorsement did not agree to the payee

¹ Both TIPS and the Academy have the same Board of Governance, Ohio Cities Governing Authority, and both are affiliated with the OASIS Development Company.

**DAYTON URBAN ACADEMY
MONTGOMERY COUNTY**

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)**

ISSUE 1 - Review of Non-payroll Transactions (Continued)

2. There were 20 expenditures, totaling \$15,492, which were not supported. A Noncompliance Citation was issued for failure to maintain public records.

We also identified 3 non-payroll expenditures, totaling \$458 that were not considered for a purpose relating to the operations of the Academy. Findings for Recovery were issued against the Governing Authority. The following is a description of those expenditure transactions:

- A payment of \$110 was made to the Immigration Naturalization Services to assist Emmanuel Aigbokhan with the cost of immigration paperwork. Mr. Aigbokhan was an employee of the Academy and the nature of this expense did not relate to the Academy's operations, nor was it approved by the Governing Authority.
- A check for \$203 was written to Hatton's Deli & Restaurant for the cost of a breakfast in conjunction with a program at TIPS. When we contacted the vendor, we learned the cost of the meal had been billed to TIPS; however, the expense was paid by the Academy.
- A check for \$145 was written to Talut Rasul for reimbursement of living expenses. Mr. Rasul was an employee of TIPS, and was temporarily retained by the Academy as a substitute teacher. Per review of the Governing Authority's board meeting minutes, reimbursement of living expenses as part of Mr. Rasul's compensation as a substitute teacher was not approved by the Governing Authority.

There were 41 non-payroll transactions paid to the Rahman's and OASIS Development Corporation totaling \$279,610, which was approximately 42% of the non-payroll expenses incurred during FY 2001. Of those expenditures, there were 4 transactions, totaling \$4,642 that lacked underlying documentation to support the expenditure. A Noncompliance Citation was issued for not maintaining supporting documentation.

3. Upon review of the TIPS expenditure listings, we noted no duplicate expenditures paid by the Academy or TIPS during the Period.
4. Although the Academy was not required by the Ohio Revised Code to follow the budgetary statutes within ORC Chapter 5705, there were specific budgetary requirements established by the Academy's contract with the Ohio Department of Education. These budgetary requirements focused on preparation and periodic review of an estimated school budget, calculation of an estimated per pupil expenditure amount for each year, and establishment of an internal audit review committee to assure proper monitoring and control over revenues and expenses. We noted instances of noncompliance with these requirements for both fiscal years 2001 and 2002, and issued citations accordingly.

**DAYTON URBAN ACADEMY
MONTGOMERY COUNTY**

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)**

ISSUE 1 - Review of Non-payroll Transactions (Continued)

RESULTS (Fiscal Year 2002)

1. There were 202 non-payroll expenditure transactions, totaling \$644,768 during fiscal year 2002. We observed the following during our testing of non-payroll expenditures:
 - 116 voided checks.
 - 2 checks totaling \$567 that were written but never cleared the bank. We could not determine whether the checks were actually disbursed to the payees.
 - 48 checks totaling \$217,186 that were not clearly endorsed by the payee. Many were either manually or electronically endorsed with: "For Deposit Only" or "Guaranteed Deposit to Payee's Account," without documentation of an account name or number.
2. There were 25 expenditures, totaling \$7,657, which were not supported. A Noncompliance Citation was issued for not maintaining public records.

We identified 39 non-payroll expenditures, totaling \$174,816 that did not agree to the billing invoice or contracted payment amount. These were flagged as possible payable amounts and were further analyzed during our review of accounts payable (Issue No. 6). Three of the expenditures were reimbursements that exceeded the receipt total that applied to the reimbursement in amounts ranging from \$2 to \$100. We considered these variances immaterial, and no further review was performed.

There were 36 non-payroll transactions paid to the Rahmans and OASIS Development Corporation totaling \$163,511 during FY 2002, which was approximately 25% of the non-payroll expenses incurred during FY 2002. Of those expenditures, there were 9 transactions, totaling \$4,086 that lacked underlying documentation to support the expenditure. A Noncompliance Citation was issued for not maintaining supporting documentation.

3. Upon review of the TIPS expenditure listings, we noted no duplicate expenditures paid by the Academy or TIPS during the Period.

**DAYTON URBAN ACADEMY
MONTGOMERY COUNTY**

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)**

ISSUE 1 - Review of Non-payroll Transactions (Continued)

FINDINGS FOR RECOVERY

Dayton Urban Academy Governing Authority, Improper Expenditure

On September 8, 2000, Habibah Rahman, Academy Superintendent and member of the Governing Authority, issued a payment of \$110 to the Immigration Naturalization Services. The purpose of the payment was to assist Emmanuel Aigbokhan with the cost of immigration paperwork. Mr. Aigbokhan was not employed by the Academy at the time of the payment, nor was the payment approved by the Governing Authority. The nature of the expense did not relate to the Academy's normal activities and operations.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Emmanuel Aigbokhan, and Habibah Rahman, Hasina Shabazz, and Da'ud Abdul Malik, Dayton Urban Academy Governing Authority, jointly and severally, in the amount of \$110, and in favor of the Dayton Urban Academy.

Jamiel Rahman, Payment of an Expense not Incurred by the Academy

On December 9, 2000, Jamiel Rahman, spouse of Academy superintendent Habibah Rahman and paid consultant to the Dayton Urban Academy, issued a check in the amount of \$203 to Hatton's Deli & Restaurant, for a breakfast that was served in conjunction with a program at TIPS. The cost of the meal was billed to TIPS rather than to the Dayton Urban Academy. Therefore, the expense was not incurred by the Academy and should not have been paid.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Habibah Rahman, Hasina Shabazz, and Da'ud Abdul Malik, Dayton Urban Academy Governing Authority, and Jamiel Rahman; jointly and severally, in the amount of \$203, and in favor of the Dayton Urban Academy.

Talut Rasul, Improper Reimbursement of Living Expenses

On March 13, 2001, Habibah Rahman, Academy Superintendent and member of the Governing Authority, issued a payment of \$145 to Talut Rasul for reimbursement of living expenses while providing substitute teaching services. Mr. Rasul was an employee of TIPS, and was temporarily retained by the Academy as a substitute teacher. Reimbursement of living expenses as part of Mr. Rasul's compensation as a substitute teacher was not approved by the Governing Authority.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Habibah Rahman, Hasina Shabazz, and Da'ud Abdul Malik, Dayton Urban Academy Governing Authority, and Talut Rasul, jointly and severally, in the amount of \$145, and in favor of the Dayton Urban Academy.

**DAYTON URBAN ACADEMY
MONTGOMERY COUNTY**

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)**

ISSUE 1 - Review of Non-payroll Transactions (Continued)

NONCOMPLIANCE CITATIONS

Maintaining Financial Records

Ohio Rev. Code Section 149.43 states in pertinent part that “all public records shall be promptly prepared and made available for inspection to any member of the general public at all reasonable times during regular business hours.” “Record” for 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. Finally, **Ohio Rev. Code Section 149.351** states 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 commission provided for under Ohio Rev. Code Section 149.38 to 149.42”.

The Dayton Urban Academy did not maintain financial records in a consistent manner, supporting documentation was not available for all receipts and disbursements of public funds, academy records provided at the time of the audit were totally unorganized and records were not maintained in folders or in any chronological order. Fiscal years 2001 and 2002 records were not separated, and accounting ledgers were not available for fiscal year 2002 financial activities. Specifically, our procedures noted the following during fiscal years 2001 and 2002:

- 20 non-payroll transactions totaling \$15,492 during fiscal year 2001 lacked underlying documentation to support the expenditure. Four transactions paid to the Rahmans and OASIS totaling \$4,642 did not have underlying documentation to support the expenditure.
- 25 transactions totaling \$7,657 during fiscal year 2002 lacked underlying support documentation. Additionally, 9 transactions paid to the Rahmans and OASIS totaling \$4,086, lacked supporting documentation.

