



**Auditor of State
Betty Montgomery**

**DOHN COMMUNITY HIGH SCHOOL
HAMILTON COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Balance Sheet as of June 30, 2002.....	3
Statement of Revenues, Expenses, and Changes in Retained Earnings for the Year Ended June 30, 2002.....	4
Statement of Cash Flows for the Year Ended June 30, 2002.....	5
Notes to the Financial Statements.....	7
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	15
Schedule of Findings.....	17

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Dohn Community High School
Hamilton County
608 E. McMillan Avenue
Cincinnati, Ohio 45201

To the Board of Directors:

We have audited the accompanying Balance Sheet of Dohn Community High School, Hamilton County, Ohio (DCHS), as of June 30, 2002, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the DCHS's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dohn Community High School, Hamilton County, Ohio, as of June 30, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 27, 2003, on our consideration of DCHS's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Betty Montgomery

Betty Montgomery

Auditor of State

June 27, 2003

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**DOHN COMMUNITY HIGH SCHOOL
HAMILTON COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2002**

Assets

Current Assets

Cash and Cash Equivalents	\$ 20,766
Intergovernmental Receivable	<u>1,675</u>
Total Current Assets	22,441

Non-Current Assets

Fixed Assets (Net)	<u>37,094</u>
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Total Assets	<u>\$ 59,535</u>
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Liabilities and Fund Equity

Current Liabilities

Accounts Payable	\$ 13,158
Loans Payable	14,500
Intergovernmental Payable	<u>4,427</u>

Total Liabilities	32,084
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Fund Equity

Retained Earnings	<u>27,451</u>
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Total Liabilities and Fund Equity	<u>\$ 59,535</u>
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The accompanying notes to the financial statements are an integral part of this statement.

**DOHN COMMUNITY HIGH SCHOOL
HAMILTON COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2002**

Operating Revenues:	
State Foundation Payments	\$ 231,796
Other Operating Revenue	<u>30,815</u>
	<u>262,611</u>
 Operating Expenses:	
Salaries	238,745
Fringe Benefits	75,610
Purchased Services	94,745
Contracted Services	145,628
Equipment	43,248
Materials and Supplies	40,326
Depreciation	12,183
Travel Reimbursement	16,793
Tuition Expense	5,232
Other Operating Expenses	<u>32,124</u>
Total Operating Expenses	<u>704,633</u>
Operating Loss	<u>(442,023)</u>
 Non-Operating Revenues	
Federal Grants	150,000
State Grants	4,000
Local Grants	194,789
Donations	<u>99,897</u>
Total Non-Operating Revenues	<u>448,686</u>
Net Income	6,663
Retained Earnings at Beginning of Year	<u>20,788</u>
Retained Earnings at End of Year	<u><u>\$27,451</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

**DOHN COMMUNITY HIGH SCHOOL
HAMILTON COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002**

Increase (Decrease) in Cash and Cash Equivalent:

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$ 230,120
Cash Payments to Employees for Services and Benefits	(314,355)
Cash Payments to Suppliers for Goods and Services	(360,510)
Other Operating Revenue	30,815
	30,815

Net Cash Used for Operating Activities (413,930)

Cash Flows from Noncapital Financing Activities

State and Federal Grants Received	154,000
Local Grants Received	194,789
Donations	99,897
	99,897

Net Cash Used by Noncapital Financing Activities 448,686

Cash Flows from Capital and Related Financing Activities

Acquisition of Capital Assets	(49,278)
Proceeds from Loan	14,500
	14,500

Net Cash Used by Capital and Related Financing Activities (34,778)

Net Decrease in Cash and Cash Equivalents (22)

Cash and Cash Equivalents at Beginning of Year 20,788

Cash and Cash Equivalents at End of Year \$ 20,766

**Reconciliation of Operating Loss to Net Cash Used
by Operating Activities:**

Operating Loss \$ (442,023)

**Adjustments To Reconcile Operating Loss to Net Cash Used by
Operating Activities:**

Depreciation	12,183
Changes in Assets and Liabilities:	
Increase in Accounts Payable	13,158
Increase in Intergovernmental Payable	4,427
Increase in Intergovernmental Receivable	(1,675)
Total Adjustments	28,093

Net Cash Used for Operating Activities \$ (413,930)

The accompanying notes to the financial statements are an integral part of this statement.

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**DOHN COMMUNITY HIGH SCHOOL
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

1. DESCRIPTION OF THE COMMUNITY SCHOOL AND REPORTING ENTITY

Dohn Community School, Hamilton County, Ohio (the Community School), is a nonprofit corporation established pursuant to Ohio Revised Code, Chapters 3314 and 1702, to address the needs of students in grades nine through twelve who have been impacted by substance abuse. The Community School's program includes a curriculum that provides academic credit coupled with substance abuse intervention. The target population of at-risk youth is those who have a problem with alcohol or other drugs, as well as those who have lived with a substance abusing relative or guardian. The Community School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Community School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Community School.

