



Dave Yost • Auditor of State

**LIBERTY EXEMPLARY ACADEMIC DESIGN ACADEMY
TRUMBULL COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Statement of Cash Bank Balance – June 30, 2012	3
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	5
Schedule of Findings – June 30, 2012.....	7
Schedule of Prior Audit Findings – June 30, 2011	15

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Liberty Exemplary Academic Design Academy
Trumbull County
326 E. Main Street
Ravenna, Ohio 44266

Portage County Educational Service Center
Spectrum Office Tower
326 E. Main Street
Ravenna, Ohio 44266

To Liberty Exemplary Academic Design Academy and the Sponsor:

We have selectively tested certain accounts, financial records, files, and reports of the Liberty Exemplary Academic Design Academy, Trumbull County, Ohio (LEAD), the ("Academy") as of and for the year ended June 30, 2012, following Ohio Administrative Code Section 117-4-02.

Management did not provide a written representation letter. The Academy did not present financial statements and notes in accordance with generally accepted accounting principles, and did not prepare Management's Discussion and Analysis.

There are reportable findings and conditions as a result of performing these procedures. Our reportable findings and conditions follow the financial presentation. Our engagement was not designed to result in expressing an opinion on the accompanying financial statements, and we express no opinion on them.

The Governing Board voted to settle financially with its sponsor, the Liberty Local School District. The settlement was made on September 7, 2011. On September 15, 2011 the Portage County Educational Service Center became the Sponsor of the Academy. On October 10, 2011 the Academy suspended operations.

This report is intended solely for the information and use of officials authorized to receive this report under Section 117.26, Ohio Revised Code, 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". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State
Columbus, Ohio

April 14, 2014

LIBERTY EXEMPLARY ACADEMIC DESIGN ACADEMY
TRUMBULL COUNTY

STATEMENT OF CASH BANK BALANCE
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Amount</u>
Cash Bank Balance July 1, 2011	<u>\$264,936</u>
Cash Bank Balance June 30, 2012	<u>\$21</u>

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ACCOUNTANT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

Liberty Exemplary Academic Design Academy
Trumbull County
326 E. Main Street
Ravenna, Ohio 44266

Portage County Educational Service Center
Spectrum Office Tower
326 E. Main Street
Ravenna, Ohio 44266

To the Liberty Exemplary Academic Design Academy and the Sponsor:

We have selectively tested certain accounts, financial records, files, and reports of Liberty Exemplary Academic Design Academy, Trumbull County, Ohio (LEAD), the ("Academy"), as of and for the year ended June 30, 2012, following Ohio Administrative Code Section 117-4-02. We noted Management did not provide a written representation letter. The Academy did not present financial statements and notes in accordance with generally accepted accounting principles, or prepare Management's Discussion and Analysis prepared for the year ended. Additionally, the Governing Board voted to settle financially with its sponsor, the Liberty Local School District. The settlement was made on September 7, 2011. On September 15, 2011 the Portage County Educational Service Center became the Sponsor of the Academy. On October 10, 2011 the Academy suspended operations.

Our engagement was not designed to result in expressing an opinion on the accompanying financial statements, internal control over financial reporting, or compliance. We, therefore, express no opinion on these matters.

Internal Control Over Financial Reporting

During our procedures related to the internal control over financial reporting we noted matters that, in our opinion, may have adversely affected the Academy's ability to record, process, summarize, and report financial data consistent with assertions in the financial statements. In addition, these matters could result in the occurrence of misstatements that are caused by error or fraud that would not be detected in a timely manner by employees when performing the assigned functions. These matters are described in the Schedule of Findings as items 2012-002, 2012-003, and 2012-008 through 2012-010.

Compliance and Other Matters

We have tested compliance with certain provisions of laws, regulations, contract, and grant agreements applicable to the Academy. Noncompliance with these requirements could impact the Academy's ability to determine financial statement amounts. The results of our tests disclosed instances of noncompliance or other matters that are reported in the accompanying Schedule of Findings as items 2012-001 through 2012-007, and 2012-011.

We intend this report solely for the information and use of officials authorized to receive this report under Section 117.26, Ohio Revised Code, and it 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". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

April 14, 2014

LIBERTY EXEMPLARY ACADEMIC DESIGN ACADEMY
TRUMBULL COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2012

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

<i>Finding Number</i>	2012-001
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1. Noncompliance - Annual Financial Reporting

Ohio Revised 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 as well as accounts due from each source and amount of expenditures for each purpose.

