



**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**CLOSEOUT AUDIT**

**FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 1, 2010**



**Dave Yost • Auditor of State**



CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Educational Resource Consultants of Ohio, Inc.  
11260 Chester Road, Suite 230  
Cincinnati, Ohio 45246

To the Sponsor:

We were engaged to audit the financial statement of Chase Academy for Communication Arts, Franklin County, Ohio, (the Academy) as of and for the period July 1, 2009 through June 1, 2010, as listed in the table of contents. This financial statement is the responsibility of the Academy's management.

Auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards* require us to obtain written representations from management as part of our audit. Management has not provided the Auditor of State written representations, including but not limited to, management's responsibility for preparing the financial statements in conformity with the Academy's accounting basis; the availability of original financial records and related data, the completeness and availability of all minutes of the legislative or other bodies and committee meetings; management's responsibility for the Academy's compliance with laws and regulations; the identification and disclosure to the Auditor of State of all laws, regulations, and provisions of contracts and grant agreements directly and materially affecting the determination of financial statement amounts and; the presence or absence of fraud involving management or employees with significant roles in internal control; compliance with laws, regulations, and provisions of contracts and grant agreements, and compliance with any debt covenants.

Ohio Administrative Code § 117-2-03 (B) requires the Academy to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statement and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statement and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

Since we were unable to obtain written representation as described above, the scope of our auditing procedures was not sufficient to enable us to express, and we do not express, an opinion on this financial statement referred to above for the period July 1, 2009 through June 1, 2010.

The Academy has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

As disclosed in Note 1, the Academy suspended operations on February 25, 2010 and formally closed operations on June 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2011, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

**Dave Yost**  
Auditor of State

February 11, 2011

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGE IN FUND CASH BALANCE - PROPRIETARY FUND TYPE  
FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 1, 2010**

	<b>Enterprise</b>
<b>Operating Cash Receipts:</b>	
Foundation Payments	\$ 478,147
Other Operating Revenues	9,405
Total Operating Cash Receipts	487,552
<b>Operating Cash Disbursements:</b>	
Salaries & Wages	309,988
Fringe Benefits	105,635
Purchased Services	349,600
Materials & Supplies	16,487
Miscellaneous	18,430
Total Operating Cash Disbursements	800,140
Operating Loss	(312,588)
<b>Non-Operating Cash Receipts/(Disbursements):</b>	
State Subsidies	4,855
Federal Subsidies	316,506
Short-term Loan Proceeds	4,600
Redemption of Principal	(19,600)
Interest and Fiscal Charges	(2,400)
Total Non-Operating Cash Receipts/(Disbursements)	303,961
Net Receipts Under Disbursements	(8,627)
Fund Cash Balances, July 1	8,905
<b>Fund Cash Balances, June 1</b>	<b>\$ 278</b>

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

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**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 1, 2010**

**NOTE 1 - DESCRIPTION OF ACADEMY AND REPORTING ENTITY**

**Key Individuals and Contract Agents**

**July 1, 2009 – June 1, 2010 (closing of the Academy)**

<b>Name</b>	<b>Title</b>
Kimberly Allen Davis	Academy Board President
Educational Resource Consultants of Ohio (ERCO)	Sponsor
Franklin Carter, All About Learning, Inc.	Treasurer
Deborah Haptonstall	School Director / Superintendent at closing date

**Description of the Academy and Reporting Entity**

Chase Academy for Communication Arts (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Sections 3314 and 1702 and has tax-exempt status under Section 501(c)(3) of the Internal Revenue Code exclusively for educational purposes. The Academy, 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 Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

During fiscal year 2010, the Academy's sponsor was Educational Resource Consultants of Ohio, Inc. (the Sponsor). The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a seven-member Board of Directors. The Board of Directors is responsible for carrying out the provisions of the contract, which include but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Directors controls the Academy's instructional/support facility staffed by 10 certificated personnel and 4 classified staff who provide services to 107 students.

**Ceased Operations of the Academy**

On February 25, 2010, the Academy notified the Ohio Department of Education (ODE) the school suspended operations. On May 26, 2010, the Board of Directors for the Academy approved a resolution to close the school effective June 1, 2010.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Accounting**

Although required by Ohio Administrative Code section 117-2-03(B) to prepare its annual financial report in accordance with GAAP, the Academy chooses to prepare its financial statements and notes on the cash basis of accounting. The cash basis of accounting is a comprehensive basis of accounting other than GAAP. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 1, 2010  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. Basis of Accounting (Continued)**

The Academy uses a single enterprise fund, cash basis financial statement presentation. This financial statement includes adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

**B. Budgetary Process**

Unlike traditional 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 contract between the Academy and its Sponsor. The contract between the Academy and its Sponsor, Educational Resource Consultants of Ohio, does prescribe a budgetary process for the Academy.

**C. Cash and Cash Equivalents**

During period ended June 1, 2010, all monies received by the Academy were accounted for by the Academy's fiscal agent, All About Learning, Inc. All cash received by the fiscal agent is maintained in separate bank accounts in the Academy's name. The Academy did not have any investments during the period July 1, 2009 through June 1, 2010.

