



**NOTTEN SCHOOL FOR SCIENCE TECHNOLOGY
ENGINEERING AND MATHEMATICS
FRANKLIN COUNTY**

INITIAL AND FINAL AUDIT

**FOR THE YEAR ENDED JUNE 30, 2011
AND THE PERIOD JULY 1, 2011 TO SEPTEMBER 8, 2011**



Dave Yost • Auditor of State

**NOTTEN SCHOOL FOR SCIENCE TECHNOLOGY
ENGINEERING AND MATHEMATICS
FRANKLIN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Notten School for Science Technology Engineering and Mathematics
Franklin County
c/o Kids Count of Dayton
6500 Poe Avenue, Suite 140
Dayton, Ohio 45414-2568

To the Sponsor:

We were engaged to audit the basic financial statements of the Notten School for Science Technology Engineering and Mathematics, Franklin County, Ohio (the School), as of and for the year ended June 30, 2011, and the period July 1, 2011 to September 8, 2011. These financial statements are the responsibility of the School's management.

We were unable to obtain sufficient evidential matter supporting 100% of the grants receivables, fixed assets, accounts payable, intergovernmental payable, equity, income, expenses, and other income reported on their financial statements for the year ended June 30, 2011, and the period July 1, 2011 to September 8, 2011.

Management has not provided the Auditor of State certain written representations required by AICPA U.S. Auditing Standards AU-C Section 580, including but not limited to, management's responsibility for preparing the financial statements in conformity with the School'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 of the School's compliance with laws and regulations; the identification and disclosure to the Auditor of State of all laws, regulations, and provisions of contracts and grant agreements directly and materially affecting the determination of financial statement amounts and; the presence or absence of fraud involving management or employees with significant roles in internal control; compliance with laws, regulations, and provisions of contracts and grant agreements, including budget laws, compliance with any debt covenants, the identification of all federal assistance programs, and compliance with federal grant requirements.

The School declined to present a statement of cash flow and notes to the basic financial statements required by Governmental Accounting Standards Board (GASB) Cod. 2200.102 and 2300.106 for the year ended June 30, 2011, and the period July 1, 2011 to September 8, 2011. Presentation of such statements summarizing the School's operating, investing, and financing activities and notes to the basic financial statements are integral parts of the financial statements and are required by accounting principles generally accepted in the United States of America.

Because of the matters discussed in the preceding three paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

The School ceased operations on September 8, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2014, on our consideration of the School'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 School also has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America (GASB Cod. 2200.102) has determined is necessary to supplement, although not required to be part of, the financial statements.

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

July 28, 2014

**NOTTEN SCHOOL FOR SCIENCE TECHNOLOGY ENGINEERING AND MATHEMATICS
FRANKLIN COUNTY, OHIO**

**STATEMENT OF NET ASSETS
SEPTEMBER 8, 2011**

Assets:

Current assets:

Equity in pooled cash

Cash	\$	(21,392)
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Receivables:

Intergovernmental.		14,509
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Prepayments		9,479
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Total current assets		<u>2,596</u>
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Noncurrent assets:

Depreciable capital assets, net		60,379
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Lease Deposit.		<u>5,000</u>
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Total noncurrent assets		<u>65,379</u>
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Total assets		<u>67,975</u>
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Liabilities:

Current liabilities:

Accounts payable.		91,698
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Intergovernmental payable		<u>7,730</u>
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Total liabilities.		<u>99,428</u>
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Net assets:

Invested in capital assets.		60,379
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Unrestricted		50
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Restricted (deficit).		<u>(91,882)</u>
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Total net assets (deficit).	\$	<u><u>(31,453)</u></u>
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**NOTTEN SCHOOL FOR SCIENCE TECHNOLOGY ENGINEERING AND MATHEMATICS
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE PERIOD JULY 1, 2011 TO SEPTEMBER 8, 2011**

Operating revenues:	
State foundation	\$ 89,925
Other	2,873
Total operating revenues.	<u>92,798</u>
 Operating expenses:	
Salaries and wages	70,219
Fringe benefits	20,413
Purchased services.	34,819
Materials and supplies	936
Other	2,103
Total operating expenses	<u>128,490</u>
 Operating loss	 <u>(35,692)</u>
 Non-operating revenues:	
Federal grants.	19,682
Total non-operating revenues	<u>19,682</u>
 Change in net assets	 (16,010)
 Net assets (deficit) at beginning of period. . .	 <u>(15,443)</u>
 Net assets (deficit) at end of period	 <u><u>\$ (31,453)</u></u>

**NOTTEN SCHOOL FOR SCIENCE TECHNOLOGY ENGINEERING AND MATHEMATICS
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2011**

Assets:

Current assets:

Equity in pooled cash

Cash	\$	(3,884)
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Receivables:

Intergovernmental.		14,509
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Prepayments		9,479
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Total current assets		<u>20,104</u>
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Noncurrent assets:

Depreciable capital assets, net		<u>66,278</u>
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Total assets		<u>86,382</u>
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Liabilities:

Current liabilities:

Accounts payable.		93,288
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Intergovernmental payable		<u>8,537</u>
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Total liabilities.		<u>101,825</u>
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Net assets:

Invested in capital assets.		66,278
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Unrestricted		50
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Restricted (deficit).		<u>(81,771)</u>
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Total net assets (deficit).	\$	<u><u>(15,443)</u></u>
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**NOTTEN SCHOOL FOR SCIENCE TECHNOLOGY ENGINEERING AND MATHEMATICS
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Operating revenues:	
State foundation	\$ 507,800
Other	17,238
Total operating revenues.	<u>525,038</u>
 Operating expenses:	
Salaries and wages	406,087
Fringe benefits	93,282
Purchased services.	264,099
Materials and supplies	85,710
Total operating expenses	<u>849,178</u>
 Operating loss	 <u>(324,140)</u>
 Non-operating revenues:	
Federal grants.	308,697
Total non-operating revenues	<u>308,697</u>
 Change in net assets	 (15,443)
 Net assets at beginning of year.	 <u>-</u>
 Net assets (deficit) at end of year	 <u><u>\$ (15,443)</u></u>



