



Dave Yost • Auditor of State

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

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Dave Yost • Auditor of State

ACCOUNTANTS' REPORT

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

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

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

We were engaged to audit the accompanying basic financial statements of the Elite Academy of the Arts, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 2010 as listed in the table of contents. These financial statements are 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. Management has not provided the Auditor of State written representations, including but not limited to, management's responsibility for preparing the financial statements in conformity with the Academy's accounting basis; the availability of original financial records and related data, the completeness and availability of all minutes of the legislative or other bodies and committee meetings, management's responsibility for the Academy's compliance with laws and regulations; the identification and disclosure to the Auditor of State of all laws, regulations, and provisions of contracts and grant agreements directly and materially affecting the determination of financial statement amounts and; the presence or absence of regulations, and provisions of contracts and grant agreements, and compliance with any debt covenants.

Contrary to Governmental Accounting Standards Board (GASB) codifications 2200 and 2300, the Academy did not present the required basic financial statements, Management's Discussion and Analysis or notes to the financial statements. Auditor of State staff prepared unclassified financial statements and notes listed in the table of contents using the Academy's accounting records. In addition, the Academy also did not present so the Auditor of State prepared the Federal Awards Receipts and Expenditures Schedule supplementary information referred to in the last paragraph. The Government Auditing Standards considers this service to impair the independence of the Auditor of State to audit the Academy.

Since the Academy did not provide sufficient evidential matter as described in paragraphs two through three above, the scope of our procedures was not sufficient to enable us to express, and we do not express, an opinion on these financial statements referred to above for the year ended June 30, 2010.

As described in Note 10, the Ohio Department of Education issued a statement in September 2011 that the Academy would be closed effective June 30, 2012 due to academic viability, and consequently, the Academy ceased operations on June 30, 2012.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2013, 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.

The Federal Awards Receipts and Expenditures Schedule (the Schedule) provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the unclassified financial statements. The Schedule is management's responsibility. The Academy did not provide evidence to support the amounts on this schedule were used for federal purposes and we were therefore unable to perform procedures in accordance with auditing standards generally accepted in the United States of America. As a result, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on whether the schedule of federal awards receipts and expenditures referred to above is fairly stated, in all material respects, in relation to the unclassified financial statements taken as a whole.



Dave Yost
Auditor of State

May 30, 2013

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY, OHIO
UNCLASSIFIED STATEMENT OF FINANCIAL POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Cash Balance at Beginning of Year	\$168,503
Total Revenues	1,860,306
Total Expenditures	<u>2,012,979</u>
Cash Balance at End of Year	<u><u>\$15,830</u></u>

See Accompanying Notes to the Unclassified Financial Statement.

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**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY, OHIO
NOTES TO THE UNCLASSIFIED FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

1. DESCRIPTION OF THE ENTITY

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

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

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

The Academy operates under the direction of a five-member Board of Directors. The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state mandated provisions regarding student populations, curriculum, academic goals, performance standards, admissions standards, and qualifications of teachers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

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

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY, OHIO
NOTES TO THE UNCLASSIFIED FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting

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

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

C. Budgetary Process

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

D. Cash and Cash Equivalents

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

E. Revenues

The Academy currently participates in the State Foundation Program; Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

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

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

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

Under the above programs the Academy received \$1,823,276 this fiscal year.

Also included in revenues are miscellaneous items including, but not limited to, interest, proceeds from lines of credit, and donations. The total amount of miscellaneous revenues totaled \$37,030.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY, OHIO
NOTES TO THE UNCLASSIFIED FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Expenses

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

The Academy's major expenditures for fiscal year 2010 were payroll, building leases, construction/building maintenance, transportation, and security services.

3. CASH AND CASH EQUIVALENTS

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

The Academy maintains its cash balances at one financial institution located in Ohio. The Academy has a general and payroll account. At June 30, 2010, the bank balance of the Academy's deposits was \$15,830. The entire bank balance was covered by the Federal Deposit Insurance Corporation (FDIC).

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

The Academy had no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the Academy or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee to secure repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured. At June 30, 2010, none of the bank balance was exposed to custodial credit risk.

4. RISK MANAGEMENT

A. Property & Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year 2010, the Academy contracted with Pinkney and Perry Insurance Co. for all of its insurance.

B. Workers' Compensation

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

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY, OHIO
NOTES TO THE UNCLASSIFIED FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

4. RISK MANAGEMENT (Continued)

C. Employee Medical and Dental Benefits

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

5. RETIREMENT SYSTEMS

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

The Ohio Revised Code also prescribed contribution rates. For fiscal years 2010, SERS and STRS members contributed 10 percent of their gross salaries and the Academy contributed an amount equal to 14 percent of annual covered payroll. The Academy has paid all contributions for fiscal year 2010.