The Community School was approved for operation under contract with the Ohio State Board of Education (the Sponsor) for a period of five years commencing March 14, 2000. The Sponsor is responsible for evaluating the performance of The Community School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Community School operates under the direction of a twelve member Board of Directors (the Board). The Board is responsible for carrying out the provisions of the contract with the Sponsor which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. Board members are actively involved in the development of the Community School. The Board of Directors has formed several committees to carry out the governance functions of the Community School. These include:

1) Board Development Committee; 2) Facility Committee; 3) Fundraising Committee; 4) Program Committee; and a 5) a Finance/ Audit Committee. The Community School's Founder and Superintendent serve as a non-voting member of the Board of Directors.

The Board of Directors hires the Superintendent, who hires all other staff, and manages the day-to-day operations of the school. 2 certificated full-time teaching personnel, 2 part-time certificated teaching personnel and 3 part-time non certificated teaching personnel staff the instructional/support facility. A full-time administrative assistant, a part-time treasurer and a part-time EMIS coordinator provide administrative assistance.

Several of the Board members made personal loans to the Community School, to be repaid in the next fiscal year. See Note 13 for related party information.

The school provided services to 51 students for the fiscal year 2002.

2. RELATED ORGANIZATION

Two members of the Dohn Community High School Board of Directors are also Board members of Dohn Community Real Estate, Inc. Dohn Community Real Estate, Inc. was formed to purchase the facility and to borrow money to renovate the facility. The Community School facility was purchased from Cincinnati Public Schools in June of 2001, using a private donation which was deposited into the checking account of Dohn Real Estate. Currently, the school is not paying any rent to the Real Estate Corporation and there is not a lease agreement between Dohn Community High School and Dohn Community Real Estate

**DOHN COMMUNITY HIGH SCHOOL
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Dohn Community School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

A. Basis of Presentation

Enterprise Accounting

The Community School uses enterprise accounting to report its financial activities. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

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 in The Community School's contract with its Sponsor. The contract between The Community School and its Sponsor does not prescribe a budgetary process for the Community School.

D. Fixed Assets

Fixed assets are capitalized at cost and updated for additions and retirements during the year. The Community School maintains a capitalization threshold of three hundred dollars. The Community School does not possess any infrastructure.

**DOHN COMMUNITY HIGH SCHOOL
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. The school building is not owned by the Community School and there is currently no lease agreement between the Community School and the Dohn Real Estate, and therefore improvements to the school building are not capitalized.

Equipment is depreciated using the straight-line method, beginning the month of purchase over their estimated useful lives, which is 3 years for Furniture and Equipment.

E. Intergovernmental Revenues

The Community School currently participates in the State Foundation Program, the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

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

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

The Community School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, The Community School was awarded and received \$150,000 in the current fiscal year to offset startup costs of The Community School. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

4. RETAINED EARNINGS – OPENING BALANCE- JULY 1, 2001

As of July 1, 2001, The Community School had a beginning retained earnings balance of \$20,788. This was comprised of the following:

Revenues from the period of November 1999 through June 2001	\$840,653
Expenses from the period of November 1999 through June 2001	<u>(819,865)</u>
Balance at July 1, 2001	<u>\$ 20,788</u>

5. CASH AND CASH EQUIVALENTS

At June 30, 2002, The Community School had a carrying value of deposits of \$19,700 which is reported as Cash and Cash Equivalents in the accompanying financial statements. The bank balance of The Community School's deposits was \$19,709 which is covered through federal depository insurance (FDIC). The Community School held Government Bonds totaling \$1,065, from a private donation.

**DOHN COMMUNITY HIGH SCHOOL
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

6. RECEIVABLES

Receivables at June 30, 2002, consisted of intergovernmental (state grants) receivables. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs.

7. FIXED ASSETS

A summary of the Community School's fixed assets at June 30, 2002 follows:

Furniture and Equipment	\$ 49,277
Less: Accumulated Depreciation	\$ <u>(12,183)</u>
Net Fixed Assets Total	\$ <u>37,094</u>

8. RISK MANAGEMENT

A. Property and Liability

The Community School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2002, The Community School contracted with Philadelphia Insurance for property and general liability insurance. There is a \$1,000 deductible with a one hundred percent blanket, all risk policy.

Professional liability is protected by Philadelphia Insurance Company with a \$1,000,000 single occurrence limit and a \$2,000,000 aggregate and no deductible.

B. Workers' Compensation

The Community School paid the State Worker's Compensation System (the 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.

9. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Community School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and The Community School is required to contribute 14 percent; for fiscal year 2002, 4.2 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The Community School's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2002 was \$2,469 of which 100% has been paid.