Dave Yost • Auditor of State

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

Notten School for Science Technology Engineering and Mathematics
Franklin County
c/o Kids Count of Dayton
6500 Poe Avenue, Suite 140
Dayton, Ohio 45414-2568

To The Sponsor:

We were engaged to audit the financial statements of the Notten School for Science Technology Engineering and Mathematics, Franklin County, Ohio (the School) as of and for the year ended June 30, 2011, and the period July 1, 2011 to September 8, 2011, which collectively comprise the School's basic financial statements and have issued our report thereon dated July 28, 2014. We did not opine on the financial statements because we could not obtain documentation to support the amounts reported for grants receivable, fixed assets, accounts payable, intergovernmental payable, equity, income, expenses, and other income reported on the financial statements; additionally we were unable to obtain written representations from management. We also noted that the School did not present a statement of cash flows, notes to the financial statements and management's discussion and analysis as of and for the year ended June 30, 2011, and the period July 1, 2011 to September 8, 2011. The School ceased operations on September 8, 2011.

Internal Control Over Financial Reporting

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

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

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 School's financial statements will not be prevented, or detected and timely corrected. We consider findings 2011-005, 2011-006, 2011-011, 2011-020, and 2011-022 described in the accompanying schedule of findings to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2011-010 described in the accompanying schedule of findings to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2011-001 through 2011-010, and 2011-012 through 2011-021.

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

We intend this report solely for the information and use of management, the Governing Board, Kids Count of Dayton, and others within the School. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State
Columbus, Ohio

July 28, 2014

**NOTTEN SCHOOL FOR SCIENCE TECHNOLOGY ENGINEERING AND MATHEMATICS
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
FISCAL YEAR ENDED JUNE 30, 2011
AND THE PERIOD JULY 1, 2011 TO SEPTEMBER 8, 2011**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2011-001

**Unsupported Financial Transactions/Proper Public Purpose
Finding for Recovery**

Ohio Rev. Code Section 3314.03 (A) (11) (d) requires that each contract entered into between a sponsor and the governing authority of a community school shall specify that the school will comply with Section 149.43 of the Ohio Rev. Code. Ohio Rev. Code Section 149.43 (B) states, in part, that all public records shall be promptly prepared and made available for inspection 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.

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a 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 have a prospective effect only. **Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper Public Purpose** states that the Auditor of State's Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

The School experienced turnover in its treasurer position, with Carl Shye serving as treasurer from July 1, 2010 through June 30, 2011 and Ed Dudley employed as treasurer for the period August 1, 2011 through the School's closing; Mr. Dudley also was custodian of the School's bank accounts through February 2012.

Management expended public funds that were not supported by original supporting documentation such as invoices. We noted checks totaling \$911 in fiscal year 2011, payable to LaVerne Pryor, Director of Operations for the School, for expense reimbursement; however no receipts were maintained to substantiate those reimbursements. We also noted a \$500 cash withdrawal on February 18, 2011 which lacked supporting documentation. During this period of time, Mr. Shye served as treasurer. There was no indication that the board approved these expenditures or that they were for an otherwise proper public purpose.

Without appropriate documentation it is not possible to determine whether the expenditures included items that would be considered expended for a proper public purpose. Proper supporting documentation should have been maintained to evidence all revenues and expenditures and ensure the accuracy of the financial statement presentation. For such expenditures documentation should have been received and approved by those with appropriate authority prior to expenditure and maintained to evidence the details of the goods or services purchased. Such revenue and expenditure documentation should have also been reviewed by the Board during monthly review of financial reports to ensure the proper recording and classification of financial transactions.

**NOTTEN SCHOOL FOR SCIENCE TECHNOLOGY ENGINEERING AND MATHEMATICS
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
FISCAL YEAR ENDED JUNE 30, 2011
AND THE PERIOD JULY 1, 2011 TO SEPTEMBER 8, 2011
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2011-001 (Continued)

**Unsupported Financial Transactions/Proper Public Purpose (Continued)
Finding for Recovery**

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against LaVerne Pryor, in the amount of \$911 and in favor of the Ohio Department of Education, in the amount of \$911.

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.

Former School treasurer, Carl Shye, supervised the accounts from which the above illegal expenditures were made. Accordingly, Carl Shye, and his bonding company, The Cincinnati Insurance Company, will be jointly and severally liable in the amount of \$1,411 and in favor of the Ohio Department of Education.

Officials’ Response:

We did not receive a response from Officials to this Finding.

FINDING 2011-002

**Overpayment of Sponsorship Fees
Finding for Recovery – Repaid Under Audit**

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.

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a 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 have a prospective effect only. Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper Public Purpose states that the Auditor of State’s Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

**NOTTEN SCHOOL FOR SCIENCE TECHNOLOGY ENGINEERING AND MATHEMATICS
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
FISCAL YEAR ENDED JUNE 30, 2011
AND THE PERIOD JULY 1, 2011 TO SEPTEMBER 8, 2011
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING 2011-002 (Continued)

**Overpayment of Sponsorship Fees (Continued)
Finding for Recovery – Repaid Under Audit (Continued)**

Section 9.7 of the Sponsorship agreement between the School and Kids Count of Dayton, states that "For and in consideration of three percent (3%) of all state-per-pupil foundation funds received by the School from the State of Ohio (but only up to 3% of such funds), the Sponsor shall provide the oversight required by law."

Between September 2010 and January 2012 the School paid \$18,019 to the sponsor and was only required to pay \$14,037, which resulted in an overpayment of \$3,982. At the time of the overpayment, Mr. Ed Dudley was serving as School treasurer.

Total State Per Pupil Foundation (State Support)	\$ 467,902
Sponsorship Fee	3%
Amount Due to Sponsor	<u>\$ 14,037.06</u>
Amount Paid to Sponsor	18,019.49
Overpayment	<u><u>\$ 3,982.43</u></u>

There was no documentation supporting that additional services were provided and that the board approved of the overpayment. Further, there was no documentation to support that the overpayment was for an otherwise proper public purpose.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Kids Count of Dayton, the School Sponsor, in the amount of \$3,982 and in favor of the Ohio Department of Education in the amount of \$3,982.

On August 26, 2013 Kids Count of Dayton remitted \$3,982 to the Ohio Department of Education.