6. CONTINGENCIES

A. Grants

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

B. Full-Time Equivalency

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

7. SPONSORSHIP – ASHE CULTURE CENTER

The Academy contracted with Ashe Culture Center Inc. as its sponsor and oversight services as required by law, until it was revoked of its ability to sponsor the Academy in September 2011, which is described further in Note 10. Sponsorship fees are calculated as three percent of state funds received by Academy from the State of Ohio, as foundation. For the fiscal year ended June 30, 2010, sponsorship fees totaled \$41,304.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY, OHIO
NOTES TO THE UNCLASSIFIED FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

8. MANAGEMENT COMPANY

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

Per the management agreement with the Academy, Greater Education Services Centers, LLP is entitled to a management fee that is equivalent to 15% of school revenue. During our audit, we noted Dr. Elijah Scott, Superintendent/Developer of the Academy, is the owner of Greater Educational Service Center. The Academy made payments totaling \$210,116 to Greater Education Service Center.

9. RELATED PARTY TRANSACTIONS

Dr. Jorethia Chuck, co-chair of Ashe Culture Center, the Academy's sponsor until September 2011, owns Exceptional Psychological Services. During fiscal year 2010, the Academy made payments totaling \$18,855 to Exceptional Psychological Services.

Dionne Whitaker, daughter of Dr. Kwa David Whitaker, owner of Ashe Culture Center, is the owner of Kennedy Educational Consultants, LTD, a company which provided lesson plans and other related services to the Academy. During fiscal year 2010, the Academy made payments totaling \$150 to Kennedy Educational Consultants.

10. MANAGEMENT PLAN

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

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**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY
FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor		Federal		
<i>Pass Through Grantor</i>	Grant	CFDA		
Program Title	Year	Number	Receipts	Expenditures
<u>U.S. Department of Agriculture</u>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
National School Breakfast Program	2010	10.553	\$24,214	\$24,214
National School Lunch Program	2010	10.555	61,395	61,395
Total Child Nutrition Cluster			<u>85,609</u>	<u>85,609</u>
ARRA - National School Lunch Equipment	2010	10.579	<u>2,079</u>	<u>2,079</u>
Total U.S. Department of Agriculture			<u>87,688</u>	<u>87,688</u>
<u>U.S. Department of Education</u>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education - Grants to States	2010	84.027	28,746	33,600
ARRA - Special Education - Grants to States	2010	84.391	24,354	25,000
Subtotal Special Education - Grants to States			<u>53,100</u>	<u>58,600</u>
Special Education - Preschool Grants	2010	84.173	75	75
ARRA - Special Education - Preschool Grants	2010	84.392	175	175
Subtotal Special Education Preschool Grants			<u>250</u>	<u>250</u>
Total Special Education Cluster			<u>53,350</u>	<u>58,850</u>
Title I Grants	2010	84.010	276,440	275,990
ARRA - Title I Grants	2010	84.389	66,960	55,769
Total Title I Grants to Local Education Agencies, Part A			<u>343,400</u>	<u>331,759</u>
Title IID - Education Technology State Grants	2010	84.318	1,477	1,114
Title IIA - Improving Teacher Quality State Grants	2010	84.367	2,261	3,000
Safe and Drug-Free Schools Grants IV-A	2010	84.186	1,565	1,744
ARRA - State Fiscal Stabilization Fund - Education State Grants	2010	84.394	<u>90,949</u>	<u>90,949</u>
Total U.S. Department of Education			<u>493,002</u>	<u>487,416</u>
Total Federal Financial Assistance			<u>\$580,690</u>	<u>\$575,104</u>

The accompanying notes to this schedule are an integral part of this schedule.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports Elite Academy of the Arts' (the Academy's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The Academy commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the Academy assumes it expends federal monies first.



Dave Yost • Auditor of State

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

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

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

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

To Elite Academy of the Arts and the Sponsors:

We were engaged to audit the basic financial statements of Elite Academy of the Arts, Cuyahoga County, Ohio, (the Academy), as of and for the year ended June 30, 2010, in which we disclaimed an opinion upon the financial statements. We also noted contrary to Governmental Accounting Standards Board (GASB) codifications 2200 and 2300, the Academy did not present the required basic financial statements, Management's Discussion and Analysis or notes to the financial statements. Therefore, we prepared the unclassified financial statements using the Academy's accounting records and this service impairs the independence of the Auditor of State to audit the Academy. Additionally, Management did not provide written representations. We also noted the Academy ceased operations on June 30, 2012.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our 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 and questioned costs we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

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 2010-001 through 2010-004, 2010-006, 2010-007 and 2010-009 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Compliance and Other Matters

As part of our procedures, we tested 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 that we must report under Government Auditing Standards which are described in the accompanying schedule of findings as items 2010-001 through 2010-012.