**DOHN COMMUNITY HIGH SCHOOL
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

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

Plan members are required to contribute 9.3 percent of their annual covered salary and The Community School is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Community School's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2002 was \$17,096 of which 100% has been paid.

10. POST EMPLOYMENT BENEFITS

The Community School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. The STRS Board currently allocates employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For The Community School, this amount equaled \$8,098 during the 2002 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001 (the latest information available) net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 9.8 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at \$12,400. For The Community School the contributions for 2002 were \$5,761.

**DOHN COMMUNITY HIGH SCHOOL
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

10. POST EMPLOYMENT BENEFITS (Continued)

The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefit of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

11. OTHER EMPLOYEE BENEFITS

Full-time teachers are entitled to six days of sick leave a year. Administrative staffs including the administrative assistant are entitled to ten days of sick leave a year. Full-time employees receive two personal days per calendar year. Part-time employees receive one personal day per calendar year. Unused personal days are forfeited.

The School provides life insurance to all employees through a private carrier. Coverage in the amount of \$10,000 is provided to all full-time certified and non-certified employees.

12. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The Community School is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

13. CONTINGENCIES

A. Grants

The Community School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and a condition specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of The Community School at June 30, 2002.

B. Litigation

A suit was filed in Franklin County Commons Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the State Constitution and State laws. The effect of this suit, if any, on The Community School is not presently determinable.

**DOHN COMMUNITY HIGH SCHOOL
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

13. CONTINGENCIES (Continued)

C. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. This information was not available as of the date of this report. The Community School does not anticipate any material adjustments to state funding for fiscal year 2002, as a result of such review.

14. RELATED PARTY TRANSACTIONS

The Vice President and two other members of the Board of Directors issued promissory notes to the Community School totaling \$14,500. These promissory notes are to be repaid in the next fiscal year.

The Secretary of the Board of Directors donated 250 shares of Proctor and Gamble Stock with a stated value of \$21,098. The School sold the shares and all but \$1,065 was spent during the year. The remainder was invested in a Victory Gradison Government Reserves

Two members of the Board of Directors for the Community School also sit on the Board of Directors for Dohn Real Estate Corporation. Dohn Real Estate Corporations purchased the building and the annex from Cincinnati Public School. The Community School currently occupies the annex for their day to day operations; the Community School does not currently have a lease with the Corporation. During the year ended June 30, 2002, Dohn Real Estate Corporation did not charge the School for the use of this Building or Annex.

15. SUBSEQUENT EVENT

In July 2002, the Real Estate Corporation secured a \$100,000 line of credit with US Bank for the school's use. The line bears an interest rate of Prime plus one percent.

16. FEDERAL EXEMPT STATUS

The Community School has obtained their 501(c)(3) tax exempt status. Management is not aware of any course of action or series of events that have occurred that might adversely affect the school's tax exempt status.

17. CONTRACTED SERVICES

Contracted services were composed of the following

Jacobs Construction	\$ 109,024
LJB Construction	24,840
Cincinnati Public Schools	1,550
Trophy Awards	254
Cincinnati Blacktop	<u>9,960</u>
	<u>\$ 145,628</u>

**DOHN COMMUNITY HIGH SCHOOL
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

18. PURCHASED SERVICES

Purchased services were composed of the following

Computer Consulting	\$ 5,715
Legal Fees	21,482
Temporary Employees	12,304
Payroll Processing	2,340
Accounting Consulting	3,750
Data Processing	14,420
Drug Testing	2,704
BCI Checks	2,365
Building Maintenance	20,278
Equipment Rental	2,157
Employee Training	<u>7,230</u>
	<u>\$ 94,745</u>



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Dohn Community High School
Hamilton County
608 E. McMillan Avenue
Cincinnati, Ohio 45201

To the Board of Directors:

We have audited the financial statements of Dohn Community High School, Hamilton County, Ohio (DCHS), as of and for the year ended June 30, 2002, and have issued our report thereon dated June 27, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States

Compliance

As part of obtaining reasonable assurance about whether DCHS's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-001 through 2002-003.

We also noted certain immaterial instances of noncompliance that we have reported to the management of DCHS in a separate letter dated June 27, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered DCHS's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect DCHS's ability to record, process, summarize and report financial data with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as item 2002-004

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

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of DCHS in a separate letter dated June 27, 2003.

This report is intended for the information and use of the audit committee, management, and Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

June 27, 2003

**DOHN COMMUNITY HIGH SCHOOL
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2002**

FINDING NUMBER 2002-001

Noncompliance – Record Retention

Ohio Rev. Code, Section 149.351, provides that no public record shall be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under Ohio Rev. Code, Section 149.38 to 149.42.