**D. Capital Assets**

Acquisition of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statement under the cash basis of accounting. Depreciation has not been reported for any capital assets. All capital assets were liquidated at auction on June 21, 2010. The proceeds of the auction of \$6,899 were deposited into the Academy's account.

**E. Intergovernmental Revenues**

The Academy currently participates in the State Foundation Program. Revenues from this program are recognized as operating revenues (foundation payments). The Academy also participates in various federal and state grant programs through the Ohio Department of Education. Grants and entitlements are recognized as non-operating revenues. Amounts awarded under the above named programs for the period July 1, 2009 through June 1, 2010 totaled \$799,508.

**NOTE 3- DEPOSITS**

At June 1, 2010, the carrying amount of all Academy deposits was \$278. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 1, 2010, all of the Academy's bank balance of \$278 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. The Academy has no deposit policy for custodial credit risk.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 1, 2010  
(Continued)**

**NOTE 4- DEBT**

The Academy entered into a loan agreement with CSPS-Columbus, LLC., the lessor of their building, on June 20, 2008 for the purpose of remodeling the current leased building. The Academy paid \$15,000 in principal and \$2,400 in interest charges during the period July 1, 2009 through June 1, 2010. The outstanding principal balance is \$32,500.

The Academy entered into two non-interest bearing, short-term loans on July 29, 2009 for \$2,900 and on March 2, 2010 for \$1,700 with All About Learning, Inc., the Academy's fiscal agent, with Franklin Carter, acting as the Treasurer of the Academy. The loans were for operating expenses and were repaid in full on August 3, 2009 for the \$2,900 loan and March 16, 2010 for the \$1,700 loan.

**NOTE 5- RISK MANAGEMENT**

**A. Property and Liability**

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the period ended June 1, 2010, the Academy contracted with the Erie Insurance Group for liability insurance. The general liability coverage is in the amount of \$2,000,000 aggregate.

Settled claims have not exceeded this commercial coverage in the past three years and there has been no significant reduction in insurance coverage from the prior year.

**B. Workers' Compensation**

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

**C. Other Employee Benefits**

The Academy has contracted with a private carrier to provide employee medical, dental, and insurance to its full time employees.

**NOTE 6- DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

Plan Description - The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement, disability, and survivor 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, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling toll free (800) 878-5853. It is also posted on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 1, 2010  
(Continued)**

**NOTE 6- DEFINED BENEFIT PENSION PLANS (Continued)**

**A. School Employees Retirement System (Continued)**

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For period July 1, 2009 through June 1, 2010, the allocation to pension and death benefits is 12.78 percent. The remaining 1.22 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The Academy's contributions to SERS for the period July 1, 2009 through June 1, 2010 and years ended June 30, 2009 and 2008 were \$12,268, \$12,353 and \$19,465, respectively; 100% has been contributed for all years.

**B. State Teachers Retirement System**

Plan Description - The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plans. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
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**NOTES TO THE FINANCIAL STATEMENT  
FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 1, 2010  
(Continued)**

**NOTE 6- DEFINED BENEFIT PENSION PLANS (Continued)**

**B. State Teachers Retirement System (Continued)**

Funding Policy - For the period July 1, 2009 through June 1, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the period July 1, 2009 through June 1, 2010 and for fiscal years ended June 30, 2009, and 2008 were \$25,592, \$75,469, and \$86,267 respectively; 100 percent has been contributed for all years.

**C. Social Security**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 1, 2010, no employees have elected Social Security.

**NOTE 7- POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description – The Academy participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2010, 0.46 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2010, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status. The Academy's contributions for health care for the period July 1, 2009 through June 1, 2010 and for fiscal years ended June 30, 2009, and 2008 were \$403, \$3,671, and \$8,883 respectively; 100 percent has been contributed for all fiscal years.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 1, 2010  
(Continued)**

**NOTE 7- POSTEMPLOYMENT BENEFITS (Continued)**

**A. School Employees Retirement System (Continued)**

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The Academy's contribution for Medicare Part B for the period July 1, 2009 through June 1, 2010 and for fiscal years ended June 30, 2009 and 2008 were \$666, 100 percent has been contributed for fiscal year 2010.

**B. State Teachers Retirement System**

Plan Description – The Academy contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the period July 1, 2009 through June 1, 2010 and for fiscal years ended June 30, 2009 and 2008 were \$1,828, \$7,547, and \$6,636, respectively; 100 percent has been contributed for all years.

**NOTE 8- FISCAL AGENT**

The Academy entered into a service agreement with All About Learning, Inc. for fiscal services on January 9, 2008. Total payments for fiscal services during the fiscal year were \$24,000.

As Chief Fiscal Officer, All About Learning will perform the following services:

Oversee custody of all funds received by the Academy for which it has treasury responsibilities

Oversee all accounts of same

Oversee all financial records of the same and follow procedures for receiving and expending of funds. Procedures shall require the Treasurer disburse monies only upon receipt of a signed voucher or requisition by the Board President or Chief Administrative Officer of the same schools

Prepare all financial reports for board meetings and ensure all reporting to the Ohio Department of Education, the Ohio Auditor of State, and all government entities in the course of doing business as an Ohio Community School.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 1, 2010  
(Continued)**

**NOTE 8- FISCAL AGENT (Continued)**

Invest funds for the school as set forth by the Ohio Revised Code, and advise the governing board on any and all situations relative to the financial enhancement of the school.