The Academy's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Academy's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the Board of Directors, the Academy's sponsor, and others within the Academy. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

May 30, 2013



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ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Elite Academy of the Arts
Attn: Elijah Scott, Director/Developer
3443 East 93rd Street
Cleveland, Ohio 44104

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

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

To Elite Academy of the Arts and the Sponsors:

Compliance

We were engaged to audit the compliance of Elite Academy of the Arts (the Academy) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Academy's major federal program for the year ended June 30, 2010. The *summary of auditor's results* section of the accompanying schedule of findings and questioned costs identifies the Academy's major federal program. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the Academy's compliance.

Except as discussed in the following paragraph, we conducted our engagement in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' Government Auditing Standards; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. These standards and OMB Circular A-133 require that we plan and perform an audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Academy's compliance with these requirements and performing other procedures we considered necessary in the circumstances. Our engagement does not provide a legal determination on the Academy's compliance with these requirements.

We were unable to obtain written representations or detailed supporting documents from the Academy's management supporting the Academy's compliance with the requirements described in paragraph one.

Because of the matter described in the preceding paragraph, the scope of our work was insufficient to enable us to express, and we do not express, an opinion on the Academy's compliance with the compliance requirements.

Also, the results of our procedures disclosed other instances of noncompliance with those requirements that OMB Circular A-133 requires us to report. The accompanying schedule of findings and questioned costs lists these instances as findings 2010-014 through 2010-023.

Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our engagement, we considered the Academy's internal control over compliance with the requirements that could directly and materially affect a major federal program, to determine our procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Academy's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-013 through 2010-023 to be material weaknesses.

We intend this report solely for the information and use of management, the Board of Directors, the Academy's sponsors, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Dave Yost
Auditor of State

May 30, 2013

ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Disclaimer
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Program's Compliance Opinion	Disclaimer
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Title I Basic Grants to States and ARRA Title I – CFDA #84.010 and #84.389
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010**

2. FINDINGS RELATED TO THE UNCLASSIFIED FINANCIAL STATEMENT REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2010-001

Duplicate Reimbursements – Finding for Recovery, Material Weakness, and Material Noncompliance

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

On August 26, 2009, check number 2337, in the amount of \$2,664 was issued by David Schneider, Treasurer, and made payable to Elijah Scott for expense reimbursement. Of this amount, \$1,716 was reimbursed to Elijah Scott for expenditures made with the Academy's debit card. Therefore, the Academy reimbursed Elijah Scott for \$1,716 in expenses the Academy had already paid to him.

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 liable for the amount of this expenditure. *Steward v. National Surety Co.* (1929), 120 Ohio St. 47; 1980 Op. Att'y en. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. rel. *Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att'y Gen. No. 80-074.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Dr. Elijah Scott, Superintendent, and David Schneider, Treasurer, and The Hanover Insurance Group Inc., his bonding company, are jointly and severally liable, in the amount of \$1,716 and in favor of Ohio Department of Education.

FINDING NUMBER 2010-002

Unsupported Expenditures – Finding for Recovery, Material Weakness, and Material Noncompliance

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

During fiscal year 2010, the Academy had debit card transactions in the amount of \$1,067 in which the Academy did not provide supporting documentation (debit card receipts, vendor invoices, or contracts/leases for these payments). Based on this lack of supporting documentation for these debit card transactions, we were unable to determine if these expenditures were for a proper public purpose.

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**2. FINDINGS RELATED TO THE UNCLASSIFIED FINANCIAL STATEMENT
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

(Continued)

FINDING NUMBER 2010-002

(Continued)

Unsupported Expenditures – Finding for Recovery, Material Weakness, and Material Noncompliance (Continued)

1. On July 20, 2009, a debit card purchase in the amount of \$783 to Ruth's Chris Steak was issued by the Academy. Dave Schneider was the Treasurer of the Academy at the time. The debit card purchase was unsupported; therefore, we could not determine the purpose of the expenditure.

2. On May 14, 2010, an electronic withdrawal purchase in the amount of \$284 to Time Warner was issued by the Academy. Dave Schneider was the Treasurer of the Academy at the time. The credit card purchase was unsupported; therefore, we could not determine the purpose of the expenditure.

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

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

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery of public monies is hereby issued against David Schneider, Treasurer, and The Hanover Insurance Group Inc., his bonding company, in the amount of \$1,067, and in favor of the Ohio Department of Education.

Official's Response: The expenditure mentioned in #1 above was payment for dinner for the Board and leadership team during the planned Board/Leadership Training and Retreat. It was approved by the Board during the Board of Trustees meeting prior to the event and also as part of its customary approval and acceptance of the Treasurer's report to the Board. It is for these reasons that we contest this finding pursuant to Section 9.24 of the Ohio Revised Code.