DCHS was either missing or had misfiled many documents. The change of Business Manager/Treasurer might have been a contributing factor. For example, DCHS was unable to locate the following:

- Bond for Business Manager/Treasurer;
- State Tax Form for 25% of employees;
- Certifications for 64% of teachers;
- Retirement Forms for 25% of employees;
- Vouchers relating to expenditures before the audit period.

We recommend that DCHS retain all source documents and organize them so that important records are secure, organized and accessible to management.

FINDING NUMBER 2002-002

Noncompliance – Payroll Withholdings

26 U.S.C., Section 3402, requires every employer to deduct and withhold from each employee's compensation a federal tax. Ohio Rev. Code, Section 5747.06, requires every employer to deduct and withhold from each employee's compensation a state income tax. Furthermore, 26 CFR 61(a)(1) states that, except as otherwise provided in subtitle A of the Internal Revenue Code of 1986, gross income includes compensation for services, including fees, commissions, fringe benefits, and similar items. Ohio Rev. Code, Sections 3307.26 and 3309.47, STRS and SERS respectively, require community schools to 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.

The school outsourced its payroll processing to Paychex. Employee federal and state withholdings were incorrect in 73% of the payments tested. The amount of incorrect withholdings ranged from \$ 3 to \$126. While all of these instances were resolved during the year, the school currently does not have in place procedures to ensure this will not happen in the future.

The failure to withhold these deductions could lead to DCHS and each employee being required to remit the proper amounts to the various governmental agencies.

Therefore, we recommend DCHS work with Paychex to ensure the correct withholding tables are used, and institute procedures to review all Paychex reports prior to processing payroll checks.

FINDING NUMBER 2002-003

Noncompliance – Background Checks

DCHS's Charter requires the following:

- DCHS shall request a criminal record check to be completed by the Bureau of Criminal Identification and Investigation (BCI & I) for each newly elected and/or appointed board member. If one of the board members fails to pass the criminal records check, his or her appointment to the board shall be void.
- DCHS shall request the superintendent of the BCI & I to conduct a criminal records check with respect to any applicant who has applied to DCHS for employment in any position as a person responsible for the care, custody, or control of a child pursuant to section 3319.39 of the Ohio Revised Code.
- DCHS shall not hire a person for any position responsible for the care, custody, or control of a child until it receives a favorable criminal records check for the person from the BCI & I.

DCHS does not have a policy to define what it considers to be a "favorable" or an "unfavorable" records check. The Ohio Revised Code definition in Section 3319.31 applies to public school licensing of teachers, and does not apply to community schools.

We noted the following:

- Twenty Five percent (25%) of employees and board members did not have a BCI & I background check performed and several other employees and board members had a BCI & I background check performed after he or she was hired or appointed to the board.
- Several background checks included items that may not be considered favorable, but the individuals were hired by DCHS.

Failing to provide background checks for all who are employed by DCHS could potentially expose students to persons with unfavorable backgrounds, who should not be responsible for the welfare of children, or responsible for the accounting function or custody of assets.

We recommend:

- DCHS obtain BCI & I background checks for all Board Members and all employment applicants prior to his or her employment as a person responsible for the care and custody of children.
- The DCHS obtain complete records checks- no page cut-offs or lack of indication of conviction.
- The DCHS needs to develop and pass a policy to indicate what a favorable background check is.
- Because DCHS is entrusted with the safety and welfare of children, DCHS should always err on the side of caution.

FINDING NUMBER 2002-004

Reportable Condition – Payroll Expenditures

We noted the following control weaknesses relating to payroll:

- DCHS does not document a reconciliation of hours employees worked and their respective pay rates included on DCHS's payroll records and time/sign-in sheets to Paychex payroll reports. This may be attributed to the changes of and/or lack of a business manager or treasurer.
- A member of management or the Board did not review or approve payroll summaries received from Paychex.
- DCHS did not maintain complete personnel files. The following items were missing from employee files:
 - Federal W-4 forms were not on file for 21% of employees.
 - State IT-4 forms were missing for 25% of employees.
 - Teacher certifications were missing for 64% of teachers.

Failure to establish suitable control activities could result in a material misstatement, overpayment, or unauthorized payment relating to payroll expenditures. DCHS should implement the following procedures to ensure that suitable control activities are in place to identify misstatements either as they occur or through the review process:

- The business manager/treasurer should approve payroll summaries sent to Paychex.
- The business manager/treasurer should reconcile DCHS payroll summaries of employee hours worked and their respective pay rates to the Paychex reports that include the rate and number of hours for which an employee was paid.
- Obtain management, supervisory or Board approval of monthly payroll expenditures.
- Obtain employee contracts, W-4 forms, IT-4 forms, retirement forms, and teacher certifications and retain them in each employee's file.



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DOHN COMMUNITY HIGH SCHOOL

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 2, 2003**