



**CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY,
AND LEADERSHIP ENTERPRISE
CUYAHOGA COUNTY**

SPECIAL AUDIT

FOR THE PERIOD JULY 1, 2004 THROUGH JUNE 14, 2010



Dave Yost • Auditor of State

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INDEPENDENT ACCOUNTANTS' REPORT

Cleveland Academy of Scholarship, Technology, and Leadership Enterprise (CASTLE)
1729 Superior Avenue E
Cleveland, Ohio 44114

We conducted a special audit of the Cleveland Academy of Scholarship, Technology, and Leadership Enterprise (CASTLE) by performing the procedures enumerated in the attached Supplement to the Special Audit Report for the period July 1, 2004 through June 14, 2010 (the Period) solely to:

- Determine whether payments to selected vendors were supported, related to CASTLE operations and in accordance with CASTLE policies.
- Examine any unusual or unexplained bank activity regarding the CASTLE bank account for expenditures not already identified in Objective No. 1 to determine whether transactions were related to CASTLE operations.

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

1. We examined CASTLE payments to selected vendors during the Period to determine whether payments to vendors were supported, related to CASTLE operations and in accordance with CASTLE policies.

Significant Results – CASTLE made numerous payments to vendors and did not maintain supporting documentation. Additionally, payments were made to 11 companies owned by, or affiliated with, five CASTLE board members or officials. These members have since resigned from the CASTLE governing board. A number of these relationships and financial interests were not disclosed and evidence was not available to support legitimate services provided from certain related vendors.

We issued 18 findings for recovery totaling \$1,352,501. Certain findings for recovery were issued jointly and severally against multiple individuals or entities and included findings for recovery against former Chief Executive Officer (CEO) William Peterson totaling \$857,963; Dennis Stewart, a partial owner of CASTLE's management company and business associate of William Peterson, totaling \$367,344; former Board Member Stanley Jackson totaling \$200,000; former Treasurer Carl Shye totaling \$144,905; and current CEO Rolando Peterson totaling \$8,829.

In addition we noted payments to other vendors totaling \$135,829 for which we issued findings for recovery. While in these instances we are unaware of a relationship to any CASTLE board member or employee, we could not substantiate the vendors actually provided goods or services to CASTLE.

We issued two noncompliance citations related to records retention and improper related party transactions. Additionally, we made three recommendations regarding cash management and monitoring of financial activity, oversight by the governing board, and reconciling bank accounts.

2. We examined any unusual or unexplained bank activity regarding the CASTLE bank account for expenditures not already identified in Objective No. 1 to determine whether transactions were related to CASTLE operations.

Significant Results – Four transactions were determined to be additional unsupported payments to related vendors for which we could not conclude the transaction related to CASTLE operations. These four transactions were not recorded in the CASTLE ledgers. Findings for recovery for these transactions were included in Objective No. 1.

3. On June 12, 2012, we held an exit conference with the following individuals representing CASTLE:

E. Mark Young, Board Chair
Darlene Hodges, Board Vice Chair
Justin Skiftenes, Board Member

C. David Massa, School Fiscal Officer
Stephanie Minor, Board Member

The attendees were provided an opportunity to respond to this special audit report. A response was received on June 14, 2012. The response was evaluated and changes were made to this report as we deemed necessary.



Dave Yost
Auditor of State

April 8, 2013

Supplement to the Special Audit Report

Background

CASTLE is a community school created by brothers Rolando and William Peterson. It is located in Cleveland and until November 2007 contracted with a management company, Educational Management Alliance (EMA), located in Dayton. EMA was also the management company for several other community schools in the Dayton area with employees, managers and board members who were also involved with CASTLE. Through the remainder of the audit period CASTLE operated without a management company.

In March 2010, the Auditor of State's Office (AOS) received a letter from the law firm Roetzel & Andress, representing CASTLE and requesting an investigation of certain transactions between CASTLE and companies alleged to be owned by certain CASTLE board members, including EMA.

A preliminary examination was conducted by the AOS and the results were forwarded to the AOS Special Audit Task Force. On June 8, 2010, the AOS initiated a special audit of CASTLE.

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Relevant Individuals

Rolando Peterson

During the Period, Rolando Peterson served as CEO of CASTLE.