Auditor's Conclusion: No supporting documentation was provided for the disbursement noted. Therefore, we could not determine that extended time spent was for a proper public purpose.

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**2. FINDINGS RELATED TO THE UNCLASSIFIED FINANCIAL STATEMENT
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(Continued)

FINDING NUMBER 2010-003

Overpayment of Management Fees – Finding for Recovery, Material Weakness, and Material Noncompliance

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

During fiscal year 2010, the Academy contracted with Greater Educational Service Center for management services. A contract between Greater Educational Service Center and the Academy stated that a monthly fee of 15% of general operating revenue was to be paid for management services. Greater Educational Service Center billed and received from the Academy \$8,951 more than 15% of the Academy's total fiscal year 2010 general operating revenue.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Elijah Scott, Director of the Academy and incorporator of Greater Educational Service Center, in the amount of \$8,951 and in favor of Ohio Department of Education.

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 liable for the amount of this expenditure. *Steward v. National Surety Co.* (1929), 120 Ohio St. 47; 1980 Op. Att'y en. No. 80-074; Ohio Rev. Code Section 9.39; *State, ex. rel. Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att'y Gen. No. 80-074.

Accordingly, David Schneider, Treasurer, and The Hanover Insurance Group Inc., his bonding company, are jointly and severally liable in the amount of \$8,951 and in favor of the Ohio Department of Education.

FINDING NUMBER 2010-004

Condition of Accounting Records – Material Weakness and Material Noncompliance

Ohio Admin. Code Section 117-2-02 (A) states that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

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(Continued)

FINDING NUMBER 2010-004

(Continued)

Condition of Accounting Records – Material Weakness and Material Noncompliance (Continued)

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

- The Academy did not provide financial statements, notes to the financial statements or a management discussion and analysis section to the financial statements. A creation of unclassified cash financial statements by the Auditor of State's Office was required;
- The Academy did not provide the necessary withdrawn student records to test for timely removal of withdrawn students; and
- The Academy did not provide detail for two out of the twelve debit card expenditures tested.

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

- The Academy failed to maintain payroll ledgers for five of the 24 pay periods;
- Two of the 33 payroll disbursements tested we were unable to obtain approved salary notices for contracts; and
- The Academy does not maintain complete employee personnel files. There were several important documents missing from the personnel files, such as: deduction authorization form, retirement participation form, Federal Tax withholding form, State Income Tax withholding form, Local Income Tax withholding form, etc;

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

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

FINDING NUMBER 2010-005

Interest in a Public Contract – Material Noncompliance

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

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

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(Continued)

FINDING NUMBER 2010-005

(Continued)

Interest in a Public Contract – Material Noncompliance (Continued)

We noted Dr. Elijah Scott, Superintendent/Developer of the Academy, is also the owner of Greater Educational Service Center, a management company the Academy was contracted with during fiscal year 2010. During the fiscal year, the Academy made payments totaling \$210,116 to Greater Educational Service Center.

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

These matters will be referred to the Ohio Ethics Commission.

Official's Response: Dr. Scott is not a public official as defined by statute and as indicated by the contract for services which clearly defined the nature of the relationship between the parties. Within the contract, the parties acknowledged that their relationship was that of an independent contractor. Nothing contained within the contract was to be construed to create a partnership or joint venture between the parties. The Agreement and the provisions set forth in the contract were for the exclusive benefit of the parties and not for the benefit of any "third person." The Agreement should not be deemed to confer or have conferred any rights, express or implied, upon any "third person." The Auditor of State cannot override the express language of the service contract wherein it clearly defines the relationship between the parties. As such Dr. Scott is not a Public official as defined by Ohio Rev. Code provisions and, therefore, we contest this finding pursuant to Section 9.24 of the Ohio Rev. Code.

Auditor's Response: As analyzed in *Cordray v. International Preparatory Academy* (2010), 128 Ohio St.3d 50, Dr. Scott was a public official under the laws of the State of Ohio. Therefore, he was subject to Ohio Rev. Code Section 2921.42.

FINDING NUMBER 2010-006

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

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

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

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2. FINDINGS RELATED TO THE UNCLASSIFIED FINANCIAL STATEMENT REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

(Continued)

FINDING NUMBER 2010-006

(Continued)

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

Some effective monitoring controls include:

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

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

FINDING NUMBER 2010-007

Undocumented Enrollment for State Foundation Funding – Material Weakness and Material Noncompliance

Ohio Rev. Code, Section 3314.03(A)(11)(a) states that the contract between a sponsor and the governing authority must specify that the school will provide learning opportunities to a minimum of twenty five students for a minimum of nine hundred twenty hours per school year.