Calculation of Estimated Per Pupil Expenditure Amount

Article III, Section B of the Academy’s contract with Ohio Department of Education requires the Governing Authority to specify the estimated per pupil expenditure amount for each year of the contract. The Governing Authority shall calculate and report the estimated per pupil expenditure amount that will be used for purposes of funding calculations under Section 3314.08 of the Ohio Rev. Code. In addition, the base formula amount for any year shall not exceed the dollar formula amount specified for the year under Section 3317.02 of the Ohio Rev. Code. The Academy failed to compute an estimated per pupil expenditure amount for fiscal years 2001 and 2002.

DAYTON URBAN ACADEMY
MONTGOMERY COUNTY

SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)

ISSUE 1 - Review of Non-payroll Transactions (Continued)

Budget Comparison

Exhibit 2, Page 2, of the Academy's contract with Ohio Department of Education requires the Treasurer to compare the budgeted income and expenses to actual figures and present such to the principal and administrative assistant on an ongoing basis. In addition, the Governing Authority was required to review budget versus actual comparison reports at least monthly. The Academy failed to prepare an annual budget for fiscal years 2001 and 2002; therefore, budget versus actual comparisons could not be completed nor any reports prepared for review.

Establishment of an Internal Audit Review Committee

Exhibit 2, Page 2, of the Academy's contract with Ohio Department of Education requires establishment of an internal audit review committee to assure proper monitoring and control over revenues and expenses. The committee was to meet on a monthly basis. The Academy did not establish the required committee during the Period.

**DAYTON URBAN ACADEMY
MONTGOMERY COUNTY**

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)**

ISSUE 2 - Review of Payroll Transactions

We reviewed payroll expenditures of Academy employees, to determine whether payments were made in compliance with contracts, policies, or wage scales, and that payroll expenditures were accurately reported.

PROCEDURES

1. We obtained all available payroll records from both the Academy and Automatic Data Processing.² We also obtained expenditure ledgers, employee contracts, personnel files, salary schedules, and W-2 Forms.
2. We analyzed payroll expenditures and verified that payroll transactions were authorized, that amounts paid were in accordance with a valid contract, and that withholdings were remitted to the appropriate agency.
3. We compared TIPS's payroll registers for pay periods October 2000, April 2001, and October 2001 with Academy employees to note any duplicate names paid by each school.
4. We reviewed the Ohio Rev. Code and AOS Bulletin 2000-005 for compliance requirements applicable to the Academy that relate to employee compensation and benefit issues. Additionally, we obtained a copy of the Academy's contract with the Ohio Department of Education and identified any additional requirements.

RESULTS

1. We identified 63 individuals as working for the Academy during the Period. Personnel records were available for inspection for only 47 of those employees and pay rates could not be validated for 8 employees. W-2 Forms were available for only 61 employees.
2. We calculated gross pay for certain individuals and compared it to the actual gross amounts used for a particular pay period. We noted variances that included both over and underpayments; however, Findings for Recovery were not issued due to missing personnel records and lack of authorized pay rates.

Habibah Rahman stated that she put herself on payroll when the Academy's principal quit. The Academy's Governing Authority did not approve or authorize Ms. Rahman to be paid as a staff member. Furthermore, there was no documentation available substantiating her pay rate.

A total of \$14,833 was paid to Ms. Rahman during the Period. In addition, the Academy paid the employer's share of STRS totaling \$2,077, and the employer's share of Medicare totaling \$215. Because these payments were not authorized by the Governing Authority, a Finding for Recovery was issued against Habibah Rahman, in the amount of \$17,125, for unauthorized wages and benefits.

² During the Period, both the Academy and ADP processed payroll. ADP discontinued providing payroll services to the Academy during January 2002, due to the Academy's non-payment of payroll processing fees. As a result, the Academy independently calculated and processed payroll for the periods January 30, 2002 through March 28, 2002, the last payroll issued.

**DAYTON URBAN ACADEMY
MONTGOMERY COUNTY**

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)**

ISSUE 2 - Review of Payroll Transactions (Continued)

The following variances and internal control weaknesses were also noted during our review of payroll expenditures:

- The Academy did not maintain contracts for 6 of 19 teachers reviewed.
 - The Academy did not have personnel records for 16 of 63 employees.
 - The Governing Authority approved only 26 of 63 new hires during the Period.
 - Personnel records contained one individual who was not employed by the Academy.
 - Due to a lack of records, rates of pay could not be validated for 8 employees.
 - At least 4 payroll checks were issued yet were never processed by the bank.
 - A Form W-2 was not available for at least 1 Academy employee.
 - A Form W-2 was prepared for at least 1 individual not employed by the Academy.
 - Variances, both underpayments and overpayments, were noted between AOS-calculated gross pay and the actual gross pay; however, Findings for Recovery were not issued due to a lack of documentation supporting authorized pay rates.
 - There were at least 5 instances where information on the payroll ledgers was either incomplete or illegible.
 - There were at least 5 instances where amounts in the payroll ledger did not reconcile to the expenditure ledger.
3. The TIPS payroll registers did not include duplicate names of persons already employed at the Academy.
4. During the Period, the Academy failed to perform the following requirements:
- The Governing Authority was required to hire licensed teachers in accordance with Sections 3319.22 to 3319.31 of the Ohio Rev. Code. Required teaching licenses for the State of Ohio were not found for 3 of the 19 of the teachers hired.
 - The Academy was required to enroll employees in the appropriate retirement system, withhold from the employees' wages, or pay on behalf of the employees, a certain percentage of earned wages as defined and to pay over to the appropriate system the amounts withheld, matched with an appropriate percentage of employer matching contributions. Although the Academy withheld retirement contributions from employees' wages, it failed to submit \$11,756 to the State Teachers Retirement System and \$19,825 to the School Employees Retirement System. Additionally, the Academy did not remit employer contributions totaling \$29,061. Findings for Recovery were issued in Issue No. 6, Accounts Payable.
 - The Governing Authority failed to request criminal records checks on all applicants who would be responsible for the care, custody, or control of a child pursuant to ORC 3319.39.
 - Required evaluations by an independent evaluator were not performed on any employees during their probationary period.
 - The Academy failed to provide subscription to a group health insurance plan for all full-time employees for the duration of the Period. During the last quarter of fiscal year 2001, the Academy's employee health insurance was cancelled due to non-payment of premiums. A new group policy was not acquired for Academy employees.

**DAYTON URBAN ACADEMY
MONTGOMERY COUNTY**

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)**

ISSUE 2 - Review of Payroll Transactions (Continued)

- The Academy failed to provide accrued sick leave to employees as required. Per the contract with the Ohio Department of Education, salaried employees would accrue sick leave at the rate of 1.25 days per month, beginning after the first month of employment. Unused sick leave would be carried over to the next year (except by hourly employees). Hourly employees would receive three sick days annually. During July 2000, the Governing Authority revised the sick leave policy for the Academy. Beginning in fiscal year 2001, the Academy would provide 5 days sick leave the first year of employment and 7 days annually thereafter for all employees. Unused sick leave would not be carried forward to the next year. The Academy did not receive an approved contract amendment from the Ohio Department of Education for this change.