Ohio Administrative Code Section 117-2-03(B) further clarifies the requirement of Ohio Revised Code Section 117.38. This section requires that all 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.

The Academy did not file the June 30, 2012 financial report, which is required to be filed no later than November 30, 2012

In addition, Ohio Revised 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 Revised 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 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.

<i>Finding Number</i>	2012-002
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2. Noncompliance and Material Weakness - Records Retention

Ohio Revised Code Section 149.351(A) provides, 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.

**LIBERTY EXEMPLARY ACADEMIC DESIGN ACADEMY
TRUMBULL COUNTY
SCHEDULE OF FINDINGS
JUNE 30, 2012
(Continued)**

**Finding Number 2012 -002
(Continued)**

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 audit period, two instances were noted where vendor payments were not supported with adequate documentation to substantiate the purpose of the expenditures. Also, during the audit period, three deductions were made from the Academy's bank account through debit card payments to certain vendors. However, the Academy did not maintain any supporting documentation as to the purpose of such debit card payments. The Academy does not have a records retention policy.

Failure to maintain copies of vouchers and supporting documentation increases the likelihood the Academy 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 the Academy management to reconstruct historical transactions.

<i>Finding Number</i>	2012-003
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3. Noncompliance and Material Weakness - Condition of Accounting Records

Ohio Administrative Code Section 117-2-02(A) provides that all local public offices shall maintain an accounting system and accounting records sufficient to engage 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 statement required by rule 117-2-03 of the Administrative Code.

Management is responsible for implementing and maintaining a system of controls designed to enable management to determine the accuracy of financial transaction of the Academy. Also, management is responsible for developing and maintaining complete and accurate financial records.

During our testing of the Academy's receipt and disbursement cycles, we noted the following errors and irregularities to the Academy's records:

- GAAP financial statements (including notes to the financial statements and management's discussion and analysis) were not prepared for the audit period;
- There was no evidence the Board approved expenditures prior to being made, nor did they review expenditures after they were made to ensure they were accurately recorded, necessary and for a proper public purpose;
- No one independent of the purchasing process reviewed the activity to ensure the accuracy appropriateness or allowability of the expenditure;
- No evidence of the Board's or management's monitoring controls over the monthly and annual financial statements; the revenue and expenditures internal control process; the compliance with grant agreements for federal and state grants; ensuring that an adequate segregation of duties exists; and review of the monthly bank reconciliations;

**LIBERTY EXEMPLARY ACADEMIC DESIGN ACADEMY
TRUMBULL COUNTY
SCHEDULE OF FINDINGS
JUNE 30, 2012
(Continued)**

**Finding Number 2012 -003
(Continued)**

- No evidence of a capital asset listing was provided;
- A capital asset accounting system, which maintains a complete capital asset listing by location, with tag or other identification numbers and other pertinent information has not been developed;
- The Academy did not provide any invoices or other supporting documentation related to a number of expenditures made by the Academy;
- The Academy did not provide any receipt or disbursement ledgers for the audit period;
- The Academy failed to provide a general ledger, trial balances, or other supporting documentation;
- The Academy did not provide a formal policy governing the reimbursement of travel expenses;
- The Academy did not provide the Treasurer's contract covering the audit period;
- The Academy did not provide records and documentation for monthly bank reconciliations;
- The Academy had excessive use of manual checks, multiple breaks in the check sequence due to many voided checks and checks not timely posted to the accounting system; and
- The Academy did not provide any personnel records.

Failure to maintain records to support the financial statements impedes management's ability to make informed decisions as well as provide for the integrity of the Academy's financial statements and related assets.

<i>Finding Number</i>	2012-004
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4. Noncompliance – Finding for Recovery

Expenditures Lacking Proper Supporting Documentation

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a proper public purpose. Typically the determination of what constitutes a proper "public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may only have a prospective effect.

Auditor of State Bulletin 2003-005, *Expenditure of Public Funds/Proper "Public Purpose"*, provides that the Auditor of State's Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

During fiscal year 2012, LEAD Academy issued two checks and three debit card expenditures to various vendors for which there was no additional supporting documentation on file, proper approval of the Governing Board could not be verified, and the purpose or necessity for the expenditure was not documented. This missing documentation should have included invoices, receipts or bills, as well as other documentation supporting the payment. These payments are detailed below.