Enrollment numbers are submitted through the Education Management Information System (EMIS) to the Ohio Department of Education (ODE) and are used to determine the amount of State Foundation money each school receives. Ohio's State Funding Formula is a foundation program with an assumed local share of charge-off being subtracted from the basic program costs to determine the state formula aid. The basic program cost is the current year formula amount times the current year formula average daily membership plus the sum of four base funding supplements, called "building blocks." These building blocks are funding for intervention, professional development, data based decision making and professional development for data based decision making. The per pupil formula amount is set by the legislature.

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(Continued)

FINDING NUMBER 2010-007

(Continued)

Undocumented Enrollment for State Foundation Funding – Material Weakness and Material Noncompliance (Continued)

For fiscal year 2010, the Academy was unable to provide:

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

As a result, State Foundation payments totaling \$1,239,171 in fiscal year 2010 were unsubstantiated.

Official's Response: Frank Huml and Jack Naris from the Ohio Department of Education (ODE) routinely check for and verify school attendance records and documentation. They specifically cross reference with the ODE EMIS data systems. In addition, The Academy's A-site LNOCA has on file, all attendance records, pertinent EMIS data and State test scores for fiscal year 2010 in their database to verify the accuracy of student enrollment. In addition, ODE's accountability system verified in June 2010 with "NO" flagged students in SOES citing no discrepancy that the student enrollment was not legitimate. Therefore, we contest this finding pursuant to Section 9.24 of the Ohio Rev. Code.

Auditor's Response: As indicated in the above finding, no documentation indicated in the Official's Response was evident or provided by the Academy.

FINDING NUMBER 2010-008

Sponsor Monitoring – Material Noncompliance

Ohio Rev. Code Section 3314.03(A) (11) (g) provides that a community school's governing authority is required to submit an annual report of its activities and progress in meeting the goals and standards of Ohio Rev. Code Section 3314.03(A)(3)(4) (academic goals to be achieved, method of measurement to determine progress and performance standards to evaluate a school's success) and its financial status to the sponsor, the parents of all students enrolled in the school, and the legislative office of education oversight. The report must be submitted within four months after the end of each school year. The school must collect and provide any data that the legislative office of education oversight requests in furtherance of any study or research that the general assembly requires the office to conduct.

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(Continued)

FINDING NUMBER 2010-008

(Continued)

Sponsor Monitoring – Material Noncompliance (Continued)

Article V, Section A of the Sponsor Agreement provides, in part, that the Sponsor shall evaluate the performance of the Community School and agrees to comply with the standard by which the success of the Community School will be evaluated. The duties of the Sponsor shall be in accordance with the written agreement between the Sponsor and department of education and, among others, shall include the following:

- Monitor and evaluate the academics and fiscal performance, the organization and the operation of the community school on at least an annual basis; and
- Report on an annual basis the results of the evaluation conducted under decision (D) (2) of this section to the department of education and to the parents of the students enrolled in the community school.

The Academy did not provide evidence that an annual evaluation of academics and fiscal performance was performed by the sponsor. In addition, there was no evidence that an annual report on the results of the evaluation was submitted to the Ohio Department of Education and to the parents enrolled in the community school.

By the sponsor not properly monitoring the Academy, the sponsor is delaying or possibly preventing a correction to an issue that may have occurred.

FINDING NUMBER 2010-009

Annual Financial Reporting – Material Weakness and Material Noncompliance

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

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**2. FINDINGS RELATED TO THE UNCLASSIFIED FINANCIAL STATEMENT
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(Continued)

FINDING NUMBER 2010-009

(Continued)

Annual Financial Reporting – Material Weakness and Material Noncompliance (Continued)

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

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

While the Academy did file a report, the report was on a cash basis and did not contain the required GAAP mentioned above.

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

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

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

FINDING NUMBER 2010-010

Five Year Projection – Material Noncompliance

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

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

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(Continued)

FINDING NUMBER 2010-010

(Continued)

Five Year Projection – Material Noncompliance (Continued)

Although we had evidence of the development of a five year forecast, it was not approved by resolution and did not contain all of the required information.

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

FINDING NUMBER 2010-011

Anti-Bullying Policy – Material Noncompliance

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

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

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

- A procedure for reporting prohibited incidents;
- A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
- A requirement that the parents or guardians of a student involved in a prohibited incident be notified and, to the extent permitted by state and federal law governing student privacy, have access to any written reports pertaining to the prohibited incident;
- Procedures for documenting, investigating, and responding to a reported incident;
- A requirement the district or community school administration provide semiannual written summaries of all reported incidents to the president of the district board of education or community school governing authority, and post them on the district's or school's website (if applicable);
- A strategy for protecting a victim from additional harassment and from retaliation following a report; and
- The disciplinary procedure for a student who is guilty of harassment, intimidation, or bullying.