FINDINGS FOR RECOVERY

Habibah Rahman, Unauthorized Payroll

Habibah Rahman, Academy Superintendent and member of the Governing Authority, placed herself on payroll as a staff member without approval of the Governing Authority. Furthermore, there is no authorized documentation available substantiating the rate of pay. As a result, Habibah Rahman received unauthorized wages totaling \$14,833. In addition, unauthorized employer share payments were made to STRS for \$2,077 and Medicare for \$215.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Habibah Rahman, in the amount of \$17,125, and in favor of the Dayton Urban Academy.

NONCOMPLIANCE CITATIONS

Criminal Records Check by BCI

Article III of the Academy's contract with the Ohio Department of Education requires the Governing Authority to request BCI to conduct criminal records checks on all applicants who will be responsible for the care, custody, or control of a child pursuant to ORC 3319.39. The Governing Authority failed to request required criminal records checks for 2 of the 43 applicants.

Teachers Licensing

Ohio Rev. Code Section 3314.03 (A) (10) and Article III, section C of the Academy's contract with the Ohio Department of Education requires the Governing Authority to hire teachers who are licensed in accordance with Sections 3319.22 to 3319.31 of the Ohio Rev. Code. Three of the 19 teachers hired during the Period were not licensed in the state of Ohio in accordance with the Ohio Rev. Code.

DAYTON URBAN ACADEMY
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SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)

ISSUE 2 - Review of Payroll Transactions (Continued)

Employee Evaluations

Exhibit 3 of the Academy's contract with the Ohio Department of Education requires that during a probationary period, every employee will be evaluated 3 times by an independent evaluator. Thereafter, performance evaluations will be performed annually. Evaluations by an independent evaluator were not performed on employees during their probationary period as required.

Subscription to a Group Health Insurance Plan

Exhibit 3 of the Academy's contract with the Ohio Department of Education requires the Governing Authority to provide subscription to a group health insurance plan for all full-time employees after 90 days of successful employment. The Academy failed to provide a group health insurance plan for all full-time employees during the last quarter of fiscal year 2001, at which time the employees' health insurance was cancelled by the provider due to non-payment of premiums.

Employee Sick Leave

Exhibit 3 of the Academy's contract with the Ohio Department of Education requires the Academy to provide sick leave to salaried employees at an accrual rate of 1.25 days per month, beginning after the first month of employment. Hourly employees were to receive 3 sick days annually. Unused sick leave was to be carried over to the next year, except for hourly employees.

The Academy failed to provide accrued sick leave to employees as required, and failed to allow unused sick leave to be carried forward to the next year. During July 2000, the Academy revised the employee sick leave policy to provide 5 days of sick leave the first year of employment and 7 days annually thereafter for all employees. Unused sick leave was not carried forward to the next year. An approved contract amendment was not obtained from the Ohio Department of Education for this change.

**DAYTON URBAN ACADEMY
MONTGOMERY COUNTY**

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)**

ISSUE 3 - Review of Revenue Sources

We determined major sources of revenue and that revenues were accurately recorded in the Academy's bank accounts and accounting ledgers.

PROCEDURES (INTERGOVERNMENTAL REVENUE)

1. We obtained prior year audit working papers, previous released audit reports, and available minutes from meetings of the Governing Authority for the Period. We reviewed these documents, to determine the major sources of Academy revenue.
2. We analyzed supporting documentation for receipts and wire transfers, and used third party confirmations when applicable (e.g., State Distribution Transaction Listing, Federal Subsidy Schedule, etc.) to determine actual revenues for the Period. We traced intergovernmental receipts to the Academy's bank statements and we interviewed Habibah and Jamiel Rahman concerning questionable or unsupported revenues.

RESULTS

1. The following table depicts the major sources of revenue during the Period:

<u>Revenues</u>	<u>FY 2001</u>	<u>FY 2002</u>
Intergovernmental:		
Foundation Settlement Payments	\$820,094	\$369,335
Federal Grants	202,187	271,259
State Grants and Subsidies	7,757	3,221
Pass-Thru Monies (E-Rate)	0	932
Total Intergovernmental Revenues	<u>\$1,030,038</u>	<u>\$644,747</u>
Debt Proceeds	22,000	3,000
Miscellaneous	78,557	490,910
Total Revenues	<u>\$1,130,595</u>	<u>\$1,138,657</u>

2. Major sources of intergovernmental revenues were identified through third-party confirmations, and traced to the Academy's bank account statements. No variances were noted.

For miscellaneous revenue, \$558,078 was substantiated by supporting documentation and by tracing receipts and disbursements between bank accounts. For the remaining \$11,389 of miscellaneous revenue, the only documentation available to substantiate the revenue was a deposit slip.

During the Period, \$1,203,315 of the total revenue was not recorded in the revenue ledger. This was mainly due to the Academy's inability to produce a revenue ledger for fiscal year 2002; the majority of deposits not recorded on the revenue ledger occurred during fiscal year 2002.

**DAYTON URBAN ACADEMY
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**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)**

ISSUE 3 - Review of Revenue Sources (Continued)

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

- FY 02 the school did not maintain receipt ledger.
- FY 01 the school posted all revenues to one operating fund, regardless of the source of funds.
- FY 01 the school did not use the proper account code for receipts as established by USAS.
- The school did not use duplicate receipts for monies received.
- Deposit slips, remittance advices and supporting documentation were often missing and/or incomplete.

**DAYTON URBAN ACADEMY
MONTGOMERY COUNTY**

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)**

ISSUE 4 - Review of Cash Management
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We reviewed all bank statements for the Period to determine adequacy of cash management and substantiate cash balances at June 30, 2002.

PROCEDURES

1. We reviewed bank statements for the Period for debits and credits which were not the result of an Academy check or deposit. We obtained supporting records and/or conducted interviews to determine the purposes of any identified miscellaneous debits or credits. We determined ending bank balances at June 30, 2002.
2. We reviewed the Ohio Revised Code and Auditor of State Bulletin 2000-005 for compliance requirements applicable to the Academy concerning cash management. Additionally, we obtained a copy of the Academy's contract with the Ohio Department of Education and identified any additional requirements applicable to the Academy. We then conducted interviews with Habibah Rahman, the Academy's Superintendent, regarding any questionable compliance issues.

RESULTS

1. The Academy's balances recorded on bank statements at June 30, 2002 were as follows:

<u>Bank</u>	<u>Balance at 6/30/02</u>
Bank One – (Operating)	\$57
Bank One – (Food Service)	(5)
Bank One – (Savings)	0
Bank One – (Payroll)	186
Key Bank – (Operating)	<u>0</u>
Total Balance at June 30, 2002	<u><u>\$238</u></u>

The Academy incurred \$2,099 in bank service charges for the Period, and \$1,240 in overdraft charges, returned check fees, and stop payment fees.

During the Period, the Rahman's withdrew cash totaling \$3,912 from the Academy's accounts by executing 2 ATM cash withdrawal transactions, (\$2,000 on May 2, 2002 and \$1,912 on May 14, 2002). In a letter to the AOS dated January 30, 2003, Habibah Rahman stated the withdrawals were reimbursements for purchases of food service items during March and April 2002, repayment of certain cash advances made on Jamiel Rahman's personal credit card, and \$371 as a partial salary payment for Ms. Rahman's services. Ms. Rahman was not authorized to receive salary payments; therefore, a Finding for Recovery will be issued against Ms. Rahman, in favor of the Academy, for public money illegally expended in the amount of \$371. The remaining withdrawals were supported by Academy documents.