William Peterson

During the Period, William Peterson served as CEO of CASTLE. During the Period, he also had an undisclosed ownership and/or financial interest in the following companies which received payments from CASTLE:

- Educational Management Alliance (EMA)
- Kids 2000
- Leadership Training Institute (LTI)
- Cross-Tech EduServe
- 2K2 Technologies

William Peterson also founded and served as CEO of other community schools in the Dayton area including the following:

- Arise Sports Management Academy
- Peterson Entrepreneurial Training Enterprise
- Colin Powell Leadership Academy

Thomas Unik III

During the Period, Mr. Unik served as CASTLE board chairman and was partial owner of Sunshine Limited Partnership/Superior Lofts, through which CASTLE leased its facilities. Between September 20, 2004, and June 15, 2010, CASTLE made 81 payments totaling \$1,963,144 to these companies.

Dennis Stewart

During the Period, Mr. Stewart was a business associate of William Peterson and had an ownership and/or financial interest in the following companies which received payments from CASTLE:

- Educational Management Alliance (EMA)
- Kids 2000
- ELMO

Stanley Jackson

During the Period, Mr. Jackson served as a CASTLE board member and had an ownership and/or financial interest in the following companies which received payments from CASTLE:

- Comprehensive Consulting
- Fiscal Management Services
- Juggernaut

Mr. Jackson was also the authorized signatory on the bank accounts for each of these companies.

Carl Shye

Mr. Shye was the treasurer of CASTLE from July 1, 2006 through June 30, 2009. In addition to serving as treasurer of CASTLE, during the Period Mr. Shye was the treasurer for the following community schools founded by William Peterson:

- Arise Sports Management Academy
- Peterson Entrepreneurial Training Enterprise
- Colin Powell Leadership Academy

Additionally, although not formerly named as treasurer, Mr. Shye maintained the accounting records of the following companies during the Period:

- Educational Management Alliance (EMA)
- Kids 2000

During the Period, Mr. Shye was also listed as treasurer for CASTLE vendor Eagle Eye Services on the company's official website.

Supplement to the Special Audit Report

Objective No. 1 - Payments to Selected Vendors

Procedures

We obtained the vendor history reports to determine vendor payments made by CASTLE to selected vendors during the Period.

We examined supporting documentation to determine whether payments were related to CASTLE operations and in accordance with CASTLE policies.

Results

We identified 134 vendors and related parties for detailed examination. During the Period there were 1,048 transactions totaling \$5,339,512 with these vendors.

Our examination of CASTLE payments to the 134 vendors noted the following types of exceptions:

- Certain board members and employees owned or were affiliated with private companies which conducted financial business with CASTLE. In many instances these relationships were not disclosed.
- CASTLE paid for goods and services of other community schools.
- A general lack of documentation supporting that goods or services were actually provided to CASTLE; especially in instances of payments to related parties.

Each of the identified board members has since resigned from the CASTLE governing board for various reasons.

FINDINGS FOR RECOVERY

Finding for Recovery – William Peterson - Leadership Training Institute

Leadership Training Institute was owned by former CASTLE board member and CEO, William Peterson. CASTLE issued one check in the amount of \$25,000 to Leadership Training Institute on May 10, 2007, for which insufficient documentation was maintained to support the actual provision of goods or services. Also, there was no evidence of a contract in place, board approval for the payment, or any other known arrangements between CASTLE and Leadership Training Institute. When interviewed, Mr. Peterson was unable to provide an explanation or verification that any services were provided to CASTLE from Leadership Training Institute.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against William Peterson in the amount of \$25,000 in favor of CASTLE.

Finding for Recovery – William Peterson - Cross Tech-EduServe

During the Period, CASTLE issued ten checks totaling \$61,960 to Cross Tech-EduServe for which insufficient documentation was maintained to support the actual provision of goods or services.

Through examination of bank documents, a check issued to Cross Tech-EduServe was endorsed by Home Help Link DBA Cross Tech-EduServe. Home Help Link is a company owned by William Peterson. Mr. Peterson was found to have an undisclosed interest in Cross Tech-EduServe as he was endorsing and depositing checks payable to the company. When interviewed Mr. Peterson asserted his role with Cross Tech-EduServe was to provide general office support services; however, he provided no documentation to support his assertion.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against William Peterson in the amount of \$61,960 in favor of CASTLE.

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Finding for Recovery – William Peterson, Diana Peterson, and Dennis Stewart – Educational Management Alliance

Educational Management Alliance (EMA) was owned by former CASTLE board member and CEO, William Peterson, and EMA Operations Manager Dennis Stewart. In an interview with Dennis Stewart, Mr. Stewart described the ownership of EMA as 51% owned by William Peterson and 49% owned by Dennis Stewart.