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(Continued)

FINDING NUMBER 2010-011

(Continued)

Anti-Bullying Policy – Material Noncompliance (Continued)

These items form a framework for districts and community schools to use in developing their policies. The policy must be included in student handbooks and in publications that set forth the standards of conduct for schools and students. Employee training materials must also include information on the policy.

The Academy has not established an anti-bullying policy in accordance with the above requirements.

Official's Response: The Academy provided the Auditor of State with an Anti-Bullying Policy approved by the Board of Trustees. We contest this finding pursuant to Section 9.24 of the Ohio Rev. Code.

Auditor's Conclusion: The Academy provided an anti-bullying policy on May 20, 2013, more than a year after the commencement of the engagement. No evidence was provided in the Academy's minutes for any year that this policy was approved by the Board of Trustees.

FINDING NUMBER 2010-012

Fiscal Officer Continuing Education – Material Noncompliance

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

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

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

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

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3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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System of Internal Controls for Title I and ARRA Title I Funds – Material Weakness

Finding Number	2010-013
CFDA Title and Number	#84.010 Title I #84.389 ARRA Title I
Federal Award Number / Year	2010
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Management and Board are charged with the responsibility of developing and maintaining a system of internal controls over purchasing, revenue, reporting, and payroll transactions. The system of internal controls of the Academy would detect errors and irregularities in a timely manner. The system of internal controls would ensure all financial transactions were properly authorized, reported and supported with documentation.

During our testing of Title I Cluster Federal expenditures, we noted the following internal control weaknesses:

- The Academy has no control procedures in place regarding disbursements of Title I funds;
- The Academy’s accounting records did not show a complete list of detail or support for purchases made with Title I or Title I ARRA funds;
- No evidence existed of someone within the Academy independent of the Treasurer reviewing allowable or any activity of Title I fund expenditures;
- The Academy has no policies or procedures with the Ohio Department of Education to minimize the time between the transfer of Title I funds and disbursement of funding;
- The Academy has no policies regarding eligibility determination for the Title I program;
- The Academy has no policies regarding the purchase or inventory of Equipment of Property with Title I funds;
- No control procedures were evident regarding Level of Effort, Maintenance of Effort or Earmarking of Title I funds;
- No records were maintained to ensure the Academy disbursed its Title I funds within the period of availability;
- The Academy has no procedures addressing Procurement or Suspension and Debarment requirements;
- The Academy has no policies or system of controls for ARRA Section 1512 reporting requirements; and
- The Academy has no record of what teachers were paid with Title I Cluster funding, and whether or not the teachers being paid with these funds are Highly Qualified.

The above weaknesses and lack of record keeping greatly increases the possibility for fraud and abuse related to all transactions made with federal grant monies. These weaknesses significantly reduce management’s ability to effectively monitor the finances and make appropriate operating decisions.

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3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

(Continued)

Activities Allowed and Unallowed – Questioned Costs, Material Weakness and Material Noncompliance

Finding Number	2010-014
CFDA Title and Number	#84.010 Title I #84.389 ARRA Title I
Federal Award Number / Year	2010
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

2 C.F.R. Part 225 Appendix A, Section A(2)(a)(2) states that governmental units assume responsibility for administrating Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal Award

2 C.F.R Part 225 Appendix A, Section C.1.j provides that for a cost to be allowable, the expenditure must be adequately documented. Appendix C, Section A.1 also provides that all costs and other data used to distribute the costs included in the plan should be supported by formal accounting and other records that will support the propriety of the costs assigned to Federal awards.

OMB Circular No. A-133, Section .105 defines questioned costs, in part, as a cost that is questioned by the auditor because of an audit finding where the costs, at the time of the audit, are not supported by adequate documentation.

During the testing of Title I cluster expenditures, we noted the following issues:

- No supporting documentation was provided for Title I nonpayroll expenditures totaling \$58,670, \$51,319 ARRA and \$7,351 Non-ARRA; and
- No payroll timesheets were provided for Saturday School employees, totaling \$43,362.

Therefore, per the guidelines above, these expenditures noted above were considered unallowable.

Failure to identify federal funds, provide adequate documentation, establish controls, and comply with grant requirements resulted in questioned costs totaling \$102,032 of federal financial assistance.

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3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Cash Management – Material Weakness and Material Noncompliance

Finding Number	2010-015
CFDA Title and Number	#84.010 Title I #84.389 ARRA Title I
Federal Award Number / Year	2010
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

34 CFR 80.21 and the Ohio Department of Education Office of Federal and State Grants Management require that all Federal funds are to be expended in the same month in which they are requested.

When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. When funds are advanced, recipient must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement.

We noted the Academy did not maintain complete accounting records or supporting documentation identifying its Title I Cluster expenditures. Therefore, we were unable to determine if the Academy disbursed all of its Title I funds in a timely manner.