**DAYTON URBAN ACADEMY
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**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)**

ISSUE 4 - Review of Cash Management (Continued)
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2. During the Period, the Academy failed to perform the following requirements:
- The Academy reported on a GAAP basis as required for fiscal year 2000. However, a financial report was not filed for fiscal years 2001 and 2002.
 - The Academy submitted an annual report of activities to all required parties for fiscal year 2001 as required, with the exception of the Ohio Department of Education. However, a report was not prepared and submitted as required for fiscal year 2002.
 - The Governing Authority failed to establish the Academy as a nonprofit corporation under Section 1702 of the Ohio Rev. Code. It never filed as a nonprofit corporation with the Ohio Secretary of State, and instead used the nonprofit corporation filing of the OASIS Development Corporation.
 - The Academy failed to have audits conducted in accordance with Section 117 of the Ohio Administrative Code.
 - The Building Administrator was responsible for providing a written report monthly to the Governing Authority no later than the 10th day of each month. The report was to include cash receipts, payment entries, purchase order requests, and payment requisitions. The Building Administrator failed to provide this report during fiscal years 2001 and 2002.

FINDING FOR RECOVERY

Habibah Rahman – Public Money Illegally Expended

Habibah Rahman, Academy Superintendent and Member of the Governing Authority of the Dayton Urban Academy, and Jamiel Rahman, spouse of Habibah Rahman and paid consultant to the Academy, withdrew cash totaling \$3,912 from the Academy's bank account during May 2002. Per a letter from Habibah Rahman, dated January 30, 2003, the withdrawal of cash was to reimburse the Rahmans for purchases of food service items, repayment of cash advances made on personal credit cards and \$371 as a partial salary payment to Habibah Rahman. Payroll for Habibah Rahman was not an approved expense; therefore, \$371 should have been returned to the Academy.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Habibah A. Rahman, Academy Superintendent and member of the Governing Authority of the Dayton Urban Academy, jointly and severally, in the amount of \$371, and in favor of the Dayton Urban Academy.

**DAYTON URBAN ACADEMY
MONTGOMERY COUNTY**

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)**

ISSUE 4 - Review of Cash Management (Continued)
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NONCOMPLIANCE CITATIONS

GAAP Financial Reporting

The Ohio Administrative Code Section 117-2-03 (B) requires all community schools to report, but not necessarily account, on a Generally Accepted Accounting Principles (GAAP) basis, unless a waiver has been granted by the Auditor of State. The requirement became effective as of the fiscal year that ended June 30, 1996. **Article III, Section B of the Academy's contract with the Ohio Department of Education** requires the Governing Authority to maintain the financial records of the community school pursuant to rules of the Auditor of State. In addition, Exhibit 2, Section 2.5 of the contract requires the Academy to use the Uniform School Accounting System (USAS) and GAAP procedures and ensure that all accounting records comply with both.

The Dayton Urban Academy failed to report on a GAAP basis for fiscal years 2002 and 2001, nor was a waiver granted to the Academy by the Auditor of State. Additionally, the Academy did not utilize the USAS accounting system in maintaining their financial records during the Period as required.

Annual Report of Activities

Ohio Rev. Code Section 3314.03(A) (11) (g) requires the community school Governing Authority to submit an annual report of its activities and progress in meeting the goals and standards of Ohio Revised Code §3314.03, divisions (A) (3) and (4) (academic goals, method to determine progress and performance standards to evaluate a school's success) and its financial status to the sponsor, the parents of all students enrolled in the school, and the legislative office of education oversight.

The Academy failed to file an annual report of activities with its sponsor, the Ohio Department of Education, for fiscal year 2002.

Establishment as a Nonprofit Corporation

Article III of the Academy's contract with the Ohio Department of Education requires the Governing Authority to establish the community school as a nonprofit corporation under ORC Chapter 1702. The Governing Authority failed to establish the Academy as a nonprofit corporation. A nonprofit corporation filing was not received by the Ohio Secretary of State on behalf of the Academy.

Building Administrator's Monthly Report

Exhibit 3 of the Academy's contract with the Ohio Department of Education requires the Building Administrator to provide a written report monthly to the Governing Authority no later than the 10th day of each month. The report must include cash receipts, payment entries, purchase order requests, and payment requisitions. The Building Administrator did not provide these reports during the Period, as required.

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**DAYTON URBAN ACADEMY
MONTGOMERY COUNTY**

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)**

ISSUE 5 – Review of Accounts Receivable

We reviewed available documentation and conducted interviews to determine what amounts, if any, the Academy should report as a receivable at June 30, 2002.

PROCEDURES

1. We obtained and reviewed prior audit working papers, invoices, Academy correspondence, available ledgers, grant folders, contracts to determine possible areas of accounts receivable. We conducted extensive interviews with the Ohio Department of Education, the Internal Revenue Service, and other vendors in order to further expand our investigation into possible areas of accounts receivable, and to obtain third party confirmations to support all identified receivables.
2. We conducted follow-up interviews with vendors to ascertain whether the receivable amount had been paid.

RESULTS

1. The Academy's substantiated accounts receivable totaled \$160,493 at June 30, 2002. The following table depicts substantiated accounts receivable by classification:

<u>Classification</u>	<u>Amount</u>
Receivable from Internal Revenue Service	\$24,583
Receivable from OASIS Development Corporation	132,081
Receivable from Swartzel Affiliated Insurance Service	<u>3,829</u>
Total Accounts Receivable	<u><u>\$160,493</u></u>

The \$132,081 receivable from OASIS Development Corporation includes a \$72,000 security deposit for rental of 51 Best Street not returned to the Academy upon termination of the rent agreement, a \$33,000 overpayment of notes payable, and a \$27,081 Internal Revenue Service Form 941 overpayment refund received but not forwarded to the Academy. We issued a Finding for Recovery against OASIS Development Corporation and in favor of the Academy in the amount of \$132,081, for these receivables.

We received third party confirmation from Swartzel Affiliated Insurance Service concerning two refunds totaling \$3,829 that were paid to the Academy: one on September 10, 2002, for \$1,578 and the other on February 10, 2003, for \$2,251. The refunds were due to credits from policy cancellations, reductions in coverage, and reductions in premium charges. The refund checks were mailed to the Academy, in care of Habibah Rahman. We requested and received copies of these checks from the insurance company and discovered Ms. Rahman personally cashed these checks. We issued a Finding for Recovery issued against Ms. Rahman for \$3,829.

The Ohio Department of Education informed us that remaining grant entitlements would not be paid to the Academy, and thus, would not be considered a receivable. Due to the Academy's suspension from operations in March of 2002, and subsequent eviction from the building housing the Academy, the Academy was unable to fulfill all grant requirements necessary to receive any remaining entitlements.

**DAYTON URBAN ACADEMY
MONTGOMERY COUNTY**

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)**

ISSUE 5 - Review of Accounts Receivable (Continued)
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The Academy did not submit required applications and supporting documentation to the Ohio Department of Education to receive available grants (Community Schools Grant, \$34,000), and reimbursements of food service expenses (which had not been submitted to ODE since January 2002). Additionally, the Academy failed to submit an application to the Metropolitan Dayton Educational Cooperative Association (MDECA) for an available telecommunications grant during fiscal year 2002.

2. We contacted the IRS on February 28, 2003, and determined that there were two Form-941 overpayment refunds for tax year 2001, totaling \$51,664. The first, a 1st quarter overpayment totaling \$24,583, was scheduled to be mailed by the IRS in March 2003. Therefore, we included this amount as a receivable in our schedule presented previously under Result No. 1. The second, a 3rd quarter overpayment, was issued to OASIS on February 25, 2002. We issued a Finding for Recovery for this refund, in the amount of \$27,081, against OASIS Development Corporation, for public money due the Academy but never collected.