Officials' Response:

Kids Count of Dayton

The sponsorship fees referenced in the Finding 2011-02 were received by Kids Count of Dayton by and through Notten STEM during the summer of 2011 from Foundation payments issued by the Ohio Department of Education in anticipation of the school opening in the fall that year. Unfortunately, and through no fault of the Sponsor, Notten STEM did not open for school that year. Irrespective of the alleged overpayment by Notten to Kids Count provided in Finding 2011-02, the Ohio Department of Education Office of Community Schools has demanded that Kids Count repay to the state all sponsorship fees received by Kids Count from Notten STEM during the summer of 2011 because of the school's failure to open, including the amount of the alleged overpayment. Kids Count believes this to be an unjust result, as it had no way of knowing that the school would not open and sponsorship services were rendered by Kids Count to Notten STEM during the period in question.

**NOTTEN SCHOOL FOR SCIENCE TECHNOLOGY ENGINEERING AND MATHEMATICS
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
FISCAL YEAR ENDED JUNE 30, 2011
AND THE PERIOD JULY 1, 2011 TO SEPTEMBER 8, 2011
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING 2011-002 (Continued)

**Overpayment of Sponsorship Fees (Continued)
Finding for Recovery – Repaid Under Audit (Continued)**

Officials' Response: (Continued)

Kids Count of Dayton (Continued)

However, Kids Count is without further recourse and, accordingly, it intends to comply with the State's demands and repay the sponsorship fees received from Notten during the 2011-2012 school year, included the alleged overpayment.

FINDING 2011-003

**Foundation Revenue
Finding for Recovery**

Ohio Rev. Code Section 3314.08 provides guidance for community schools to be funded by the Ohio Department of Education's (ODE) annualized per-pupil foundation program ("Foundation"). Foundation settlements are paid to community schools on a monthly basis and are based on estimated student enrollments.

Pursuant to the School Options Enrollment System Manual, community schools receive Foundation funding during July, August, and September based upon the estimated enrollment (i.e., EMIS enrollment data from June of the preceding school year) for the upcoming school year.

Ohio Rev. Code Section 3314.08(H)(4) further indicates with respect to the calculation of full-time equivalency under division (H)(3) of this section, the department shall waive the number of hours or days of learning opportunities not offered to a student because the community school was closed during the school year due to disease epidemic, hazardous weather conditions, law enforcement emergencies, inoperability of school buses or other equipment necessary to the school's operation, damage to a school building, or other temporary circumstances due to utility failure rendering the school building unfit for school use, *so long as the school was actually open for instruction with students in attendance during that school year for not less than the minimum number of hours required by this chapter*. The department shall treat the school as if it were open for instruction with students in attendance during the hours or days waived under this division.

In July and August 2011, the School received foundation payments totaling \$84,274.72. At its September 8, 2011 meeting however, the School's Board of Governors adopted a resolution to permanently close the School on that date prior to opening for instruction for the 2011/2012 school year.

Upon closing, the school did not repay July and August Foundation payments to ODE. Rather, the School used the payments to liquidate its July and August operating expenditures. Carl Shye signed checks to pay operating expenditures from the July foundation payment totaling \$14,598. In mid-July 2011, the school treasurer position became vacant. During July and August, however, Director of Operations, Laverne Pryor signed checks to pay operating expenditures from Foundation payments totaling \$43,025.

**NOTTEN SCHOOL FOR SCIENCE TECHNOLOGY ENGINEERING AND MATHEMATICS
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
FISCAL YEAR ENDED JUNE 30, 2011
AND THE PERIOD JULY 1, 2011 TO SEPTEMBER 8, 2011
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING 2011-003 (Continued)

**Foundation Revenue (Continued)
Finding for Recovery (Continued)**

Edward Dudley was employed by the School to provide treasurer services effective August 1, 2011 and signed checks to pay operating expenditures from August Foundation payments totaling \$26,650.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public funds illegally expended is hereby issued against Carl Shye, and his bonding company, The Cincinnati Insurance Company, in the amount of \$14,598 and in favor of the Ohio Department of Education in the amount of \$14,598; against LaVerne Pryor, in the amount of \$43,025 and in favor of the Ohio Department of Education in the amount of \$43,025; and against Edward Dudley, and his bonding company, Western Surety Company, in the amount of \$26,650 and in favor of the Ohio Department of Education in the amount of \$26,650.

Officials' Response:

LaVerne Pryor

It is my wish that care and consideration be given for myself and others in future audit circumstances that changes be made to Ohio Revised Code and other areas of audit procedure since misuse of terms can be slanderous and damaging to individuals in finding future employment and their reputation in the community. It is also my recommendation that efficient training for Charter school employees (Treasurer, Superintendent, etc) be implemented in an effort to equip workers for proper record keeping and audit compliance procedures.

Edward Dudley

Edward Dudley was not the treasurer of the school at any time. No contract was approved by the Governing Authority and Edward Dudley only acted as fiscal agent at the request of the Governing Authority, Sponsor, Kids Count of Dayton. Mr. Edward Dudley wrote and signed checks at the direction of Governing Authority and the Sponsor. In fact checks were written to pay teachers' salaries for the final pay term of the 2010/2011 school years. The teachers had valid contracts and were owed the payments. Additionally, the school administration processed the final payroll checks thru ADP, taxes were withheld and State Teachers Retirement and State Employees Retirement were paid, but the teachers never received their checks. Edward Dudley was instructed by the Sponsor to write the teachers their net checks.

The School, Sponsor, nor Fiscal Agent believed that the school would not re-open for the 2011/2012 school year and therefore believed in good faith that the funds spent in July and August were unrestricted.

The State of Ohio, Department of Education provided no guidelines, rules, and/or regulations to the Sponsor and School or Fiscal Agent on what steps the school should take to predict the future or how to handle the schools finances in case the school does not reopen.