**LIBERTY EXEMPLARY ACADEMIC DESIGN ACADEMY
TRUMBULL COUNTY
SCHEDULE OF FINDINGS
JUNE 30, 2012
(Continued)**

**Finding Number 2012 -004
(Continued)**

Date	Check Numer	Unsupported Amount	Vendor Name
07/11/11	Debit	\$120	Staples
07/26/11	1011	533	Tracey Obermiyer
08/01/11	Debit	13	Walgreens
08/23/11	1016	1,508	Ceridian
11/17/11	Debit	73	Staples
	Total	\$2,247	

Without appropriate documentation, it is not possible to determine if 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.

The bank account these checks and debit card expenditures were charged against has one authorized signatory, Tracey Obermiyer.

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 strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.* (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 according with the foregoing facts, and pursuant to Section 117.28 of the Ohio Revised Code, a finding for recovery of public money illegally expended is hereby issued against Tracey Obermiyer in the amount of \$2,247 and in favor of L.E.A.D. Academy.

<i>Finding Number</i>	2012-005
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5. Noncompliance - Board Meetings

Ohio Revised Code Section 121.22 (C) provides that all meetings of any public body, including community schools, are to be open to the public at all times. A member of a public body must be present in person at a meeting open to the public to be considered present or to vote and for determining whether a quorum is present. The minutes of a regular or special meeting of any such public body shall be promptly recorded and open to public inspection. The minutes need only reflect the general subject matter of discussions in executive sessions.

The Board minutes were in disarray and were not readily available for public inspection.

**LIBERTY EXEMPLARY ACADEMIC DESIGN ACADEMY
TRUMBULL COUNTY
SCHEDULE OF FINDINGS
JUNE 30, 2012
(Continued)**

**Finding Number 2012 -005
(Continued)**

Ohio Revised Code Section 121.22 (F) requires every public body, by rule, shall establish a reasonable method whereby any person may determine the time and place of all regularly scheduled meetings and the time, place, and purpose of all special meetings. A public body shall not hold a special meeting unless it gives at least twenty-four hours' advance notice to the news media, except in the event of an emergency requiring immediate official action. In the event of an emergency, the member or members calling the meeting shall notify the news media immediately of the time, place, and purpose of the meeting.

We were unable to obtain any evidence that meetings were properly advertised.

<i>Finding Number</i>	2012-006
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6. Noncompliance - Public Official's Bond

Ohio Revised Code Section 3314.011 provides that every community school established under this chapter shall have a designated fiscal officer. The Auditor of State may require by rule (see **OAC 117-6-07 (B)** below) that the fiscal officer of any community school, before entering upon duties as the fiscal officer of the school, execute a bond in an amount and with surety to be approved by the governing authority of the school, payable to the state, conditioned for the faithful performance of all the official duties required of the fiscal officer. Any such bond shall be deposited with the governing authority of the school, and a copy thereof, certified by the governing authority, shall be filed with the county auditor.

Additionally, **Ohio Administrative Code Section 117-6-07 (B)** requires a community school fiscal officer to execute a bond prior to entering upon the duties of the fiscal officer as provided for in **Ohio Revised Code Section 3314.011**. The governing authority prescribes the bond amount and surety by resolution.

The Academy did not provide evidence of a bond for the Fiscal Officer. Additionally, the Board did not approve a bond amount. This could result in the bond amount being inadequate and the Academy assuming unnecessary liability.

<i>Finding Number</i>	2012-007
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7. Noncompliance - Rubber Stamp

Ohio Revised Code Section 9.10 does not authorize the use of a rubber stamp signature by the official or authorized employee referred to in Section 9.11 of the Revised Code on the face of any instrument mentioned in such section.

The Academy uses a rubber stamp for signatures on manual checks. The existence of a rubber stamp provides unauthorized users the ability to sign checks and to circumvent the segregation of duties control.

**LIBERTY EXEMPLARY ACADEMIC DESIGN ACADEMY
TRUMBULL COUNTY
SCHEDULE OF FINDINGS
JUNE 30, 2012
(Continued)**

<i>Finding Number</i>	2012-008
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8. Material Weakness – Lack of Management Representation

AICPA Codification of Auditing Standards (AU) section 333 states that the auditor should obtain written representations from current management on all periods covered in the audit report. An auditor should obtain representations from those members of management with overall responsibility for financial and operating matters whom the auditor believes are responsible for and knowledgeable about, directly or through other in the organization, the matters covered by the representations.