Work with the same school or their designee to ensure appropriate reporting of enrollment, EMIS and CSADM and report to the board material changes that might impact the financial position of the Academy.

**NOTE 9 – CONTINGENCIES**

**A. Grants**

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall position of the Academy at June 1, 2010.

**B. State Funding**

The Ohio Department of Education conducts reviews over enrollment data and full-time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. ODE has conducted a final review of the Academy's student enrollment data and FTE calculations. The final review reflected a liability to ODE of \$311,556.

**NOTE 10- RELATED PARTY TRANSACTIONS**

The Academy's interim Executive Director for the period of November 16, 2009 through November 30, 2009, was the spouse of the Academy's Treasurer, Franklin Carter. Anna Carter, received \$2,053 in gross salary for the period.

The Academy entered into two short-term loans with All About Learning, Inc. the Academy's fiscal agent, with Franklin Carter, acting as the Treasurer of the Academy. See terms of the loan disclosed above in Note 4.

**NOTE 11 – OPERATING LEASE – LESSEE DISCLOSURE**

On March 14, 2008, the Academy signed a 10-year building lease with Charter School Property Services, LLC – a Nevada Limited Liability Company with rent commencing upon occupation. The facility is 24,000 square feet and the Academy utilized the facility for the 2010 school year through suspension, when the remainder of the lease was voided. Monthly lease payments are detailed in the lease agreement with the first year's base rate set at \$11.85 per square foot, which is \$23,700 per month and \$284,400 per year. Total rent expense for the period July 1, 2009 through June 1, 2010 was \$104,570.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENT  
FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 1, 2010  
(Continued)**

**NOTE 12 – PURCHASED SERVICES**

For the period July 1, 2009 through June 1, 2010, purchased service expenses were payments for services rendered by various vendors, as follows:

<b><u>PURCHASED SERVICES</u></b>	
Professional and Technical Services	\$122,904
Property Services	171,043
Travel Mileage/Meeting Expense	3,199
Communications	10,196
Transportation	5,714
Other Purchased Services	<u>36,544</u>
<b>Total Purchased Services</b>	<b>\$349,600</b>

**NOTE 13- SUBSEQUENT EVENTS**

On February 25, 2010, the Academy notified the Ohio Department of Education (ODE) the school suspended operations. On May 26, 2010, the Board of Directors for the Academy approved a resolution to close the school effective June 1, 2010.

The following is a schedule of all receipt and expenditure transactions which occurred subsequent to the closing date of June 1, 2010.

Date	Receipt	Expenditure	Payee/Vendor	Description
6/01/2010	\$ 278		-	Cash Book Balance at close
6/16/2010	295		-	Deposit
6/22/2010		50	Chase Bank	Service Fees
6/22/2010		50	Chase Bank	Miscellaneous Withdrawal
6/30/2010		12	Chase Bank	Service Fees
6/30/2010		12	Chase Bank	Service Fees
7/30/2010		12	Chase Bank	Service Fees
7/30/2010		12	Chase Bank	Service Fees
8/30/2010		12	Chase Bank	Service Fees
8/30/2010		12	Chase Bank	Service Fees
9/30/2010		12	Chase Bank	Service Fees
9/30/2010		12	Chase Bank	Service Fees
10/14/2010	5,899		-	Capital Asset Auction Deposit
10/29/2010		12	Chase Bank	Service Fees
10/29/2010		12	Chase Bank	Service Fees
11/08/2010	700		-	Capital Asset Auction Deposit
11/24/2010		1,073	All About Learning	Fiscal Fees
11/29/2010	300		-	Capital Asset Auction Deposit
11/30/2010		1,750	Arch Express	Student Transportation Outstanding Liability
11/30/2010		1,005	Preventative Health Care	Health Care
11/30/2010		2,959	The Law Offices of Chester, Wilcox and Saxbe	Legal Services – past due bills
12/31/2010		12	Chase Bank	Service Fees
1/31/2011		12	Chase Bank	Service Fees
2/11/2011	\$ 441		-	Final Cash Book Balance



# Dave Yost • Auditor of State

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

Educational Resource Consultants of Ohio, Inc  
11260 Chester Road  
Cincinnati, Ohio 45246

To The Sponsor:

We were engaged to audit the financial statement of Chase Academy for Communication Arts, Franklin County, Ohio (the Academy) as of and for the period July 1, 2009 through June 1, 2010 and have issued our report thereon dated February 11, 2011, in which we disclaimed an opinion upon the financial statements because we were unable to obtain written representations regarding the activity of the Academy. We noted the Academy presented financial statements on the cash basis of accounting rather than in accordance with accounting principles generally accepted in the United States of America. We also noted the Academy closed operations on June 1, 2010.

### Internal Control over Financial Reporting

In planning and performing our engagement, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses and other deficiencies we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2010-003 through 2010-005, 2010-012, and 2010-013 described in the accompanying schedule of findings to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2010-006 and 2010-014 through 2010-016 described in the accompanying schedule of findings to be significant deficiencies.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Academy's financial statement is free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2010-001 through 2010-011.

We also noted certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated February 11, 2011.

We intend this report solely for the information and use of management, the Board of Directors, and the Academy's Sponsor, Educational Resource Consultants of Ohio, Inc. We intend it for no one other than these specified parties.