FINDINGS FOR RECOVERY

Habibah Rahman, Public Money Received and Unaccounted For

Habibah Rahman, Academy Superintendent and member of the Governing Authority of the Dayton Urban Academy, received two refund checks totaling \$3,829 that were paid to Dayton Urban Academy by Swartzel Affiliated Insurance Service. The first check was issued by Swartzel Affiliated on September 10, 2002, in the amount of \$1,578, and the other was issued February 10, 2003 in the amount of \$2,251. The two refunds were a result of credits from insurance policy cancellations, reductions in policy coverage, and reductions in policy premium charges during 2002. Ms. Rahman cashed the checks; however, the proceeds were never deposited into any of the Academy's depositories.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public money collected but unaccounted for is hereby issued against Habibah A. Rahman, school Superintendent and member of the Governing Authority of the Dayton Urban Academy, in the amount of \$3,829, and in favor of the Dayton Urban Academy.

**DAYTON URBAN ACADEMY
MONTGOMERY COUNTY**

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)**

ISSUE 5 - Review of Accounts Receivable (Continued)
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OASIS Development Corporation, Public Monies due the Academy

A total of \$132,081 was due Dayton Urban Academy from OASIS Development Corporation on June 30, 2002, and remained uncollected at the end of audit field work. Specific events which generated the amounts due are described as follows:

- During September 1999, the Dayton Urban Academy paid a security deposit to OASIS Development Corporation in the amount of \$72,000. The security deposit was paid as part of a contract lease agreement with OASIS Development Corporation for monthly rent of the building located at 51 Best Street. However, when the Academy terminated the lease and moved out of the rented building, OASIS Development Corporation did not refund the security deposit.
- During fiscal years 2001 and 2002, Dayton Urban Academy entered into various loans with OASIS Development Corporation. The accumulated debt payable to OASIS Development Corporation totaled \$70,500. On April 5, 2001, OASIS Development Corporation forgave \$45,500 of the total debt owed by the Academy. During the Period, the Academy repaid OASIS Development Corporation a total of \$58,000. As a result of the debt forgiveness, the Academy overpaid OASIS Development Corporation \$33,000. OASIS Development Corporation did not reimburse the Academy for the overpayment.
- On February 25, 2002, an Internal Revenue Service refund check totaling \$27,081 was issued to the Dayton Urban Academy resulting from Form-941 overpayments made during the 3rd quarter of 2001. The check was mailed by the IRS to OASIS Development Corporation; however, the refund was never forwarded to the Academy.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies due the Dayton Urban Academy but never collected is hereby issued against Hasina Ranee Shabazz, Amdullah Bey, Jamiel Abdul Rahman, Board Members of OASIS Development Corporation, jointly and severally, in the amount of \$132,081, and in favor of the Dayton Urban Academy.

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**DAYTON URBAN ACADEMY
MONTGOMERY COUNTY**

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
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(Continued)**

ISSUE 6 - Review of Accounts Payable

We determined delinquent amounts owed by the Academy to various vendors and intergovernmental entities at June 30, 2002.

PROCEDURES (NON-INTERGOVERNMENTAL PAYABLES)

1. We analyzed prior audit working papers and current Period supporting documentation, and contacted 100% of the vendors to obtain written confirmation of delinquent amounts owed by the Academy. For delinquent amounts less than \$300, telephone confirmation was considered adequate assurance if delinquent invoices were available on site.
2. We prepared a schedule of claims made by former employees for unpaid wages, medical expenses, insurance premiums, and other miscellaneous items.

RESULTS (NON-INTERGOVERNMENTAL PAYABLES)

1. As of June 30, 2002, the Academy's accounts payable, excluding intergovernmental payables, totaled \$366,314, which included a payable totaling \$175,213 to OASIS Development Corporation for unpaid rents and consulting fees³, based on signed contractual agreements between the Academy and OASIS Development Corporation. Additionally, multiple vendors provided documentation to support claims totaling \$191,101.
2. The following table includes all claims made by former employees. Unsubstantiated claims resulted because the Academy was not able to provide time cards or other documentation for all employees for the last two weeks that the Academy was open in March 2002.

<u>Type</u>	<u>Substantiated</u>	<u>Unsubstantiated</u>
Unpaid Wages – Current	\$3,214	\$21,366
Back Pay	4,106	0
Parking Fees	28	0
Overdraft Fees	115	0
Unpaid Medical	979	94
INS/Travel Expenses	1,130	6,000
Medical Insurance Premiums	849	0
Total Claims	\$10,421	\$27,460

³ This amount was calculated based on contractual agreements between the Academy and OASIS Development Corporation. Rent was calculated through the date of eviction from the school building on June 17, 2002, and consulting fees were calculated to the last monthly foundation payment received from the Ohio Department of Education for March 2002.

**DAYTON URBAN ACADEMY
MONTGOMERY COUNTY**

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)**

ISSUE 6 - Review of Accounts Payable (Continued)

PROCEDURES (INTERGOVERNMENTAL PAYABLES)

1. We reconciled ADP's electronic withdrawals of withholdings with amounts reported as deposited using the Academy's bank statements and quarterly Statement of Deposits and Filings.
2. We issued a subpoena to ADP requesting the year-end Wage and Tax Register, W-2's, and W-3's for 2001. In addition, we requested copies of 2002 W-2's from Habibah Rahman. We then prepared a schedule and reconciled W-2's with W-3's for calendar years 2000, 2001, and 2002.
3. We prepared a schedule of employee remittances to taxing authorities for Federal, State, and Local taxes. We compared amounts actually withheld from employee wages to what was reported as remitted based on W-2's and Quarterly Statements of Deposits and Filings. In addition, we reconciled employer share amounts remitted for federal taxes to what was actually due. We substantiated the amount owed for both employee and employer share using ADP payroll ledgers, the Academy's payroll and expenditures ledgers, and SERS and STRS schedules and delinquency reports.

RESULTS (INTERGOVERNMENTAL PAYABLES)

1. We determined that the Academy, OASIS Development Corporation and TIPS were all filing under the same federal tax identification number for federal, state, and local taxes. The Academy did not file separately as a not for profit corporation with the State of Ohio during the Period. All tax filings were performed under the corporate filing and Federal Tax ID number of OASIS Development Corporation. We will refer this audit report to the Internal Revenue Service, State of Ohio Department of Taxation, and the Office of the Secretary of State for further review of these issues.

The Academy's Quarterly Statement of Deposits and Filings (federal, state, and local) for the Second Quarter of 2001 was \$0. At that time, ADP was unable to remit funds to the appropriate tax authorities because the Academy did not have sufficient funds available in their checking account. We also noted that the Academy's Quarterly Statements of Deposits and Filings listed the filing entity as OASIS Development Corporation. This was because the Academy did not have a separate filing status and Federal Tax ID number.

Neither the Academy nor ADP filed quarterly reports (federal, state, and local) for the first quarter 2002. In addition, Quarterly Statements of Deposits and Filing Amounts did not always equal the amount reported as a liability. These variances are specifically described as follows:

- Third Quarter 2001 – Federal Income Tax deposited was reported as \$16,402 and the liability was reported as \$5,621. The employee Medicare deposited was reported as \$2,430 and the liability was reported as \$900.
- Fourth Quarter 2001 – State Income Tax deposited was reported as \$3,981 and the liability was reported as \$2,006. City of Dayton income tax deposited was reported as \$3,625 and the liability was reported as \$2,758.

**DAYTON URBAN ACADEMY
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**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
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(Continued)**

ISSUE 6 - Review of Accounts Payable (Continued)

According to ADP, the deposited amount did not equal the liability amount because the Academy did not make deposits for the 2nd quarter of 2001. It seems reasonable that later period deposits would be greater than the liabilities as the Academy attempted to make up for missed deposits. This seems logical based on results of substantive testing and reconciliation of W-2's with amounts actually remitted. There were variances noted for calendar year 2001; however, they were within a range that would support the theory that the Academy made up for second quarter deposits during the third and fourth quarters of 2001.