During the Period, CASTLE issued 33 checks to EMA totaling \$333,116 for which insufficient documentation was maintained to support the actual provision of goods or services. Additionally, 19 of the 33 checks totaling \$106,625 were deposited into a bank account for Kids 2000, a company owned by William and Diana Peterson and for which Dennis Stewart served as Executive Director.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against William Peterson and Dennis Stewart, jointly and severally, in the amount of \$333,116 and also against Diana Peterson, jointly and severally, in the amount of \$106,625 in favor of CASTLE.

Finding for Recovery – William Peterson, Diana Peterson, and Dennis Stewart – Kids 2000

Kids 2000 was owned by former CASTLE board member and CEO, William Peterson, and his wife, Diana Peterson. Also, Dennis Stewart was Executive Director of Kids 2000 during the Period, and William and Diana Peterson were authorized signers on the signature card information obtained for the Kids 2000 bank account. During the Period, CASTLE issued eight checks totaling \$29,253 to Kids 2000 for which insufficient documentation was maintained to support the actual provision of goods or services. For two invoices that were provided totaling \$15,000, the invoices stated "Support Services"; however, there was no evidence of a contract in place or board approval for the payments. William Peterson was CEO of CASTLE at the time these payments were made to Kids 2000.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against William Peterson, Diana Peterson, and Dennis Stewart, jointly and severally, in the amount of \$29,253 in favor of CASTLE.

Finding for Recovery – William Peterson – 2K2 Technologies

During the Period, CASTLE issued two payments to 2K2 Technologies, totaling \$3,900 for which insufficient documentation was maintained to support the actual provision of goods or services. One check in the amount of \$1,950 was endorsed by William Peterson and deposited into the account of Kids 2000, a company owned by William Peterson and his wife, Diana Peterson. The other check in the amount of \$1,950 was endorsed by William Peterson and assigned to another CASTLE vendor.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against William Peterson in the amount of \$3,900 in favor of CASTLE.

Finding for Recovery – William Peterson

During the Period, CASTLE issued 17 checks to former CASTLE board member and CEO, William Peterson, totaling \$12,540 for which insufficient documentation was maintained to support the actual provision of goods or services. These payments lacked supporting documentation in the amount of \$10,565, exceeded amounts submitted as support for reimbursement in the amount of \$1,957, or were for reimbursements of personal items in the amount of \$18.

William Peterson was also CEO of other community schools in the Dayton area and created his own management companies located in the Dayton area. Throughout the Period, checks were written by CASTLE to vendors on behalf of these schools or management companies for goods or services not received by CASTLE. Also, payments were made directly by CASTLE to the other community schools with no supporting documentation or other evidence supporting goods or services were received by CASTLE for such payments. The total amount of these payments during the Period was \$392,194 and the payments were comprised of the following:

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Vendor	Number of Transactions	Amount
Arise Pete Academy	1	\$8,700
Arise Sports Academy	3	\$28,300
Cal's A/C and Heating Inc.	1	\$2,895
Caudill & Associates	1	\$16,000
Colin Powell Leadership Academy	11	\$157,696
Dell Marketing	5	\$104,096
Devine Media	2	\$625
Employee TimeClocks.com	1	\$776
ICG Telecom Group, Inc.	37	\$29,020
Leadership Media	1	\$2,739
Novell Inc.	1	\$6,337
Programmer's Paradise, Inc.	1	\$11,011
Visual Systems Group, Inc.	2	\$23,999

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against William Peterson in the amount of \$404,734 in favor of CASTLE.

Finding for Recovery – Stanley Jackson and Claudette Williams

During the Period, CASTLE issued 21 checks totaling \$168,000 to vendor Comprehensive Consulting for which insufficient documentation was maintained to support the actual provision of goods or services. Stanley Jackson, then a CASTLE board member, was an undisclosed owner of Comprehensive Consulting. After payments were received by Comprehensive Consulting, Mr. Jackson and company president Claudette Williams each withdrew cash from the Comprehensive Consulting bank account.

Additionally, during the Period, CASTLE issued nine checks totaling \$32,000 to vendor Fiscal Management Services for which insufficient documentation was maintained to support the actual provision of goods or services. Mr. Jackson was an undisclosed owner of Fiscal Management Services. After payments were received by Fiscal Management Services, Mr. Jackson withdrew cash from the Fiscal Management Services bank account.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Stanley Jackson in the amount of \$200,000 and against Claudette Williams, jointly and severally, in the amount of \$168,000 in favor of CASTLE.