**NOTTEN SCHOOL FOR SCIENCE TECHNOLOGY ENGINEERING AND MATHEMATICS
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
FISCAL YEAR ENDED JUNE 30, 2011
AND THE PERIOD JULY 1, 2011 TO SEPTEMBER 8, 2011
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING 2011-003 (Continued)

**Foundation Revenue (Continued)
Finding for Recovery (Continued)**

Auditor of State Conclusion:

Mr. Dudley indicates in his response to Finding 2011-003 that he was not the treasurer of the school at any time. However, while his official title may not have been Treasurer, the duties of his position were commensurate with the duties of a community school fiscal officer. The school hired Mr. Dudley with the knowledge that he had served as a fiscal officer for other community schools and with the knowledge that Mr. Dudley held the necessary credentials and certifications to perform the duties of Treasurer. Under his contract with the School, Mr. Dudley's business, LED Consulting, received \$2,100 for work performed by him. *Cordray v. Internatl. Preparatory School* 128 Ohio St.3d 50, (2010), provides that the label "treasurer" of a community school is less important than the character of the position held when determining strict liability for the illegal expenditure of public funds. The character of Mr. Dudley's position was in-line with that of a community school treasurer which makes Mr. Dudley strictly liable for all illegal expenditures that occurred under his employment at the School.

Mr. Dudley also indicates the administration processed the school's final payroll and the teachers did not receive their checks. The School's financial records indicate that for the final payroll, dated August 30, 2011, three of the thirteen payroll checks written were cashed and cleared the bank; ten of the checks were not cashed, and are not included in the finding for recovery amount in the finding above.

FINDING 2011-004

**Related Party Transactions
Material Non-Compliance**

Pursuant to Ohio Rev. Code Section 3314.03(A)(11)(e) the school shall comply with Chapter 102 and section 2921.42 of the Revised Code.

Ohio Rev. Code Section 102.03(D) provides that no public official or employee shall use or authorize the use of the authority or influence of office or employment to secure anything of value or the promise or offer of anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties.

Ohio Rev. Code Section 2921.42(A)(1) provides that no public official shall knowingly authorize, or employ the authority or influence of his office to secure authorization of any public contract in which he, a member of his family, or any of his business associates has an interest.

Ohio Revised 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.

Ohio Revised Code section 2921.42(C) states that this section does not apply to a public contract in which a public official, member of a public official's family, or one of a public official's business associates has an interest, when all of the following apply:

**NOTTEN SCHOOL FOR SCIENCE TECHNOLOGY ENGINEERING AND MATHEMATICS
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
FISCAL YEAR ENDED JUNE 30, 2011
AND THE PERIOD JULY 1, 2011 TO SEPTEMBER 8, 2011
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING 2011-004 (Continued)

**Related Party Transactions (Continued)
Material Non-Compliance (Continued)**

(1) The subject of the public contract is necessary supplies or services for the political subdivision or governmental agency or instrumentality involved;

(2) The supplies or services are unobtainable elsewhere for the same or lower cost, or are being furnished to the political subdivision or governmental agency or instrumentality as part of a continuing course of dealing established prior to the public official's becoming associated with the political subdivision or governmental agency or instrumentality involved;

(3) The treatment accorded the political subdivision or governmental agency or instrumentality is either preferential to or the same as that accorded other customers or clients in similar transactions;

(4) The entire transaction is conducted at arm's length, with full knowledge by the political subdivision or governmental agency or instrumentality involved, of the interest of the public official, member of the public official's family, or business associate, and the public official takes no part in the deliberations or decision of the political subdivision or governmental agency or instrumentality with respect to the public contract.

Pursuant to OEC Op. No. 94-002, a public official who has an ownership interest in a business has a pecuniary interest in the contracts of that business for purposes of R.C. 2921.42.

In 2011 we noted the following:

- The School paid Crewco Financial, owned and operated by Governing Board Member Reginald Crews, \$10,000 for 100 commercials and print ads.
- Edward Dudley, who was employed by the School to provide treasurer services provided an \$8,000 short term loan to the School; we noted no board approval in the Minutes for this loan. The loan was repaid with \$500 interest in the same month funds were loaned to the School.
- The School paid Governing Board Member Jerry Pierce \$595 for painting and moving furniture. .
- The School paid Miracle Cathedral \$12,050 for bus rental and transportation; Governing Board Member Jerry Pierce was a Bishop at Miracle Cathedral.
- Miracle Cathedral provided a \$6,000 short-term loan to the School. The loan was repaid with \$300 interest in the same month funds were loaned to the School.

The School provided no documentation supporting that the services above were necessary and unobtainable elsewhere for the same or lower cost, and that the treatment accorded the School was preferential or the same as other customers. Additionally, the transactions were not conducted at arm's length. Further, there was no documentation in the School's Minutes regarding whether the Governing Board approved these contracts and loans, or whether Mr. Crews or Mr. Pierce abstained from voting on the above matters where they had an apparent interest.

These matters will be referred to the Ohio Ethics Commission.

Officials' Response:

We did not receive a response from Officials to this Finding.

**NOTTEN SCHOOL FOR SCIENCE TECHNOLOGY ENGINEERING AND MATHEMATICS
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
FISCAL YEAR ENDED JUNE 30, 2011
AND THE PERIOD JULY 1, 2011 TO SEPTEMBER 8, 2011
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING 2011-005

**Accounting for Student Enrollment & Foundation Receipts
Material Non-Compliance/Material Weakness**

Ohio Rev. Code §3314.08(B)(2) and Ohio Admin. Code 3301-29-01(B) require the governing authority of each community school to annually report the number of students enrolled in the community school. Community schools are funded on a per-pupil foundation allocation. The School is responsible for entering and maintaining student enrollment information in the Ohio Department of Education's (ODE) School Options Enrollment System (SOES) database, which is the reporting mechanism that drives student funding for community schools. Therefore, it is vital that community schools have policies and procedures in place which assist management in the ongoing tracking and reporting of student enrollment, as it directly affects the amount of State Foundation allocated to the School.

A critical component of accurate tracking and reporting is the continual process of documenting enrollment indicators, such as student application/enrollment, ongoing attendance, and withdrawal. Under the current funding model there are instances where the School and another school may report the same student as attending both schools; in those instances the SOES flags the student and there is an established protocol whereby the two schools reconcile by exchanging student documentation to determine where the student is actually attending.