2. We noted no material variances during our reconciliation of W-2's and the W-3 for calendar year 2000.

For 2001, there was a \$60,799 variance between gross Medicare wages reported on the Academy's W-2's and ADP's W-3.

The Academy's W-2's for 2002 were prepared; however, a reconciliation was not performed because a W-3 was not available for 2002.

3. The Academy withheld but did not remit \$5,090 in federal taxes, \$4,161 in state taxes, and \$2,930 in local income taxes. Findings for Recovery were issued against the Academy for failure to remit taxes totaling \$12,181.

The Academy failed to remit Medicare amounts totaling \$1,312 withheld from employee wages. Employer share amounts totaling \$2,895 were not remitted as well. A Finding for Recovery was issued against the Academy for failure to remit Medicare amounts totaling \$4,207.

The Academy failed to pay Ohio Bureau of Worker's Compensation since August 22, 2000. A Finding for Recovery was issued for failure to pay premiums in the amount of \$4,206.

The Academy paid Federal Unemployment Tax (FUTA) for all quarters during the Period except for the first quarter of 2002. A Finding for Recovery was issued for failure to pay FUTA in the amount of \$765.

We also issued Findings for Recovery against the Academy for failure to remit contributions withheld from employee wages for School Employees Retirement System (SERS) totaling \$48,886 (includes employees' share of \$19,825 and employer's share of \$29,061) and State Teachers Retirement System (STRS) totaling \$11,756.

A total of \$224,674 was due various other governmental agencies for unpaid services provided to the Academy during the Period. Amounts remained delinquent after one year, and at the end of audit field work. Findings for Recovery will be issued against the Governing Authority for these unpaid services, including \$96,970 due the Auditor of State of Ohio and \$93,229 due the Ohio Department of Education.

**DAYTON URBAN ACADEMY
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**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
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(Continued)**

ISSUE 6 - Review of Accounts Payable (Continued)

FINDINGS FOR RECOVERY

Dayton Urban Academy, Payments of Federal Income Taxes Withheld

26 USC 3402 (a) states that, in general, except as otherwise provided in this section, every employer making payment of wages shall deduct and withhold upon such wages a tax determined in accordance with tables or computational procedures prescribed by the Secretary of Treasury.

During the Period, the Academy did not remit to the United States Treasury, \$5,090 of federal income taxes withheld from employee wages.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money collected but not accounted for is hereby issued against Habibah Rahman, Hasina Shabazz, and Da'ud Abdul Malik, Governing Authority of Dayton Urban Academy, jointly and severally, in the amount of \$5,090, and in favor of the United States Treasury.

Dayton Urban Academy, Payments of State Income Taxes Withheld

Ohio Rev. Code Section 5747.06 states that except as provided in division (E)(3) of the same statute, every employer, including the state and its political subdivisions, maintaining an office or transacting business within this state and making payment of any compensation to an employee who is a taxpayer, shall deduct and withhold from such compensation for each payroll period a tax computed in such manner as to result, as far as practicable, in withholding from the employee's compensation during each calendar year an amount substantially equivalent to the tax reasonably estimated to be due from the employee under this chapter and Chapter 5748 of the Revised Code with respect to the amount of such compensation included in his adjusted gross income during the calendar year. The employer shall deduct and withhold the tax on the date that the employer directly, indirectly, or constructively pays the compensation to, or credits the compensation to the benefit of, the employee. The method of determining the amount to be withheld shall be prescribed by rule of the tax commissioner.

For the years ended December 31, 2000, 2001, and 2002, the Academy did not remit to the State of Ohio, \$59, \$1,636, and \$2,466 respectively, in state taxes withheld from employee wages.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money collected but not accounted for is hereby issued against Habibah Rahman, Hasina Shabazz, and Da'ud Abdul Malik, Governing Authority of Dayton Urban Academy, jointly and severally, in the amount of \$4,161, and in favor of the State of Ohio.

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**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
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(Continued)**

ISSUE 6 - Review of Accounts Payable (Continued)

Dayton Urban Academy, Payments of Medicare Taxes

26 USC 3102 (a) states that the tax imposed by section 3101 shall be collected by the employer of the taxpayer, by deducting the amount of the tax from the wages as and when paid. **26 USC 3111 (a)** states that in addition to other taxes, there is hereby imposed on every employer an excise tax, with respect to having individuals in his employ, equal to the percentages of the wages (as defined in section 3121(a)) paid by him with respect to employment.

During fiscal years 2001 and 2002, the Dayton Urban Academy failed to remit to the United States Treasury, Medicare taxes totaling \$1,312 withheld from employee wages. In addition, the Academy failed to remit the employer share of Medicare taxes for the second quarter of 2001 and the first quarter of 2002, totaling \$2,895.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money due the taxing authority but not collected is hereby issued against Habibah Rahman, Hasina Shabazz, and Da'ud Abdul Malik, Governing Authority of Dayton Urban Academy, jointly and severally, in the amount of \$4,207, plus penalties and interest, and in favor of the United States Treasury.

Dayton Urban Academy, Payments of City Taxes Withheld

Pursuant to section 36.104 (A) of the City of Dayton Income Tax Ordinance, every employer shall at the time of payment of any salary, wage, commission, or other compensation deduct the tax imposed by this chapter from the gross salaries, wages, commissions, or other compensation due by the employer to his employees who are subject to the tax.

During the Period, the Dayton Urban Academy did not remit to the City of Dayton, \$2,930 of city income taxes withheld from employee wages.

In accordance with the foregoing facts, a Finding for Recovery for money collected and not remitted to the taxing authority is hereby issued against Habibah Rahman, Hasina Shabazz, and Da'ud Abdul Malik, Governing Authority of Dayton Urban Academy, jointly and severally, in the amount of \$2,930, plus penalties and interest, and in favor of the City of Dayton.

Dayton Urban Academy, Payments to Ohio Bureau of Workers Compensation

Ohio Rev. Code Section 4123.38 provides that every employer mentioned in R.C. 4123.01(B)(1), including school districts, shall contribute to the public insurance fund the amount of money determined by the administrator of workers' compensation, and the manner of determining contributions and the classifications of employers is as provided in R.C. Sections 4123.39 to 4123.41 and 4123.48.

The Academy failed to remit premiums to the Bureau of Workers' Compensation since August of 2000. As of June 30, 2002, workers' compensation premiums owed but not paid to the Bureau of Workers' Compensation totaled \$4,206.

In accordance with the foregoing facts, a Finding for Recovery for public money due the taxing authority but not collected is hereby issued against Habibah Rahman, Hasina Shabazz, and Da'ud Abdul Malik, Governing Authority of Dayton Urban Academy, jointly and severally, in the amount of \$4,206, plus penalties and interest, and in favor of the Ohio Bureau of Workers Compensation.

**DAYTON URBAN ACADEMY
MONTGOMERY COUNTY**

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)**

ISSUE 6 – Review of Accounts Payable (Continued)

Dayton Urban Academy, Payments of Federal Unemployment Taxes

Internal Revenue Service (Publication 15; Circular E, Employers Tax Guide) states that Federal Unemployment Tax (FUTA), with state unemployment systems, provides for payments of unemployment compensation to workers who have lost their jobs. Most employers pay both a federal and a state unemployment tax. Only the employer pays FUTA tax; it is not deducted from the employees' wages.