**Dave Yost**  
Auditor of State

February 11, 2011

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 1, 2010**

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

Finding Number 2010-001

**Proper Public Purpose Unsupported Expenditures – Noncompliance Finding / Finding for Recovery**

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

The Academy expended public funds that did not have supporting documentation for 25.2% of the nonpayroll and debt expenditures that were tested during the fiscal year. Additionally, the Academy expended public funds in the amount of \$1,779 (as identified in the table below) that did not have prior Board approval, demonstrating what public purpose such expenditures served.

<b>Date</b>	<b>Check/Debit</b>	<b>Vendor</b>	<b>Amount</b>
7/1/2009	Debit	Shell Oil	\$ 25
8/14/2009	Check 1158	Chase Academy	250
10/13/2009	Debit	Tim Horton's	29
10/21/2009	Debit	Shell Oil	125
10/28/2009	Debit	Shell Oil	125
11/12/2009	Debit	Shell Oil	250
11/19/2009	Debit	Shell Oil	250
12/2/2009	Debit	Kroger	24
12/3/2009	Debit	Shell Oil	6
1/8/2010	Debit	Shell Oil	125
1/14/2010	Debit	Shell Oil	125
1/29/2010	Debit	Shell Oil	128
1/29/2010	Debit	Shell Oil	125
2/8/2010	Debit	Shell Oil	125
2/9/2010	Debit	Kroger	14
2/19/2010	Debit	Exxon Mobil	25
2/23/2010	Debit	Speedway	15
2/23/2010	Debit	Shell Oil	13
		<b>Total</b>	<b>\$1,779</b>

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

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 1, 2010  
(Continued)**

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

Finding Number 2010-001 (Continued)

**Proper Public Purpose Unsupported Expenditures – Noncompliance Finding / Finding for Recovery (Continued)**

Furthermore, the Academy had four Executive Directors and four periods of time where Executive Director position was vacant.

Time Period	Director
July 1, 2009 through July 31, 2009	Position Vacant
August 1, 2009 through October 31, 2009	Terrance Walton
November 1, 2009 through November 15, 2009	Position Vacant
November 16, 2009 through December 1, 2009	Anna Carter
December 2, 2009	Position Vacant
December 3, 2009 through January 15, 2010	Fredericka Wallace-Deena
January 16, 2010 through January 24, 2010	Position Vacant
January 25, 2010 through the end of the fiscal year	Deborah Haptonstall

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended in favor of the Academy's General Fund is hereby issued against:

- Franklin Carter, Treasurer, and Platte River Insurance Co., Franklin Carter's bonding company, in his supervisory capacity for assuring that all such payments are in accordance with Academy policy for \$300;
- Terrance Walton, Interim Executive Director, and Franklin Carter, Treasurer, and Platte River Insurance Co., Franklin Carter's bonding company, in their supervisory capacities for assuring that all such payments are in accordance with Academy policy, jointly and severally, for \$528;
- Anna Carter, Interim Executive Director, and Franklin Carter, Treasurer, and Platte River Insurance Co., Franklin Carter's bonding company, in their supervisory capacities for assuring that all such payments are in accordance with Academy policy, jointly and severally, for \$250, which was repaid under audit by Anna Carter on April 4, 2011 in the amount of \$250; and
- Fredericka Wallace-Deena, Interim Executive Director, and Franklin Carter, Treasurer, and Platte River Insurance Co., Franklin Carter's bonding company, in their supervisory capacities for assuring that all such payments are in accordance with Academy policy, jointly and severally, for \$256.
- Deborah Haptonstall, Executive Director, and Franklin Carter, Treasurer, and Platte River Insurance Co., Franklin Carter's bonding company, in their supervisory capacities for assuring that all such payments are in accordance with Academy policy, jointly and severally, for \$445.

We recommend the Academy ensure proper supporting documentation is retained to evidence all expenditures made and ensure the accuracy of the financial statement presentation. Such documentation should be received and approved by those with appropriate authority prior to expenditure and should be maintained along with the expenditures to evidence the details of the goods or services purchased. Such documentation should also be reviewed by the Board during monthly review of financial reports and expenditures to ensure the proper recording and classification of expenditures.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 1, 2010  
(Continued)**

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

Finding Number 2010-001 (Continued)

**Proper Public Purpose Unsupported Expenditures – Noncompliance Finding / Finding for Recovery (Continued)**

We further recommend the Board pass a comprehensive proper public purpose policy that provides guidance and direction to staff and directors as to what expenditures are viewed as a proper public purpose that accomplish the goals and mission of the Academy. Such a policy may entail:

- The permissiveness of various expenditure types or classifications to the Academy as a whole;
- Dollar limitations on the expenditure of funds for certain expenditure types or classifications;
- Restrictions on expenditures for specific types of Academy programs or activities;
- The allowability of certain expenditure types or classifications in regard to federal programs;
- Designation regarding the appropriate uses of, allowable types of, dollar limitations to, and types of documentation that must be maintained for student and teacher incentives.