Equipment and Real Property Management – Material Weakness and Material Noncompliance

Finding Number	2010-016
CFDA Title and Number	#84.010 Title I #84.389 ARRA Title I
Federal Award Number / Year	2010
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

2 CFR 215.34 requires that equipment be used in the program for which it was acquired or, when appropriate, other Federal programs. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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**FINDING NUMBER 2010-016
(Continued)**

**Equipment and Real Property Management – Material Weakness and Material Noncompliance
(Continued)**

We noted the Academy did not maintain a complete listing of accounting records or supporting documentation identifying its Title I Cluster expenditures. Therefore, we were unable to determine if the Academy purchased equipment with Title I funds, and furthermore, if they were in compliance with the above requirement.

We also noted no records are being maintained and no physical inventory of equipment has ever taken place.

Procurement and Suspension and Debarment – Material Weakness and Material Noncompliance

Finding Number	2010-017
CFDA Title and Number	#84.010 Title I #84.389 ARRA Title I
Federal Award Number / Year	2010
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

2 CFR part 180 states Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria.

2 CFR section 180.300 states when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

We noted the Academy does not maintain a complete listing of accounting records or supporting documentation that identifies its Title I Cluster expenditures. Therefore, we were unable to determine if the Academy complied with the above Federal compliance requirements regarding procurement or contracts equal to or exceeding \$25,000 and we noted no evidence of the EPLS being checked for any transactions.

Failure to properly check the EPLS resulted in the Academy not meeting the necessary reporting requirements.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Maintenance and Level of Effort – Material Weakness and Material Noncompliance

Finding Number	2010-018
CFDA Title and Number	#84.010 Title I #84.389 ARRA Title I
Federal Award Number / Year	2010
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

20 ESC Section 7901 states a local educational agency (LEA) may not use Title I, Part A funds for activities that it would have conducted in the absence of these federal funds (Title I, Part A). To meet Maintenance of Effort (MOE), combined fiscal effort (per student or the aggregate expenditures of the LEA and the State) cannot be less than 90% of the combined fiscal effort for the second preceding year.

20 USC Section 6321(b) states an LEA shall use Federal funds received under this part only to supplement the funds that would, in the absence of the Federal funds, be made available from non-Federal sources for the education of participating students. In no case may an LEA use Federal program funds to supplant funds from non-Federal sources.

During our testing of the requirements for Maintenance and Level of Effort, we noted the Academy has no supporting documentation, as required by the above compliance sections. We were unable to determine if these requirements were met.

ARRA 1512 Reporting – Material Weakness and Material Noncompliance

Finding Number	2010-019
CFDA Title and Number	#84.010 Title I #84.389 ARRA Title I
Federal Award Number / Year	2010
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

ARRA Section 1512 requires prime recipients "to report an estimate of jobs directly created or retained by project and activity or contract. Recipients will be required to report an aggregate number for the cumulative jobs created or retained for the quarter in a separate numeric field." Further, it states "the estimate of the number of jobs required by the Recovery Act should be expressed as "full-time equivalents" (FTE), which is calculated as total hours worked in jobs created or retained divided by the number of hours in a full-time schedule, as defined by the recipient. The FTE estimates must be reported cumulatively each calendar quarter."

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
(Continued)

**FINDING NUMBER 2010-019
(Continued)**

ARRA 1512 Reporting – Material Weakness and Material Noncompliance (Continued)

In addition, quarterly, prime recipients are required to submit all vendors which received a single payment greater than \$25,000 during the reporting period to ODE on the 1512 ARRA Subrecipient Vendor Report.

As a subrecipient of the Ohio Department of Education (ODE), the Academy is required to submit the above information to ODE for all applicable federal programs. In addition, the Academy should have sufficient internal control procedures in place to reasonably report the ARRA 1512 FTE and Subrecipient Vendor Report to ODE.

We noted the Academy did not maintain a complete listing of supporting documentation of its Title I Cluster expenditures. Therefore, we were unable to determine if the number of employees reported for the ARRA 1512 FTE report was accurate. In addition, we were unable to determine if any transactions should have been reported to the Subrecipient Vendor Report.

A lack of control procedures and underlying records to support FTE amounts reported as well as verification for Subrecipient Vendor reporting led to continued misrepresentation and reporting of the usage of ARRA funds.

Special Tests and Provisions – Highly Qualified Teachers and Paraprofessionals – Material Weakness and Material Noncompliance

Finding Number	2010-020
CFDA Title and Number	#84.010 Title I #84.389 ARRA Title I
Federal Award Number / Year	2010
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

34 CFR Section 200.56 states that beginning after the first day of each school year, an LEA must ensure any teacher who was hired to teach a core academic subject and worked in a program supported by Title I, Part A Federal funds is a highly qualified teacher (HQT). This requirement applies to teachers in Title I targeted assistance programs who teach a core academic subject and are paid with Title I, Part A Federal funds and to all teachers who teach a core academic subject in a Title I school-wide program school. The LEA must ensure that all teachers of core academic subjects, whether or not they work in a program supported with Title I, Part A Federal funds, are highly qualified. "Core academic subjects" relate to English, reading or language arts, mathematics, science, foreign languages, civics and government, economics, arts, history, and geography (Title I, Section 1119(a) of ESEA (20 USC 6319(a)); 34 CFR sections 200.55 and 200.56).