Based on the criteria detailed in Publication 15, the Dayton Urban Academy was required to pay FUTA. As of June 30, 2002, the Academy failed to remit to the United States Treasury, federal unemployment taxes totaling \$765.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money due the taxing authority but not collected is hereby issued against Habibah Rahman, Hasina Shabazz, and Da'ud Abdul Malik, Governing Authority of Dayton Urban Academy, jointly and severally, in the amount of \$765, plus penalties and interest, and in favor of the United States Treasury.

Dayton Urban Academy, Payments of State Teachers Retirement Withheld

Ohio Rev. Code Sections 3314.10 and 3307.26 state that each teacher shall contribute 8% of his or her compensation to the State Teachers Retirement System (STRS). The contribution for all teachers shall be deducted by the employer on each payroll in an amount equal to the applicable percent of the teachers' paid compensation for such payroll period or other period as the Governing Authority may approve.

As of June 30, 2002, the Dayton Urban Academy owed STRS \$11,756 for amounts withheld from employee wages, but not remitted.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money collected but not accounted for is hereby issued against Habibah Rahman, Hasina Shabazz, and Da'ud Abdul Malik, Governing Authority of Dayton Urban Academy, jointly and severally, in the amount of eleven thousand \$11,756, plus penalties and interest, and in favor of the State Teachers Retirement System.

**DAYTON URBAN ACADEMY
MONTGOMERY COUNTY**

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)**

ISSUE 6 - Review of Accounts Payable (Continued)

Dayton Urban Academy, Payments of School Employees Retirement Withheld

Ohio Rev. Code Sections 3314.10 and 3309.47 state that each school employee's retirement contributor shall contribute eight percent of his compensation to the employees' savings fund. The contributions by the director of the school employees' retirement Board shall be deducted by the employer from the compensation of each contributor on each payroll of such contributor for each payroll period and shall be an amount equal to the required percent of such contributor's compensation. **Ohio Rev. Code Section 3309.49** states that each employer shall pay to the school employees' retirement system (SERS) an amount certified by the secretary that shall be a certain percent of the earnable compensation of all employees, and shall be known as the "employer contribution."

As of June 30, 2002, the Dayton Urban Academy owed the School Employees Retirement System (SERS) \$19,825 for contributions withheld from employee wages but not remitted to SERS. In addition, the employer share of SERS contributions owed but not paid to SERS totaled \$29,061.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money due the retirement system authority but not collected in the amount of \$29,061, and public money collected but not accounted for in the amount of \$19,825, is hereby issued against Habibah Rahman, Hasina Shabazz, and Da'ud Abdul Malik, Governing Authority of Dayton Urban Academy, jointly and severally, in the total amount of \$48,886, plus penalties and interest, and in favor of the School Employees Retirement System.

Dayton Urban Academy, Payments to Other Governmental Agencies

As of June 30, 2002, a total of \$224,674 was due to various other Governmental Agencies for unpaid services provided to the Dayton Urban Academy during the Period. Amounts remained delinquent after one year, and at the end of audit field work. The specific governmental agency, service provided, and amounts due are described in the following table:

<u>Governmental Agency</u>	<u>Unpaid Services Provided</u>	<u>Amount</u>
Dayton Academy	Testing Materials Purchased	\$200
Dayton Public Schools	Food Service Contractual Charges	23,270
Dayton Metro Library	Book Purchases	200
Metropolitan Dayton Education Cooperative Association	Computer Services	4,797
Montgomery County Health District	Nursing Services	3,497
Montgomery County Educational Service Center	Educational and Counseling Services	191
Regional Transit Authority (RTA)	Advertisement	2,320
Ohio Department of Education	School Foundation Overpayment	93,229
Office of the Auditor of State	Services and Audit Fees	96,970
		96,970
Total Amount Unpaid		\$224,674

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies due but never collected is hereby issued against Habibah Rahman, Hasina Shabazz, and Da'ud Abdul Malik, Governing Authority of Dayton Urban Academy, jointly and severally, and in favor of the governmental agencies listed, and in the above listed amounts due for unpaid services of said Agency.

**DAYTON URBAN ACADEMY
MONTGOMERY COUNTY**

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)**

ISSUE 6 - Review of Accounts Payable (Continued)

MANAGEMENT COMMENT

Dayton Urban Academy, Unpaid Wages and Benefits for Academy Employee

As of June 30, 2002, substantiated claims made by Academy employees for unpaid wages, benefits, and other reimbursable expenses totaled \$9,288. Amounts remained unpaid as of the end of audit field work. The following schedule depicts the employee claims and amounts:

<u>Employee</u>	<u>Description of Unpaid Claim</u>	<u>Substantiated Amount</u>
Michelle Bonner	Reimbursemt of bank fees due to NSF returns of pay check and unpaid medical	\$636
Bernadine Wallace	Unpaid back wages and unpaid medical	614
Eric Swiger	Unpaid back wages	3,146
Veleta Jenkins	Back wages, parking fees reimbursement, & medical insurance withheld	878
Elizabeth Vazquez	Unpaid back wages	401
Emmanuel Aigbokhan	Medical insurance withheld and reimbursement of travel expenses	528
Barbara Wagner	Current unpaid wages and medical insurance withheld	2,210
Laura Harvey	Current unpaid wages	<u>875</u>
Total Unpaid Claim		<u><u>\$9,288</u></u>

We recommend the Academy pay the amounts listed in the above schedule to each employee who is owed payment for salary and other benefits.

**DAYTON URBAN ACADEMY
MONTGOMERY COUNTY**

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)**

ISSUE 7 - Review of Fixed Assets

We determined the location and valuation of fixed assets at June 30, 2002.

PROCEDURES

1. In order to acquire beginning fixed asset balances at fiscal year-end 2000, we obtained and reviewed prior audit working papers. For additions, we reviewed expenditure ledgers and supporting documentation to identify fixed asset purchases during the Period. We also reviewed revenue ledgers and other supporting documentation to determine assets that were sold or disposed of during the Period. We calculated the fixed assets value at June 30, 2002.
2. We issued a subpoena to Xerox Corporation to obtain lease agreements and records substantiating equipment traded in or returned by the Academy.
3. We obtained the Academy's Inventory Listing generated by Lewis and Michael's storage facility on June 15, 2002. We requested the Rahman's to provide list(s) itemizing all assets that were removed from the Academy prior to the June 17, 2002 eviction date which were included on the Lewis and Michael's listing. We also requested that the Rahman's specify where assets were being held (facilities other than the Lewis & Michael storage facility).
4. We reviewed the Ohio Rev. Code and AOS Bulletin 2000-005 for compliance requirements relating to fixed asset reporting applicable to the Academy. Additionally, we obtained a copy of the Academy's contract with the Ohio Department of Education and identified any additional requirements.

RESULTS

1. Fixed assets at June 30, 2002, were calculated as follows:

	Cost
Fixed assets at June 30, 2000	\$34,953
FY 2001 Capital outlay Additions	6,021
FY 2002 Capital outlay additions	3,155
FY 2001 Deletions	(2,938)
FY 2002 Deletions	0
Fixed Assets at June 30, 2002	<u>\$41,191</u>

2. Subpoenaed records from Xerox confirmed that the Academy had two copier leases.
 - The first lease, entered into on August 12, 1999, had an outstanding balance of \$6,895. The copier was located at the Public Storage Facility. The copier was recorded as a fixed asset according to the Academy's policy. The outstanding balance due on the lease was recorded in Accounts Payable.
 - The second lease, entered into on June 27, 2001, had an outstanding balance of \$22,776. The copier was picked up by Xerox at the Lewis & Michael Storage Facility on March 25, 2003. Because the copier was in Xerox's possession, it will not be recorded as a fixed asset. The outstanding balance due on the lease was recorded in Accounts Payable.