Finding Number 2010-002

**Board Stipends – Noncompliance Finding / Finding for Recovery**

The Academy's Board of Directors are compensated on a per meeting stipend basis, at a rate of \$125 per meeting, as authorized by the Board and in accordance with limitations established by the Ohio Revised Code Section 3314.025. However, the Academy did not maintain all records of minutes for meetings that were to have taken place. By not retaining the Board minutes, the Auditor of State was unable to determine that meetings were appropriately held and as a result that Board stipends were properly paid. The Board members were compensated for 3 monthly meetings for a total of \$1,250, which did not have a supporting record of minutes.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended for receiving unsupported Board stipend payments in favor of the Academy's General Fund is hereby issued against:

- Janis Scott, Board of Directors member, for \$375;
- Kim Allen Davis, Board of Directors member, for \$375;
- Edythe Jones, Board of Directors member, for \$125; and
- Norman Brown, Board of Directors member, for \$375.

Additionally, under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. *Seward v. National Surety Co.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State, ex.rel. Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att'y Gen. No. 80-074.

Accordingly, Franklin Carter, Treasurer and Platte River Insurance Co., Franklin Carter's bonding company, are jointly and severally liable in the amount of \$1,250 in favor of the Academy's General Fund.

We recommend the Academy ensure proper Board of Director minute records are maintained to evidence all stipends paid to the Board are for meetings held.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 1, 2010  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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Finding Number 2010-003
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**Student Enrollment Records – Noncompliance Finding / Material Weakness**

The Ohio Rev. Code Section 3314.17(C) states that each fiscal officer appointed under section 3314.011 of the Revised Code is responsible for annually reporting the community school's data under section 3301.0714 of the Revised Code. Ohio Rev. Code Section 3301.0714(B)(1)(c)-(l) requires the following data must be reported to the Ohio Department of Education:

- Average student grades in each subject in grades nine through twelve
- Academic achievement levels as assessed by the testing of student achievement
- The number of students designated as having a disabling condition
- The numbers of students reported to the state board
- Attendance rates and the average daily attendance for the year
- Expulsion, Suspension, Graduation and Dropout rates
- Rates of retention in grade

The Board of Directors and Treasurer were responsible for ensuring the aforementioned student information was updated to the Ohio Department of Education's (ODE's) Community School Average Daily Membership (CSADM) and Education Management Information System (EMIS) databases. These reports filed by the Academy were based on inaccurate amounts.

ODE has determined that the Academy was overpaid \$311,556 in foundation payments in fiscal year 2010 based on the inaccurate FTE child count reports.

We recommend the Academy develop procedures to properly document the number of student attendance and properly input the amounts into the CSADM and EMIS databases. In addition, the Academy should train employees on the procedures and monitor the process regularly.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 1, 2010  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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Finding Number 2010-004
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**Sponsor Annual Evaluation Reports – Noncompliance Finding / Material Weakness**

Ohio Rev. Code Sections 3314.03(D)(2) & (3) state that the sponsor of a community school shall monitor and evaluate the academic and fiscal performance and the organization and operation of the community school on at least an annual basis. In addition, the Sponsor must report the results of the annual evaluation to the Department of Education (ODE), as well as to the parents of students attending the community school.

Chase Academy's sponsor, Educational Resource Consultants of Ohio (ERCO), performed and submitted the required annual evaluation of the Academy. However, during fiscal year 2010 the Academy was experiencing negative financial trends, including insufficient funds to meet future operating expenses, and had 5 year forecast projections based on assumptions that did not illustrate how past results and future expectations were reflected in the forecasted amounts that were not noted in the sponsor's annual report.

Failure to include these fiscal performance measures in the sponsor's report of the Academy resulted in an inability for proper evaluation and monitoring by the Ohio Department of Education.

We recommend the Academy provide adequate records to the sponsor allowing the sponsor to fully evaluate the Academy's academic and fiscal performance of the organization.

Finding Number 2010-005
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**5 Year Forecast – Noncompliance Finding / Material Weakness**

Ohio Rev. Code Section 5705.391, through Ohio Admin. Code Section 3301-92-04, requires that community schools submit a five year forecast by October 31<sup>st</sup> of each year to the Ohio Department of Education. This section also includes references to annual appropriations and annual revenue estimates although these measures need not follow other 5705 requirements. The school's assumptions should be reasonable and the projections should be resulted from the assumptions documented.

The Academy did submit a five year forecast to the Ohio Department of Education by the required date; however, the written assumptions used to support the amounts on the forecast did not illustrate how past results and future expectations were reflected in the forecasted amounts. The Academy projected unreasonably high food service receipts, and state and federal grant revenues are based on unreasonable and inaccurate FTE child count-equivalents.

Failure to develop a supported five year forecast results in a failure to plan for financial operations and results of the Academy and an inability for monitoring agencies to ensure proper tracking of the Academy's financial plan and funding status.

We recommend the Academy provide supportable assumptions and revise the five year forecast if any material new revenues or expenditures occur. The Academy should also prepare an annual budget with appropriations and estimated receipts. The Board of Directors should monitor the budget monthly to help ensure the Academy does not overspend and should modify such forecasting tools when events occur that significantly modify the underlying assumptions.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 1, 2010  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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Finding Number 2010-006
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**Minute Record – Noncompliance Finding / Significant Deficiency**

Ohio Rev. Code Section 149.43(B)(1) and (2) states that all public records shall be promptly prepared and made available to any member of the general public at all reasonable times during regular business hours for inspection. Upon request, a person responsible for public records shall make copies available at cost, within a reasonable period of time. In order to facilitate broader access to public records, public offices shall maintain public records in such a manner that they can be made available for inspection.