Finding for Recovery - Rolando Peterson

During the Period, CASTLE issued checks to CEO Rolando Peterson totaling \$3,179 for unsupported transactions and checks totaling \$4,250 which were overpayments of Mr. Peterson's contracted car allowance. There was no evidence of board approval of such payments or any other arrangements noted between CASTLE and Rolando Peterson to support these payments.

Additionally, during the Period, Rolando Peterson made a cash withdrawal in the amount of \$1,400 from the CASTLE general checking account without authorization and no documentation was maintained to support the purpose of this transaction.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against CASTLE CEO Rolando Peterson in the amount of \$8,829 in favor of CASTLE.

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Finding for Recovery - Carl Shye

During the Period, CASTLE issued six checks totaling \$21,205 to CASTLE treasurer Carl Shye in which insufficient documentation was maintained to support the actual provision of goods or services. There were also two transactions recorded in the CASTLE ledger as payable to cash totaling \$59,200. These two transactions were manual checks initiated and endorsed by Mr. Shye and were processed through the CASTLE bank account. Additionally, there was one cash withdrawal made by Mr. Shye, in the amount of \$3,500 which was not recorded in the CASTLE ledger but was processed through the CASTLE bank account. No documentation was maintained to support the purpose of these transactions which were initiated by Mr. Shye. These payments and withdrawals were in addition to payments for Mr. Shye's treasurer services. There was also no evidence of board approval for payments or any other known arrangements between CASTLE and Mr. Shye to support these payments and withdrawals.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Carl W. Shye Jr. in the amount of \$83,905 in favor of CASTLE.

Finding for Recovery - Eagle Eye Services, LLC

During the Period, CASTLE issued 28 checks totaling \$45,000 to vendor Eagle Eye Services, LLC for which insufficient documentation was maintained to support the actual provision of goods or services. There was no evidence of a contract in place, board approval for payments, or any other known arrangements between CASTLE and Eagle Eye Services, LLC. Carl Shye was listed on the Eagle Eye Services, LLC website as treasurer while also serving as treasurer of CASTLE. There was no evidence that Mr. Shye's relationship with Eagle Eye Services, LLC was disclosed to the CASTLE governing board.

Additionally, during the Period, CASTLE issued one check in the amount of \$1,000 to Eagle Eye Services, LLC which was not recorded in the CASTLE ledger, but which was processed through the CASTLE bank account. There was no supporting documentation for this payment.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Eagle Eye Services, LLC and Carl Shye, jointly and severally, in the amount of \$46,000 in favor of CASTLE.

Finding for Recovery - ELMO

During the Period, CASTLE issued one check in the amount of \$4,975 to vendor ELMO for which insufficient documentation was maintained to support the actual provision of goods or services. ELMO was owned by Dennis Stewart, the Operations Manager of Educational Management Alliance (EMA), CASTLE's then management company. Mr. Stewart's relationship to ELMO was not disclosed to the CASTLE governing board. There was no evidence of a contract in place, board approval for payments, or any other known arrangements between CASTLE and ELMO.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Dennis Stewart in the amount of \$4,975 in favor of CASTLE.

Finding for Recovery - Michael Perry – The Perry Foundation

During the Period, CASTLE issued 19 checks totaling \$67,953 to vendor Michael Perry c/o the Perry Foundation for which insufficient documentation was maintained to support the actual provision of goods or services. There was no evidence of a contract in place, board approval for payments, or any other known arrangements between CASTLE and Michael Perry.

One of the checks was recorded in the CASTLE ledger as payable to vendor Kids 2000, but was actually issued to and cashed by the Perry Foundation. Additionally, one check totaling \$3,250 was not recorded in the CASTLE ledger but was processed through the bank payable to Michael Perry c/o Perry Foundation.

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In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against The Perry Foundation and Michael Perry, jointly and severally, in the amount of \$71,203 in favor of CASTLE.

Finding for Recovery – Legacy Academy

During fiscal year 2009, CASTLE issued one check in the amount of \$15,000 recorded in the ledgers to payee National City Bank for prior years' workmen's compensation fees. However, a review of bank information indicated the transaction was payment for a cashier check made payable to Legacy Academy. There was no evidence of a contract in place, board approval for payment, or any other known arrangements between CASTLE and Legacy Academy. Carl Shye was treasurer of both CASTLE and Legacy Academy at the time of this payment.

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

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Legacy Academy and Carl Shye, jointly and severally, in the amount of \$15,000 in favor of CASTLE.