**DAYTON URBAN ACADEMY
MONTGOMERY COUNTY**

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)**

ISSUE 7 - Review of Fixed Assets (Continued)

3. On June 15, 2002, under the direction of the Montgomery County Sheriff and while assets were still at the 45 South Main Street location, an itemized listing of furniture, fixtures, and equipment belonging to the Academy was prepared by Lewis & Michael Storage.

Between the time that Lewis and Michael completed their inventory of the Academy and the Academy's eviction on June 17, 2002, the Rahman's removed certain fixed assets and other miscellaneous items from the Lewis & Michael storage facility, and informed us those items had been transported to either their personal residence or to a storage facility.

We were unable to conduct a fixed asset inventory at the Lewis & Michael Storage facility because upon our arrival on September 4, 2002, the contents of the storage unit were being loaded for shipment to TIPS. In exchange for receiving the contents of the storage facility, TIPS paid \$5,000 in storage fees and \$4,500 in shipping fees to Lewis & Michael. The Academy did not receive payment for the transferred assets.

The results of substantiating the location of fixed assets are as follows:

	<u>Net Asset Value at 6/30/02</u>	<u>% of Total Assets</u>
Observed items located at Public Storage Facility on Needmore Road.	\$14,011	34%
Photo was provided for other items located at the Rahman's personal residence.	1,209	3%
Subtotal: substantiated assets	\$15,220	37%
Value of assets assumed to have been transferred from storage to TIPS	\$23,229	56%
Requested photo of a laptop computer located at the Rahman's personal residence was not provided.	251	1%
Unable to locate Hussman cooler.	1,253	3%
Unable to locate TC telephone system.	1,238	3%
Total	\$41,191	100%

**DAYTON URBAN ACADEMY
MONTGOMERY COUNTY**

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)**

ISSUE 7 - Review of Fixed Assets (Continued)

4. During the Period, the Academy entered into rental lease agreements with OASIS Development Corporation for properties located at 51 Best Street and 45 South Main Street. The period for both leases extended beyond the end of the fiscal year in which it commenced, which violates AOS Bulletin 2000-005. Neither of the rental leases contained a fiscal funding or cancellation clause that would permit the Academy to terminate the agreement if funds were not appropriated to make required payments. We issued a citation for noncompliance of this requirement.

We also noted an instance of noncompliance with requirements presented in the Academy's contract with the Ohio Department of Education (ODE) relating to fixed assets. The ODE contract required all equipment items purchased or acquired to be tagged and recorded with date of acquisition, cost, description, location, and tag number. Purchased items were to be valued at cost, and donated items were to be recorded at fair market value at the time of purchase. In addition, the Building Administrator or designee was to review the school's inventory, and ascertain the value of any unusable item and arrange for its disposal.

The Academy did not update the fixed asset inventory for items acquired during fiscal year 2002. Acquired items were not tagged as required. In addition, the Building Administrator or designee failed to review the fixed asset inventory during fiscal year 2002. We issued a citation for noncompliance with the ODE requirements.

NONCOMPLIANCE CITATIONS

Lease Agreements

Auditor of State Bulletin 2000-005 states that lease agreements which extend beyond the current fiscal year should contain a fiscal funding or cancellation clause. Such a clause permits the community school to terminate the agreement on an annual basis if funds are not appropriated to make required payments.

During the Period, the Academy entered into rental lease agreements with the OASIS Development Corporation for properties located at 51 Best Street and 45 South Main Street. The lease period for both leases extended beyond the end of the fiscal year in which they commenced. Neither of the rental leases contained a fiscal funding or cancellation clause that would permit the Academy to terminate the agreement if funds were not appropriated to make required payments. Lack of such a clause resulted in eviction, legal liabilities and loss of school assets, since the school was unable to make the required rental lease payments.

DAYTON URBAN ACADEMY
MONTGOMERY COUNTY

SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)

ISSUE 7 - Review of Fixed Assets (Continued)

Fixed Assets Inventory

Exhibit 2, Section 2.5 of the Academy's contract with the Ohio Department of Education requires all equipment items purchased or acquired to be tagged and recorded with date of acquisition, cost, description, location, and tag number. Purchased items will be valued at cost, and donated items will be valued at fair market value at the time of purchase. The Building Administrator or designee will review the school's inventory, and ascertain the value of any unusable item and arrange for its disposal.

The fixed asset inventory was not updated for items acquired during fiscal year 2002. The Academy did not assign a monetary value to donated items. Also, equipment items were not tagged and recorded as required, and there was no indication that reviews of the fixed asset inventory were performed during fiscal year 2002.

Additionally, the Academy did not have a fixed asset accounting system which maintained fixed asset listings by location, tag identification numbers, and other supplemental information. It was also noted that the Academy had not developed procedures to account for additions and deletions of fixed assets throughout the year, nor had the Academy performed periodic physical inventories of fixed assets.

**DAYTON URBAN ACADEMY
MONTGOMERY COUNTY**

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)**

ISSUE 8 - Review of Debt

We determined what amounts the Academy owed OASIS Development Corporation for loans received.

PROCEDURES

1. We requested the Academy provide detailed debt schedules and supporting documentation of loans made to the Academy by OASIS Development Corporation or TIPS for payroll and other expenses.
2. We substantiated new debt⁴ incurred during the Period. We traced loan proceeds to revenue ledgers and traced payments to expenditure ledgers and we calculated long term liabilities at June 30, 2002.

RESULTS

1. The Academy was unable to provide a complete schedule of loans received.
2. At July 1, 2000, the Academy was indebted to OASIS Development Corporation for \$46,000. Throughout the Period, the Academy incurred additional loans totaling \$24,500 and made payments on those loans totaling \$58,000. On April 5, 2001, OASIS Development Corporation forgave \$45,500 worth of debt. The Academy had outstanding debt payable to OASIS Development Corporation in the amount of \$70,500. As a result of the debt forgiveness, the Academy overpaid OASIS Development Corporation \$33,000. A receivable from OASIS Development Corporation was recorded for \$33,000. In addition, a Finding for Recovery was issued against OASIS Development Corporation in favor of the Academy (See Issue 5).

⁴ Loans documented by an executed note were included in our review of loans payable, with the exception of 2 loans which were not supported by a note payable but were substantiated upon our review of documentation.

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**DAYTON URBAN ACADEMY
MONTGOMERY COUNTY**

**SUPPLEMENT TO THE SPECIAL AUDIT REPORT
FOR THE PERIOD JULY 1, 2000 THROUGH JUNE 30, 2002
(Continued)**

ISSUE 9 – Pending Litigation

We determined if any litigation, claims, and contingent liabilities existed at June 30, 2002.

PROCEDURES

We reviewed working papers from the FY 2000 financial audit, inquired of the Academy's legal counsel, reviewed expenditures during 2001 and 2002 to identify possible undisclosed use of outside attorneys or unusually large expenditures, and conducted interviews with the Rahmans to discuss litigation and potential liabilities which may have existed at June 30, 2002.

RESULTS

The Academy was party to legal proceedings during the Period. According to the Academy's legal counsel, a dispute was filed with the Montgomery County Common Pleas Court against the Academy concerning the termination of two Academy employees. The case was tried to conclusion during November 2001, and the judgment was for the plaintiffs against Dayton Urban Academy. Subsequent to that judgment, the plaintiffs filed another motion for additional interest, attorney fees, and litigation expenses. The Academy's legal counsel is of the opinion that the ultimate disposition of these claims will not constitute any loss contingency and the Academy anticipated that any judgment amount would be paid by the liability insurer of the Academy.



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DAYTON URBAN ACADEMY

MONTGOMERY 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
DECEMBER 22, 2003**