To document enrollment for purposes of reporting each student in SOES, the School obtains documentation from the students' prior schools, and maintains application/enrollment forms and withdrawal forms in a separate file for each student.

During the 2011 school year there were 128 students enrolled at various points of time; we examined all 128 student files and noted the following:

1. Student files did not exist for eleven students enrolled in the school;
2. Thirty-six student files for which a records release form was not completed or maintained;
3. Thirty-six student files for which the parent or guardian did not sign the records release form, which this allows the School to share information about the student with other schools;
4. Three student files did not contain an enrollment application for the school;
5. Twenty-five student files lacked prior school records;
6. Nine of the student files lacked a withdrawal form;
7. For six student files the enrollment date did not agree to the signed release form or student form maintained in the student file;
8. Sixty-one student files did not include an official transcript to demonstrate the coursework completed by the student;
9. For seven student files the withdrawal date documented in the SOES system did not agree to the withdrawal dates in the student file;
10. For eight student files the student start date and withdrawal date did not agree to the start date or withdrawal date in the SOES system;
11. For eight of the student files we were not provided audit evidence to indicate that the student voluntarily enrolled in the school and completed coursework during the time period the student attended class.

This matter will be referred to the Ohio Department of Education.

**NOTTEN SCHOOL FOR SCIENCE TECHNOLOGY ENGINEERING AND MATHEMATICS
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**SCHEDULE OF FINDINGS
FISCAL YEAR ENDED JUNE 30, 2011
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(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING 2011-005 (Continued)

**Accounting for Student Enrollment & Foundation Receipts (Continued)
Material Non-Compliance/Material Weakness (Continued)**

Officials' Response:

We did not receive a response from Officials to this Finding.

FINDING 2011-006

**Accounting for Student Attendance and Average Daily Membership
Material Non-Compliance/Material Weakness**

Ohio Rev. Code Section 3314.03 (A) (6) (b) requires that a contract between a sponsor and a community school state that the governing authority of the community school will adopt an attendance policy that includes a procedure for automatically withdrawing a student from the school if the student, without a legitimate excuse, fails to participate in one hundred five consecutive hours of learning opportunities offered to the student. The school's contract with its sponsor, the Kids Count of Dayton, does contain this requirement.

However, we noted 13 instances in which a student was absent for more than 105 hours without legitimate excuse, and was not withdrawn from the School in the SOES system.

We also noted missing class attendance records for the following weeks/grades:

<u>Week</u>	<u>Grade</u>
3/14/2011	1st Grade
3/21/2011	Kindergarten
4/25/2011	4th and 6th Grades
5/2/2011	Kindergarten
5/16/2011	1st and 2nd Grade
5/23/2011	1st and 2nd Grade
5/30/2011	Kindergarten, 3rd and 4th Grades
6/6/2011	1st through 6th Grades

This matter will be referred to the Ohio Department of Education.

Officials' Response:

We did not receive a response from Officials to this Finding.

**NOTTEN SCHOOL FOR SCIENCE TECHNOLOGY ENGINEERING AND MATHEMATICS
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
FISCAL YEAR ENDED JUNE 30, 2011
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(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING 2011-007

**Treasurer's Licensing Requirement
Material Non-Compliance**

Ohio Revised Code Section 3314.011 states that community schools established under this chapter shall have a designated fiscal officer. The Auditor of State may require by rule that the fiscal officer of any community school, before entering upon duties as a 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.

Prior to assuming the duties of fiscal officer, the fiscal officer designated under this section shall be licensed under Ohio Revised Code Section 3301.074 or shall complete not less than sixteen hours of continuing education classes, courses, or workshops in the area of school accounting as approved by the sponsor of the community school. Any fiscal officer who is not licensed under Ohio Revised Code Section 3301.074 [3301.07.4] shall complete an additional twenty-four hours of continuing education classes, courses, or workshops in the area of school accounting as approved by the sponsor of the school within one year after assuming the duties of fiscal officer of the school. In each subsequent year, any fiscal officer who is not licensed under Ohio Revised Code § 3301.074 shall complete eight hours of continuing education classes, courses, or workshops in the area of school accounting as approved by the sponsor of the school.

Carl Shye was treasurer July 1, 2010 through June 30, 2011; in July 2011, the school treasurer position became vacant. During this time, the Director of Operations, Laverne Pryor signed checks to pay operating expenditures. Edward Dudley's contract was signed on July 28, 2011 and he effectively assumed Treasurer duties on August 1, 2011.

The Director of Operations, Laverne Pryor, was not licensed to perform treasurer duties in the State of Ohio, nor did she complete the required continuing education requirements; however, she signed checks totaling \$43,025 issued from the School's general account in July and August 2011. While supporting documentation was maintained for these expenditures, these checks were not approved or signed by a licensed school treasurer at any time.

The School should have complied with the Ohio Revised Code and sought a licensed treasurer to sign checks during that timeframe.

Officials' Response:

We did not receive a response from Officials to this Finding.

**NOTTEN SCHOOL FOR SCIENCE TECHNOLOGY ENGINEERING AND MATHEMATICS
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**SCHEDULE OF FINDINGS
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(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING 2011-008

**Teacher Credentials
Material Non-Compliance**

Ohio Rev. Code Section 3314.03(A)(10)(a) states that all community school classroom teachers are to be licensed in accordance with Ohio Revised Code Sections 3319.22 to 3319.31.

The School employed five teachers on a full-time basis who did not have valid teaching credentials.

All teaching employees should have proper credentials at the time of employment.

This matter will be referred to the Ohio Department of Education.

Officials' Response:

We did not receive a response from Officials to this Finding.

FINDING 2011-009

**Sponsor's Annual Evaluation of the School
Material Non-Compliance**

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

The School's sponsor, Kids Count of Dayton, performed the required annual evaluation of the School, and submitted the evaluation to ODE. However, during fiscal year 2011 the School was experiencing negative financial trends, including insufficient funds to meet future operating expenses. As noted in Finding 2011-014, the School's five year forecast included underlying assumptions that included unreasonably high food service receipts, and state and federal grant revenues based on unreasonable FTE child count-equivalents.