Additionally, Ohio Rev. Code Section 121.22(C) states the minutes of a regular or special meeting of any such public body shall be promptly recorded and open to public inspection. The minutes need only reflect the general subject matter of discussions in executive sessions.

All Board of Director's minute records were not retained. The Academy only retained the 8/8/09 meeting minutes and meeting agendas for 7/11/09, 8/8/09, and 9/12/09.

By not retaining Board meeting minutes, it leads to unsubstantiated, unclear, and possibly inaccurate official actions and approvals enacted by the Board of Directors, which may further lead to an inability to determine the classification, existence, completeness, and valuation of cash receipts and disbursements.

We recommend the Board of Directors document all pertinent information pertaining to official Board actions in the minutes. We further recommend the minutes be properly stored for public inspection and that subject reasoning be provided in the minutes for all executive sessions that the Board enters into.

Finding Number 2010-007
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**Board Stipend Withholdings – Noncompliance Finding**

26 U.S.C. Section 3402, Ohio Rev. Code Section 5747.06, Ohio Rev. Code Section 145.51, and Ohio Rev. Code Section 9.42 requires an employer to deduct and withhold federal income tax, Medicare tax, Ohio income tax, Ohio Public Employers Retirement contributions, and municipal income tax from the compensation of all employees. Additionally, 26 C.F.R. Section 1.6041-2 provides that wages, as defined in section 3401 are to be reported on Form W-2.

In fiscal year 2010, the Academy's Board of Directors was approved to receive a board stipend of \$125 per month per board member. The Academy did not withhold any deductions from their pay, as required. The Academy did not have on file any W-2 Forms for the six Board of Directors members. In addition, the Executive Director, Fredericka Wallace-Deena was paid \$3,000 of her contracted pay that did not have any withholdings taken out of the payment.

We recommend all Board members prepare a W-4 Form, IT-4 Form and complete appropriate retirement and city withholding forms. The Academy should utilize these forms to withhold the required deductions from all employees. We further recommend the Academy should remit the withholdings to the corresponding agent and issue a W-2 Form for each Board of Directors member.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 1, 2010  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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Finding Number 2010-008
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**Reimbursements for Breakfasts and Lunches – Noncompliance Finding**

7 C.F.R. Section 210.7(c)(1)(iii) requires that all claims for reimbursements be based on accurate counts for lunches and meal supplements and correctly identify the number of free, reduced price and paid lunches served to eligible children. 7 C.F.R. Section 220.11(b), pertaining to reimbursements for breakfasts served, requires that the Claim for Reimbursement for any month shall include only breakfasts served in that month, except if the first or last month of Program operations for any year contains 10 operating days or less, such month may be added to the Claim for Reimbursement for the appropriate adjacent month.

In fiscal year 2010, the Academy contracted with Himes Vending, Inc. to provide food services and transportation services. The daily count sheets were improperly completed, due to missing and incomplete notations of payments and meals served, to the extent that it was impossible to recalculate the meal counts and amounts paid due to the lack of sufficient documentation. We were therefore unable to ascertain the completeness and accuracy for the meal counts the Academy submitted to the State for reimbursement and amount of receipts received.

As a result, the Academy received reimbursements of \$4,560 for the School Breakfast program and \$10,450 for the School Lunch Program based on inaccurate and unsupported meal and meal supplement counts.

We recommend the Academy develop procedures to properly document the number of lunches and breakfasts served and receipts collected by students. In addition, the Academy should train employees on the procedures and monitor the process regularly. We further suggest the Academy monitor the claim forms and compare them to their documentation to ensure accuracy of the claims.

Finding Number 2010-009
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**Final Expenditure Reports – Noncompliance Finding**

34 CFR 74.52(a)(1)(i) states that recipients are required to use the SF-269 Financial Status Report (Final Expenditure Report as developed by the Ohio Department of Education) to report the status of funds for all non-construction projects or programs. While part (iii) states a final report is required at the completion of the agreement.

Additionally, the Ohio Department of Education (ODE) Comprehensive Continuous Improvement Plan (CCIP) assurance #6 states that the subgrantee will make reports to ODE and to the department as may reasonably be necessary to enable ODE and the department to perform their duties. The reports shall be completed and submitted in accordance with the standards and procedures designated by ODE and/or the department and shall be supported by appropriate documentation.

The Academy failed to complete the Final Expenditure Report for any Federal grant received through ODE for fiscal year 2010.

We recommend the Academy complete the Final Expenditure reports for grants received through ODE in accordance with the guidelines prescribed above.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 1, 2010  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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Finding Number 2010-010
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**Community School Closeout Procedure Assurances – Noncompliance Finding**

ORC 3314.015 (E) states that the Ohio Department of Education (ODE) shall adopt procedures for use by a community school governing authority and sponsor when the school permanently closes and ceases operation, which shall include at least procedures for data reporting to the department, handling of student records, distribution of assets in accordance with section 3314.074 of the revised code, and other matters related to ceasing operation of the school.