Finding for Recovery - Alisa Smedley DBA The Money School

During the Period, CASTLE issued one check totaling \$4,083 to vendor Alisa Smedley DBA The Money School as a reimbursement for textbooks and other supplies for a class she provided to CASTLE. However, the agreement between CASTLE and The Money School effective August 15, 2006, stated these items were to be provided by The Money School.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Alisa Smedley in the amount of \$4,083 in favor of CASTLE.

Finding for Recovery - Arts & College Preparatory Academy

During fiscal year 2010, CASTLE issued one payment in the amount of \$24,949 to vendor Arts & College Preparatory Academy for which insufficient documentation was maintained to support the actual provision of goods or services. There was no evidence of a contract in place, no board approval for payments, and no other known arrangements between CASTLE and Arts & College Preparatory Academy. At the time of this payment, Arlene Wilson was treasurer of both entities.

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

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Arts & College Preparatory Academy and Arlene Wilson, jointly and severally, in the amount of \$24,949 in favor of CASTLE.

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Finding for Recovery - Pamela Petrocelli

During the Period, CASTLE issued 15 checks totaling \$20,305 to Pamela Petrocelli for which insufficient documentation was maintained to support the actual provision of goods or services. Ms. Petrocelli's relationship to CASTLE is unknown. There was no evidence of a contract in place, board approval for payments, or any other known arrangements between CASTLE and Ms. Petrocelli.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Pamela Petrocelli in the amount of \$20,305 in favor of the CASTLE.

Finding for Recovery - Patrick Cullum

During the Period, CASTLE issued one check in the amount of \$2,200 to Patrick Cullum for which no documentation was maintained to support the actual provision of goods or services. There was no evidence of a contract in place, board approval for payments, or any other known arrangements between CASTLE and Mr. Cullum. Additionally, Mr. Cullum is a former college fraternity member with current CASTLE CEO Rolando Peterson and former CASTLE board members Stanley Jackson and Gregory Perryman.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Patrick Cullum in the amount of \$2,200 in favor of CASTLE.

Finding for Recovery - The Better Way Institute

During fiscal 2009, CASTLE made payments to The Better Way Institute, owned by Demetrius Hammett, that exceeded the fiscal year 2009 contract amount by \$13,089. There was no evidence of any additional service contract in place, board approval for payments in excess of contract amounts, or any other known arrangements between CASTLE and The Better Way Institute for the excess payments.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against The Better Way Institute and owner Demetrius Hammett, jointly and severally, in the amount of \$13,089 in favor of CASTLE.

NONCOMPLIANCE CITATIONS

Records Retention

Ohio Revised Code 149.351(A) states, in pertinent part, that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under Sections 149.38 to 149.42 of the Revised Code.

Ohio Revised Code Section 149.011(G) defines "records" for purposes of the public records law, as any document, device, or item, regardless of physical form or characteristic, including an electronic record as defined in section 1306 of the Revised Code, created, received by, or coming under the jurisdiction of any public office which serves to document the organization, functions, policies, decisions, procedures, operations, or other activities of the public office.

During the Period, CASTLE had the following deficiencies in maintaining adequate public records:

- The majority of the CASTLE board's meeting minutes records were not available for review;
- Various policies recorded in the CASTLE Board's meeting minutes as approved by the board were not available for review;
- Various contracts were not available;
- Supporting documentation for numerous non-payroll transactions was not available for review.

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

We recommend CASTLE maintain all records and supporting documentation until such records have been subject to auditing procedures and only dispose of records in accordance with a board approved record retention policies.

Related Party Transactions

Ohio Rev. Code Section 2921.42(A) provides in part that no public official shall knowingly do any of the following:

- Authorize, or employ the authority or influence of the public official's office to secure authorization of any public contract in which the public official, a member of the public official's family, or any of the public official's business associates has an interest;
- Have an interest in the profits or benefits of a public contract entered into by or for the use of the political subdivision or governmental agency or instrumentality with which the public official is connected;
- Have an interest in the profits or benefits of a public contract that is not let by competitive bidding if required by law and that involves more than one hundred fifty dollars.
- Whoever violates this section is guilty of having an unlawful interest in a public contract. Violation of division (A)(1) or (2) of this section is a felony of the fourth degree. Violation of division (A)(3), (4), or (5) of this section is a misdemeanor of the first degree.
- As used in this section, "public contract" means any of the following: The purchase or acquisition, or a contract for the purchase or acquisition, of property or services by or for the use of the state, any of its political subdivisions, or any agency or instrumentality of either, including the employment of an individual by the state, any of its political subdivisions, or any agency or instrumentality of either

Additionally, Ohio Rev. Code Section 102.04 (A) states "except as provided in division (D) of this section, no person elected or appointed to an office of or employed by the general assembly or any department, division, institution, instrumentality, board, commission or bureau of the state, excluding the courts, shall receive or agree to receive directly or indirectly compensation other than from the agency with which he serves for any service rendered or to be rendered by him personally in any case, proceeding, application, or other matter that is before the general assembly or any department, division, institution, instrumentality, board, commission, or bureau of the state, excluding the courts."