Since the School's assumptions were unreliable these negative trends were not included in the sponsor's annual evaluation of the School. Failure to include these fiscal performance measures in the sponsor's report of the School resulted in an inability for proper evaluation and monitoring by the Ohio Department of Education.

The School and the Sponsor should have collaborated effectively to allow the Sponsor to fully evaluate and report the School's fiscal performance.

Officials' Response:

We did not receive a response from Officials to this Finding.

**NOTTEN SCHOOL FOR SCIENCE TECHNOLOGY ENGINEERING AND MATHEMATICS
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**SCHEDULE OF FINDINGS
FISCAL YEAR ENDED JUNE 30, 2011
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(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING 2011-010

**Minutes of the Governing Board
Material Non-Compliance/Significant Deficiency**

Pursuant to Ohio Rev. Code Section 3314.03(A)(11)(d) the school shall comply with Ohio Rev. Code Sections 121.22 and 149.43.

Ohio Rev. Code Sections 149.43(B)(1) and (2) state that all public records shall be promptly prepared and made available to any member of the general public at all reasonable times during regular business hours for inspection. Upon request, a person responsible for public records shall make copies available at cost, within a reasonable period of time. In order to facilitate broader access to public records, public offices shall maintain public records in such a manner that they can be made available for inspection. Additionally, Ohio Rev. Code Section 121.22(C) states the minutes of a regular or special meeting of any 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.

Board minutes serve as a useful resource in determining compliance with material laws and regulations as well as documenting board approval of contracts, loans and other obligations and preparing the financial statements.

We noted the following regarding the School's governing board minutes:

- Board meeting minutes were not maintained for the months of September 2010, October 2010, July 2011, August 2011, and September 2011.
- At its March 2011 meeting the governing board went to executive session without disclosing the purpose of the meeting in the minutes.
- Approval of Treasurer Edward Dudley's contract was not documented in the minutes and a signed copy of the contract was not available.
- Edward Dudley who was employed by the School to provide treasurer services provided an \$8,000 short term loan to the School; we noted no board approval in the minutes for this loan. The loan was repaid with interest in the same month funds were loaned to the School. See also Finding 2011-004.
- Miracle Cathedral provided a \$6,000 short term loan to the School; there was no board approval in the minutes for this loan. The loan was repaid with interest in the same month funds were loaned to the School. See also 2011-004.

The School should have ensured all official governing board actions were documented in the minutes, and the minutes were maintained for public inspection; reasons for all executive sessions should have been documented to evidence executives sessions were held only for allowable purposes. Additionally, the minutes of the governing board should have documented approval of all significant contracts, loans and other important matters affecting the financial statements.

Officials' Response:

We did not receive a response from Officials to this Finding.

**NOTTEN SCHOOL FOR SCIENCE TECHNOLOGY ENGINEERING AND MATHEMATICS
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**SCHEDULE OF FINDINGS
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(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING 2011-011

**Service Organization Controls and Monitoring
Material Weakness**

The School contracted with Intuit Payroll to be its third party administrator (TPA) for payroll processing. Statement of Standards for Attestation Engagements No. 16 *Reporting on Controls at a Service Organization* (SSAE No. 16), prescribes standards for reporting on service organizations. An unqualified Type Two Report on Management's Description of a Service Organization's System and the Suitability of Design and Operating Effectiveness of Control in accordance with SSAE No. 16 should provide the School with reasonable assurance that process of employees' paychecks conforms to the employee approved contract.

The school did not obtain a SSAE No. 16 report on the TPA's system nor did management maintain documentation that demonstrated the School's monitoring of the TPA's processing of transactions.

To ensure the completeness, accuracy and authorization of transactions processed by the TPA the School should have obtained an SSAE 16 report on the TPA's controls but also should have performed periodic monitoring of transactions submitted for processing, such as reconciliation of payroll processed and verification of amounts paid to employees. Such periodic monitoring should have been performed by a member of management knowledgeable of this process.

Officials' Response:

We did not receive a response from Officials to this Finding.

FINDING 2011-012

**Community School Closing Procedures
Material Non-Compliance**

Ohio Rev. Code Section 3314.015(E) states that the department of education shall adopt procedures for use by a community school governing authority and sponsor when the school permanently closes and ceases operation, which shall include at least procedures for data reporting to the department, handling of student records, distribution of assets in accordance with section 3314.074 of the Revised Code, and other matters related to ceasing operation of the school. Pursuant to the Ohio Department of Education's *Community School Closing Procedures Assurances*, dated January 5, 2010, the following actions should be taken when a community school closes. The actions noted below either had no evidence to support the action taken, or that the action taken was timely and in accordance with ODE's guidance:

I. Initial Notifications, Student Records and School Records

A. Submit all outstanding Federal Programs and other competitive award Final Expenditure Reports (FER) to ODE using the CCIP.

- The School's 2011 Final Expenditure Reports (FER) were not completed on the CCIP

**NOTTEN SCHOOL FOR SCIENCE TECHNOLOGY ENGINEERING AND MATHEMATICS
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**SCHEDULE OF FINDINGS
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(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING 2011-012 (Continued)

**Community School Closing Procedures
Material Non-Compliance (Continued)**

II. Disposition of Assets; Review the financial records of the School

A. Keep State and Federal assets separated for purposes of disposition. Federal dollars cannot be used to pay non-federal liabilities. Account for all school property throughout the closing process by distinguishing state from federal dollars.

- Since management and the Sponsor did not document ODE Closing Procedures there was no evidence the School properly disposed of the assets it acquired during its operation.

III. Preparation of Itemized Financials

A. Review and prepare the following itemized financials; a list of bank accounts, closing the accounts once all transactions are cleared.

- The School had active bank accounts until February 2012, when the cash balances were remitted to the Ohio Department of Education. There was no evidence the School reviewed and prepared the required items.

There was no evidence that the School or Kids Count of Dayton (the Sponsor) followed the above School Closing procedures when the School closed. The Sponsor should contact the Ohio Department of Education to rectify any outstanding items associated with the closing of the School.

Officials' Response:

We did not receive a response from Officials to this Finding.

FINDING 2011-013

**Annual Financial Reporting
Material Non-Compliance**

Ohio Rev. Code Section 117.38 in part states that each public office, other than a state agency, shall file a financial report for each fiscal year. The Auditor of State (AOS) 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. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of the Ohio Rev. Code Section 117.38.