AU section 333 further states that management's refusal to furnish written representations constitutes a limitation on the scope of the audit sufficient to preclude an unqualified opinion and is ordinarily sufficient to cause an auditor to disclaim an opinion or withdraw from the engagement.

Management was not willing to provide representation. The Academy suspended operations on October 10, 2011.

Therefore based on management's refusal to provide written representations in connection with the audit of the financial statements we disclaimed an opinion on the financial statements.

<i>Finding Number</i>	2012-009
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9. Material Weakness – Travel Policy

The Academy has various officials and employees that are reimbursed for travel; however, it does not have a formal detailed travel reimbursement policy in place.

A travel policy outlines the responsibilities of management and controls the reimbursement for expenses transacted through travel such as; records of mileage, costs of overnight travel, meal allowances, etc., that may facilitate the determination as to if such expenses were (1) for proper public purpose, (2) for proper amounts, and (3) adequately supported.

The Board should establish a travel policy that addresses these concerns, including, but not limited to:

1. Defining the allowable reimbursement amount for mileage.
2. Determining the allowable reimbursement for overnight travel.
3. Determining appropriate meal reimbursement allowances.
4. Defining the information required to be presented for reimbursement.
5. Defining those who are entitled to travel reimbursement by the Governing Board.
6. Outlining the approval process by the Governing Board.

**LIBERTY EXEMPLARY ACADEMIC DESIGN ACADEMY
TRUMBULL COUNTY
SCHEDULE OF FINDINGS
JUNE 30, 2012
(Continued)**

<i>Finding Number</i>	2012-010
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10. Material Weakness – Board Monitoring of Financial Reporting

Financial reports of the Academy’s activities are important resources to help keep the Board informed of the Academy’s financial status and to aid in making financial decisions in the best interest of the Academy.

For fiscal year 2012, we noted that the Board approved a “Financial Report” at its regular meetings, but the Academy provided no evidence as to which reports were included within this “Financial Report”.

Financial information should be presented at each regular meeting and the minutes reflect Board review and acceptance of this financial information.

The financial information submitted for review and approval should include some of the following data and any other reports that Board deems necessary:

- A listing of bills to be paid which includes the warrant number
- Total revenue received and disbursements paid for the month
- A comparison of actual revenue versus estimated revenue year to date
- A comparison of actual expenditures versus budgeted expenditures year to date
- A copy of the monthly bank reconciliations
- A fund balance report

This may help keep the Board informed of the financial status of the Academy, aid in monitoring the finances, and help in making financial decisions.

<i>Finding Number</i>	2012-011
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11. Noncompliance - General Liability Insurance

Ohio Revised Code Section 3314.03(A)(11)(b) provides that the governing authority of each community school must purchase liability insurance, or otherwise provide for the potential liability of the Academy. Additionally, the sponsor contract requires that comprehensive general liability insurance should be maintained at all times and the liability insurance must have amounts no less than one million dollars per occurrence and three million dollars in the aggregate.

The Academy did not provide proof of general liability insurance purchased.

The Academy should implement procedures to verify that they maintain the required coverage on all Academy facilities for the yearly period of operation.

Officials Response:

There was no official response provided by the Academy.

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**LIBERTY EXEMPLARY ACADEMIC DESIGN ACADEMY
PORTAGE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	Annual Financial Report not filed	No	2012-001
2011-002	Deposits of Public Money not deposited timely	N/A	There were no receipts in 2012
2011-003	There was no records retention policy and supporting documentation was not maintained	No	2012-002
2011-004	Fiscal Officer did not provide a Bond	No	2012-006
2011-005	Expenditures Lacking Proper Supporting Documentation	No	2012-004
2011-006	There were multiple breaks in the check sequence, unusual delay between the date of the check and the date the check was paid, checks not posted in a timely manner	No	2012-003
2011-007	The Academy did not have proof of general liability insurance	No	2012-011
2011-008	Board meetings were not properly advertised	No	2012-005
2011-009	Rubber stamp signatures used	No	2012-007
2011-010	There was no formal detailed travel reimbursement policy	No	2012-009
2011-011	There was no evidence as to reports provided the Board titled financial reports	No	2012-010
2011-012	No Representation letter provided	No	2012-008
2011-013	No annual report of activities prepared	N/A	Operations were suspended
2011-014	Condition of Accounting Records	No	2012-003

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LIBERTY EXEMPLARY ACADEMIC DESIGN ACADEMY

TRUMBULL COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 8, 2014**