Per review of teaching credentials contained in employee files, we noted eight of the fourteen teachers and paraprofessionals paid with the Academy's Title I Cluster funds lacked the necessary HQT required documentation.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

(Continued)

Special Tests and Provisions – Identifying Schools and Local Education Agencies Needing Improvement – Material Weakness and Material Noncompliance

Finding Number	2010-021
CFDA Title and Number	#84.010 Title I #84.389 ARRA Title I
Federal Award Number / Year	2010
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Title I, Sections 1116(a) and (b)(1), (7), and (8) of Elementary and Secondary Act (ESEA) states that after a school has been identified for improvement for two school years (subject to the delay provision discussed in the next paragraph), the Local Education Agencies (LEA) must identify that school for corrective action if it continues to fail to make adequate yearly progress. The LEA may delay, for a period not to exceed one year.

Title I, Sections 1111(h)(2) and 1116(a)(1)(C) state each LEA that receives Title I, Part A funds must prepare and disseminate to all schools in the LEA—and to all parents of students attending those schools—an annual LEA report card that, among other things, includes the number, names, and percentage of schools identified for school improvement and how long the schools have been so identified.

The Academy was unable to provide documentation to determine whether it was in need of improvement.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

(Continued)

Special Tests and Provisions – Presentation of the Schedule of Federal Awards and Data Collection Form – Material Weakness and Material Noncompliance

Finding Number	2010-022
CFDA Title and Number	#84.010 Title I #84.389 ARRA Title I
Federal Award Number / Year	2010
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

OMB Circular No. A-133, Section .300 states that the auditee shall:

- Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity;
- Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs;
- Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs; and
- Prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards in accordance with OMB Circular A-133, Section .310.

OMB Circular No. A-133, Part 3 requires entities to provide identification of ARRA awards on their Federal Schedule and Data Collection Form which are supported by the entity's accounting records.

We noted the Academy did not maintain a complete listing of accounting records or supporting documentation identifying all of its Title I Cluster expenditures. Therefore, we were unable to determine if the amounts shown on the Academy's Schedule of Federal Receipts and Expenditures were accurate.

ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

(Continued)

Special Tests and Provisions – Separate Accountability of ARRA Title I Funding – Material Weakness and Material Noncompliance

Finding Number	2010-023
CFDA Title and Number	#84.010 Title I #84.389 ARRA Title I
Federal Award Number / Year	2010
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

2 CFR section 176.210 requires recipients and subrecipients of Federal awards to agree to maintain records that identify adequately the source and application of ARRA awards.

During our testing of Title I Cluster expenditures, we noted the Academy did not maintain any records that showed what disbursements utilized Title I ARRA funds.

The failure to maintain adequate accounting records resulted in a loss of accountability over the Academy's finances, resulting in errors that went undetected to the Academy.

Aside from the Official's Responses noted in Findings 2010-002, 2010-005, 2010-007 and 2010-011, no further responses were made by the Academy's management.

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**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
JUNE 30, 2010**

The Academy declined to provide a corrective action plan. As described in Note 10, the Ohio Department of Education issued a statement in September 2011 that the Academy would be closed effective June 30, 2012 due to academic viability, and consequently, the Academy ceased operations on June 30, 2012.

**ELITE ACADEMY OF THE ARTS
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-001	Finding for Recovery – Duplicate Reimbursements	Yes	Repaid
2009-002	Finding for Recovery – Group Event	No	FFR not repaid
2009-003	Finding for Recovery – Purchase of Alcohol	Yes	Repaid
2009-004	Finding for Recovery – Lease Payments	No	FFR not repaid
2009-005	Finding for Recovery – Support for Cash Withdrawal	Yes	Repaid
2009-006	Condition of Accounting Records	No	Reissued as Finding 2010-004
2009-007	Financial Reporting	No	No longer valid
2009-008	Developing and Implementing an Effective Monitoring Control System	No	Reissued as Finding 2010-006
2009-009	Interest in a Public Contract	No	Reissued as Finding 2010-005



Dave Yost • Auditor of State

ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To Elite Academy of the Arts and the Sponsor:

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

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

We noted the Board did not adopt an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666(B).

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

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

May 30, 2013

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Dave Yost • Auditor of State

ELITE ACADEMY OF THE ARTS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 1, 2014**