ODE has adopted the “Community School Closing Procedure Assurances”, which governs the reporting of closed community schools in regards to ORC 3314.015 (E). Included in the procedures are that the Academy notify ODE within 24 hours of close of the school, that all Federal grant reports be filed, all assets be separately tracked as to whether they were purchased with Federal grants or state monies, and that all funds be paid in accordance with the disposition process established in the assurances. In addition, the assurances should be submitted to the Office of Community Schools within 30 days of closeout.

The Academy notified ODE within 24 hours of closeout, but notified ODE of the suspension of the school on March 2, 2010, which is 4 days after the school suspended operations on February 25, 2010. Additionally, the Academy did not file Final Expenditure Reports for their Federal grants, did not track assets bought by Federal grant monies versus state monies, has yet to pay vendors all Academy funds according to the disposition process, and has yet to submit the assurance document to the Office of Community Schools.

Failure to fully complete the “Community School Closeout Procedure Assurances” results in an inability for proper evaluation and monitoring by the Ohio Department of Education and could lead to misappropriation of assets.

We recommend the Academy and its Sponsor, Educational Resource Consultants of Ohio fully complete the assurance document and submit it to the Office of Community Schools.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 1, 2010  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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Finding Number 2010-011
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**Filing Annual Report – Noncompliance Finding**

Ohio Admin. Code Section 117-2-03(B) requires counties, cities, school districts, educational service centers, and community schools to report annually (but not necessarily account) on a GAAP basis. The Academy prepared its financial statements and notes on the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

The Academy reported their annual financial statements on a cash basis rather than a GAAP basis.

We recommend the Academy prepare and file their annual financial report on a GAAP basis as prescribed by the Ohio Administrative Code. This includes financial statements, notes to the financial statements and a management's discussion and analysis.

Finding Number 2010-012
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**Financial Reporting – Material Weakness**

Sound financial reporting is the responsibility of the Academy's management and Board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The following audit adjustments/reclassifications were made to the financial statements and, where applicable, to the Academy's accounting records:

1. Reclassification of \$36,410 from Foundation Receipts to Federal Subsidy Receipts for \$29,006 and Miscellaneous Expenses for (\$7,404);
2. Reclassification of \$17,400 of Purchased Services Expenses to Repayment of Principal for \$15,000 and Interest and Fiscal Charges for \$2,400;
3. Reclassification of \$2,000 from Miscellaneous Receipts to State Subsidies Receipts;
4. Adjustment to gross up Foundation Receipts and Other Expenses by \$3,200;
5. Adjustment to State Subsidies for \$2,855 with a decrease of \$2,559 to Federal Subsidies with an increase of \$296 Cash Fund Balance;
6. Adjustment to increase fund balance and Miscellaneous Receipts by \$693 to record a reconciling item;
7. Reclassification of \$1,625 of Miscellaneous Expenses and \$500 of Purchased Services Expense to Salaries and Wages Expense for \$2,125;
8. Reclassification of Purchased Service Expense of \$4,624 to Salaries and Wages Expense for \$3,000 and Fringe Benefits Expense for \$1,624;
9. Adjustment to remove an improper gross up bank credit which decreases Miscellaneous Receipts by \$419, Supplies and Materials Expense by \$107, Purchased Service Expense by \$307, and Miscellaneous Expenses by \$5;
10. Reclassification of \$4,600 from Miscellaneous Revenue to Short-term Loan Proceeds, reclassification of \$1,700 from Purchased Service Expense to Repayment of Principal, and reclassification of \$2,900 from Miscellaneous Expense to Repayment of Principal;

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 1, 2010  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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Finding Number 2010-012 (Continued)
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**Financial Reporting – Material Weakness (Continued)**

11. Adjustment to remove expenses for checks written, but never cashed and subsequently voided increasing cash fund balance of \$18,066 and decreasing expenses for salaries and wages of \$1,525, Fringe Benefits of \$4,023, Purchased Services of \$4,000, and Miscellaneous Expenses of \$8,518.

Lack or failure of controls over the posting of financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data throughout the year.

We recommend the Academy develop policies and procedures to enhance its controls over recording of financial transactions and financial reporting to help ensure the information accurately reflects the activity of the Academy and thereby increasing the reliability of the financial data throughout the year. We also recommend the Academy implement additional procedures over the completeness and accuracy of financial information reported within the Academy's annual report. Such procedures may include review of the financial statements and related components by a member of management with analytical comparisons of the current year annual report to the prior year reports for obvious errors or omissions.

Finding Number 2010-013
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**Segregation of Duties – Material Weakness**

Control activities and duties should be segregated to allow for a system of checks and balances within an organization. During fiscal year 2007, the Academy approved a purchasing policy that states all equipment, goods and services are to be purchased through the Board of Directors. However, the policy further delegates the authority for purchasing of textbooks, materials, classroom supplies, student activities and enrichment activities to the Executive Director.

During fiscal year 2010, the Executive Directors executed many significant operational duties for the Academy including drafting and approving purchase requisitions, processing and approving reimbursements, and making the majority of the Academy's expenditures. The Executive Directors also wrote and issued manual checks and made debit card purchases without independent approval. The results of these duties were rarely presented to the Board and documentation of Board review or approval was not present.