During the Period, relationships existed between CASTLE board members and/or employees and the following vendors:

- 2K2 Technologies
- Comprehensive Consulting
- Cross-Tech EduServe
- Eagle Eye Services, LLC.
- ELMO
- Educational Management Alliance (EMA)
- Fiscal Management Services
- Juggernaut
- Kids 2000
- Leadership Training Institute
- Sunshine Limited Partnership / Superior Lofts

We recommend the CASTLE board create and enforce a policy over related party transactions. This policy should require complete compliance with Ohio Rev. Code Section 2921.42 and disclosure or affirmation of no outside relationships with CASTLE vendors. We have referred this issue to the Ohio Ethics Commission.

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MANAGEMENT RECOMMENDATIONS

Cash Management and Monitoring of Financial Activity

During the Period, checks were recorded in the CASTLE accounting system but were not processed through the CASTLE bank accounts. Also, certain checks were processed by the bank with no corresponding entry into the CASTLE accounting system. Additionally, checks were entered into the accounting system with a different check number, different vendor name or different amount than actually recorded on the respective canceled check.

Failure to accurately prepare and reconcile the accounting records could:

- Reduce the accountability over CASTLE funds;
- Reduce the governing board's ability to monitor financial activity and make informed financial decisions;
- Increase the likelihood that theft or misappropriation of monies will not be detected.

We recommend the treasurer accurately maintain CASTLE's accounting records. The treasurer should provide accurate monthly reports of CASTLE's financial activity and bank reconciliations to the governing board. The governing board should carefully review financial activity and make appropriate inquiries to help determine the continued integrity of financial information and CASTLE activity. In addition, the governing board should consider adopting an approval process for the monthly reconciliation of bank to book balances.

Oversight by the Governing Board

During the Period, the governing board's failure to adequately reflect its intentions in, or appropriately maintain, meeting minutes and resolutions, to institute written policies, and to thoroughly review disbursements prior to payment, contributed to inappropriate expenditures of which certain governing board members were unaware. Failure by the governing board to institute adequate internal control procedures and clearly show its knowledge and approval of business activity can lead to the misappropriation of assets and poor communications throughout the entity. Although the governing board must rely on its employees, it is ultimately responsible for its employees and their actions.

We recommend the governing board clearly show its knowledge and approval of all business conducted in its name in the meeting minutes and resolutions of CASTLE. The meeting minutes and resolutions are the only written record of the governing board's intent.

We also recommend the governing board institute written policies covering, at a minimum, the comments issued in this report, including records retention, related party transactions, cash management and monitoring of financial activity. Board members and employees should document their receiving, reading and understanding of the governing board's policies.

Reconciling Bank Accounts

There was no evidence that accurate monthly or periodic bank reconciliations were performed by CASTLE officials during the Period. Numerous instances were noted throughout the Period in which CASTLE checks were processed by the bank but were not included within the check register.

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

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

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Objective No. 2 – CASTLE Bank Activity

Procedures

We obtained the bank statements and disbursement detail for the CASTLE bank accounts.

For identified unusual or unexplained bank activity we examined available documentation supporting the transactions.

Results

We reviewed 2,248 non-payroll transactions and 1,522 payroll transactions that were processed through the CASTLE bank accounts during the Period. Of these transactions, 38 were not recorded in the CASTLE ledgers. Four of these 38 transactions resulted in additional findings for recovery which were reported with those identified in Objective No. 1.

For the 38 transactions which were not recorded in the CASTLE ledgers, we issued management recommendations in Objective No. 1 for Cash Management and Monitoring of Financial Activity and Reconciling Bank Accounts.

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Dave Yost • Auditor of State

**CLEVELAND ACADEMY OF SCHOLARSHIP, TECHNOLOGY AND LEADERSHIP ENTERPRISE
(CASTLE)**

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 23, 2013**