**NOTTEN SCHOOL FOR SCIENCE TECHNOLOGY ENGINEERING AND MATHEMATICS
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**SCHEDULE OF FINDINGS
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(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING 2011-013 (Continued)

**Annual Financial Reporting (Continued)
Material Non-Compliance (Continued)**

Ohio Administrative Code Section 117-2-03 (B) requires the School to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). In addition, Auditor of State Bulletin 2008-001, *AOS Position on Annual Filing Requirements and Extensions*, states to be considered a complete filing per generally accepted accounting principles (GAAP), public offices must submit the basic financial statements, including the government-wide financial statements, the fund financial statements and the notes to the basic financial statements, Management's Discussion & Analysis (MD&A), and any other required supplementary information.

The School did not present a cash flow statement which is part of the basic financial statements, notes to the basic financial statements or Management's Discussion and Analysis (MD&A). The financial statement impact of these omissions, while material, cannot be determined at this time. Also see Finding 2011-022.

Pursuant to Ohio Rev. Code Section 117.38 the School may be fined and subject to various other administrative remedies for its failure to file the required financial report.

Ohio Rev. Code Section 117.38 additionally, in part states that the report shall be certified by the proper officer or board and filed with the Auditor of State within sixty days after the close of the fiscal year, except that public offices reporting pursuant to generally accepted accounting principles shall file their reports within one hundred fifty days after the close of the fiscal year. The Auditor of State may extend the deadline for filing a financial report and establish terms and conditions for any such extension. 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 Revised Code, shall publish notice in a 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.

The School did not file its annual financial reports with the Auditor of State's office for fiscal year 2011 or publish a notice in newspaper of general circulation.

We recommend the School file its annual report by the required date and publish a notice that the annual report is available for public inspection.

Official's Response:

We did not receive a response from Officials to this Finding.

**NOTTEN SCHOOL FOR SCIENCE TECHNOLOGY ENGINEERING AND MATHEMATICS
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**SCHEDULE OF FINDINGS
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(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING 2011-014

**Five Year Forecast and Assumptions
Material Non-Compliance**

Pursuant to Ohio Rev. Code Section 3314.03(A)(11)(d) the School shall comply with Ohio Rev. Code Section 5705.391.

Pursuant to Ohio Rev. Code Section 5705.391, as amplified by Ohio Admin. Code Section 3301-92-04, community schools must submit five-year projections of operational revenues and expenditures by October 31st of each year to the Ohio Department of Education. The school's assumptions in the Forecast should be reasonable and the projections should correlate to the assumptions documented.

While the School submitted a five year forecast to the Ohio Department of Education by the required date, the five year forecast assumptions did not illustrate how past results and future expectations were reflected in the forecasted amounts. As noted in Finding 2011-009, the School projected unreasonably high food service receipts, and state and federal grant revenues are based on unreasonable and inaccurate FTE child count-equivalents.

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

The School should have provided supportable assumptions and revised the five year forecast if any new material revenues or expenditures occurred. The School also should have prepared an annual budget with appropriations and estimated receipts. The Board of Directors should monitor the budget monthly to ensure the School did not overspend and have modified such forecasting tools when events occurred that significantly affected the underlying assumptions.

Officials' Response:

We did not receive a response from Officials to this Finding.

FINDING 2011-015

**Contract for Special Education Services
Material Non-Compliance**

Ohio Rev. Code Section 3314.022 states the governing authority of any community school may contract with the governing authority of another community school, the board of education of a school district, the governing board of an educational service center, a county MR/DD board, or the administrative authority of a nonpublic school for provision of services for any disabled student enrolled at the school.

2 C.F.R. Part 225 requires that Special Education funding only be used for eligible expenditures.

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**SCHEDULE OF FINDINGS
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(Continued)**

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

FINDING 2011-015 (Continued)

**Contract for Special Education Services (Continued)
Material Non-Compliance (Continued)**

In fiscal year 2011, the School contracted with Brookwood Presbyterian Church (d.b.a. Brookwood Community Learning Center) for special education services. Brookwood is a not-for-profit church, and as such, is not an eligible entity type to provide these special education services. The School paid Brookwood \$30,336 during fiscal year 2011 to provide special education services to approximately three full-time equivalent students.

The School should have contracted with a governing authority of another community school, the board of education of a school district, the governing board of an educational service center, a county MR/DD board, or the administrative authority of a nonpublic school for provision of services for any special education services.

Had the School been subject to an OMB Circular A-133 single audit, this would have resulted in questioned costs of \$30,336.

Officials' Responses:

We did not receive a response from Officials to this Finding.

FINDING 2011-016

**Accounting and Reporting – Federal Grants
Material Non-Compliance**

The Ohio Department of Education (ODE) Comprehensive Continuous Improvement Plan (CCIP) assurances state that the subgrantee will make reports to ODE and to the department as may reasonably be necessary to enable ODE and the department to perform their duties. The reports shall be completed and submitted in accordance with the standards and procedures designated by ODE and/or the department and shall be supported by appropriate documentation. To facilitate this requirement, grants should be accounted for in separate funds to enable management to segregate financial activity and demonstrate compliance with reporting requirements.

The School did not account for grants in separate cost centers or otherwise segregate grant activity.

Ohio Department of Education (ODE) Federal Fiscal Report Procedures # 1, and ODE Superintendent's Weekly E-mail, dated December 6, 2002, as well as grant assurances item 5 required the School to report to ODE as may be reasonably necessary to enable ODE to perform its duties as grantor.

Financial activity of grant funds are reported to ODE through completion and submission of periodic Project Cash Requests (PCRs), and completion of a Final Expenditure Report (FER) upon completion of each grant.

**NOTTEN SCHOOL FOR SCIENCE TECHNOLOGY ENGINEERING AND MATHEMATICS
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(Continued)**

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

FINDING 2011-016 (Continued)

**Accounting and Reporting – Federal Grants (Continued)
Material Non-Compliance (Continued)**

The School submitted periodic PCRs each time grant funds were needed; in addition to the requested cash amount, the PCRs contained reporting of actual revenues received and expenditures as of the date the PCR was completed.