The lack of segregation of duties increases the risk that the Academy's funds could be misappropriated or fraudulent activity could occur and go undetected by management. In addition, lack of segregation allows for errors perpetuated by the Executive Director to have no system of checks and balances to identify and correct unrecorded expenditures, contracts, and miscoded expenditures with the financial statements.

We recommend the Board take a more active role in approving the purchases and contracts. A more active role by the Board allows for segregation of duties which enhance an organization's ability to properly safeguard assets. We further recommend the Board revise its purchasing policy so as not to delegate all authorization and execution authority to the same individual for such a significant portion of the Academy's financial transactions. Expenditures involving reimbursements to the Executive Director should also be authorized by the Board.

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 1, 2010  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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Finding Number 2010-014
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**Debit Cards – Significant Deficiency**

The Academy has established the use of a debit card to make purchases on a day-to-day basis to operate the Academy. The Academy does have a Board approved policy in place to regulate the use of debit cards which was approved February 2007; however, the policy is not being adhered to. The policy mandates a \$500 per month maximum, but every month through the suspension date of 2/25/2010 exceeded the \$500 limit, including 12 individual transactions exceeding the limit.

Utilization of the debit card in excess of established limits and the use of cash withdraws circumvented the regularly established purchasing protocols, resulted in unsupported transactions which could not be determined as to financial statement classification and led to findings for recovery (See Finding 2010-001), and may result in cash flow difficulties with extended uncapped and unmonitored use. In addition, the Academy's debit card was lost after the Academy suspended operations and an unknown person made unauthorized purchases on the card. The total of these purchases were \$418.95. Chase Bank subsequently returned the full amount to the Academy.

We recommend the Board update the debit card policy to prohibit usage relating to cash withdraws. Furthermore, we recommend the Academy ensure capped limitations on debit card use are followed and that monitoring procedures are put in place to monitor usage and ensure that appropriate documentation is maintained for purchases and ensure proper controls over retaining and securing the debit card.

Finding Number 2010-015
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**Board Approval and Agreement for Debt – Significant Deficiency**

A community school may borrow money to pay any necessary and actual expenses in anticipation of State Foundation receipts. The school may issue notes to evidence such borrowing. All loans community schools enter into should have prior Board approval and a signed debt agreement between both parties.

The Academy entered into two non-interest bearing short-term loans with All About Learning, Inc., which also contracts with the Academy for treasurer services, for \$2,900 on July 29, 2009 and for \$1,700 on March 2, 2010. The Academy's Board of Directors did not approve the loans, nor were there official debt agreements between the two parties. These loans were subsequently repaid in full on August 3, 2009 for the \$2,900 loan and on March 16, 2010 for the \$1,700 loan.

We recommend any debt the Academy enters into is approved by the Board of Directors prior to being entered into. In addition, we recommend the Academy only enter into debt upon receipt of a debt agreement with the terms of the loan disclosed. The agreement should be written and signed by both parties indicating approval of the loan.

CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY

SCHEDULE OF FINDINGS  
FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 1, 2010  
(Continued)

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

Finding Number 2010-016

**Bank Reconciliation – Significant Deficiency**

A bank to book reconciliation should be performed monthly and reviewed and approved by an individual with appropriate fiscal authority. Reconciling items should be adjusted at the time the item or error is discovered and the discrepancy is resolved. All bank accounts should be included in the monthly bank to book reconciliation.

The Academy did perform monthly bank reconciliations. However, the Academy's ledgers did not reconcile to the performed bank reconciliations. The ledgers account balances were understated by \$693. Also, the Academy did not provide any supporting documentation for the bank reconciliation at 6/30/10, such as an outstanding check list.

Unreconciled bank to book balances, in addition to uncorrected reconciling items and lack of documentation for reconciling items could lead to possible theft or errors without the timely detection by management.

We recommend the Academy take steps to ensure all accounts are reconciled on a monthly basis and any future unreconciled variances are investigated and corrected in a timely manner. We recommend the Academy retain all supporting documentation for the monthly reconciliations. Furthermore, as a monitoring control, we recommend the monthly bank reconciliation be reviewed and approved by an individual with appropriate fiscal authority.

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

**CHASE ACADEMY FOR COMMUNICATION ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE PERIOD ENDED JUNE 1, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2009-001	Proper Public Purpose – Finding for Recovery – ORC 117.28	No	Not Corrected; re-issued as Finding 2010-001.
2009-002	Treasurer Bonding – OAC 117-6-07	Yes	
2009-003	Sponsor Annual Evaluation Reports	No	Not Corrected; re-issued as Finding 2010-004
2009-004	Minute Record – lack of maintaining minutes	No	Not Corrected; re-issued as Finding 2010-006
2009-005	Reimbursements for Breakfasts and Lunches – overstated counts	No	Not Corrected; re-issued as Finding 2010-008
2009-006	Student Enrollment Records – overstated counts	No	Not Corrected; re-issued as Finding 2010-003
2009-007	Segregation of Duties – Executive Director duties	No	Not Corrected; re-issued as Finding 2010-013
2009-008	Financial Reporting	No	Not Corrected; re-issued as Finding 2010-012



# Dave Yost • Auditor of State

**CHASE ACADEMY FOR COMMUNICATION ARTS**

**FRANKLIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 5, 2011**