Immediately after all expenditures were liquidated ODE also required the School to complete and submit a Final Expenditure Report (FER) for each project. The FER was due not later than 90 days after the end of a project period; for fiscal year 2011 grants this would have been September 30, 2011.

The School did not submit Final Expenditure Reports to ODE. Additionally, we noted differences between the expenditure amounts reported on the School's Project Cash Requests and the accounting records.

We recommend the School segregate the financial activity of the federal grants.

Officials' Response:

We did not receive a response from Officials to this Finding.

FINDING 2011-017

Allowable Costs/Cost Principles – Title I, Education Jobs Fund, Nutrition Cluster, Special Education – Material Non-Compliance

2 CFR Part 225 Appendix B Section 8(h) (OBM Circular A-87) provides, in part, that salaries and wages shall be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official of the government unit. When employees work on multiple activities or cost objectives, the distribution of compensation needs to be supported by personnel activity reports that reflect the actual activity and total activity of the employees, unless certain time study requirements are met. An employee whose compensation is allocated solely to a single cost objective must furnish semiannual certificates that he/she has been engaged solely in activities supportive of the cost objectives.

The School did not maintain semi-annual certifications for employees whose salaries were allocated solely to the School's Title I, Ed Jobs, Nutrition Cluster, and Special Ed grants, and therefore could not effectively demonstrate compliance with this requirement for these grants.

If the school would have been subject to an OMB Circular A-133 single audit this would have resulted in questioned costs, as defined by OMB Circular No. A-133, Section .105, of \$95,024 for the Title I, Ed Jobs, Nutrition Cluster, and Special Ed federal programs.

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FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING 2011-017 (Continued)

Allowable Costs/Cost Principles – Title I, Education Jobs Fund, Nutrition Cluster, Special Education – Material Non-Compliance (Continued)

We recommend the School direct those employees who served a single cost objective such as Title I, Ed Jobs, Nutrition Cluster, and Special Ed to complete semi-annual certifications.

Officials' Response:

We did not receive a response from Officials to this Finding.

FINDING 2011-018

**Eligibility – Nutrition Cluster and Title I Federal Programs
Material Non-Compliance**

7 C.F.R. 245.6a(a) provides, in part that to qualify a child for meals/milk served free or at reduced price under the program, the child's family must annually submit an application to the School Food Authority, in this case the School. The application must be approved and maintained on file. The application must establish that the child's family income and family size place him/her within income eligibility standards issued by the State agency in accordance with guidelines published by the Food and Nutrition Services of the U.S. Department of Agriculture.

By December 15th of each school year, the School must verify the information presented on a sample of the applications that it has approved for free or reduced price meals. The verification sample size is based on the number of approved applications on file as of October 31st.

The School was required to retain copies of the information reported for the verification for a minimum of three years.

Title I, Section 1115 of the Education and Secondary Education Act, (ESEA), (20 USC 6315), requires that Title I, Part A funds to be used to provide services and benefits to eligible children residing or enrolled in eligible school attendance areas.

The School informed us they used students' enrollment in the National School Lunch Program as a basis for determining eligibility for Title I services. However the School did not maintain free and reduced lunch applications for fiscal year 2011, and did not perform the above-described verification procedures.

Had the school been subject to an OMB Circular A-133 single audit, this would have resulted in questioned costs, as defined by OMB Circular No. A-133, Section .105, of \$22,257 for the Nutrition Cluster federal program and \$37,181 for the Title I federal program.

Officials' Response:

We did not receive a response from Officials to this Finding.

**NOTTEN SCHOOL FOR SCIENCE TECHNOLOGY ENGINEERING AND MATHEMATICS
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
FISCAL YEAR ENDED JUNE 30, 2011
AND THE PERIOD JULY 1, 2011 TO SEPTEMBER 8, 2011
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING 2011-019

**Withholding of Payroll Taxes
Material Non-Compliance**

26 U.S.C. Section 3402 requires an employer to deduct and withhold federal income tax from the wages of any School employees. Such withholdings are to be remitted to the Internal Revenue Service.

26 U.S.C. Section 3102(a) requires employers to withhold Medicare tax from an employee's wages if the employee was hired after April 1, 1986.

Ohio Rev. Code Section 9.42 requires that any political subdivision or instrumentality deduct from the wages or salaries of public employees the percentage of municipal income tax applicable.

Ohio Revised Code Section 5747.06 requires every employer, including political subdivisions, maintaining an office or transacting business within this state and making payments of any compensation to any employee who is a taxpayer shall deduct and withhold from such compensation for each payroll period a tax computed in such manner as to result, as far as practicable, in withholding from the employee's compensation during each calendar year an amount substantially equivalent to the tax reasonable estimated to be due from the employee under this chapter and Chapter 5748 of the Revised Code with respect to the amount of such compensation included in the employee's adjusted gross income during the calendar year.

Ohio Revised Code Section 5747.07 (B) states that, with certain exceptions, every employer required to deduct and withhold any amount under Ohio Revised Code Section 5747.06 shall file a return and shall pay the amount required by law in accordance with guidelines provided by this section.

The School experienced turnover in its treasurer position, with Carl Shye serving as treasurer from July 2010 through June 30, 2011 and Ed Dudley employed as treasurer for the period August 1, 2011 through September 30, 2011; Mr. Dudley also was custodian of the School's bank accounts through January 2012.

From July 2010 through June 30, 2011, the time in which Carl Shye was Treasurer, the School withheld \$1,586 of federal income tax, \$533.88 of Medicare (employee and employer portions), \$416.93 of state income tax, and \$50.08 of local income tax that was not remitted to the respective government agencies.

These withheld monies were subsequently used for other operating expenditures.

The School should have ensured all monies withheld were remitted to the appropriate government agencies.

This matter will be referred to the Internal Revenue Service, Ohio Department of Taxation and the City of Columbus.

Officials' Response:

We did not receive a response from Officials to this Finding.

**NOTTEN SCHOOL FOR SCIENCE TECHNOLOGY ENGINEERING AND MATHEMATICS
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
FISCAL YEAR ENDED JUNE 30, 2011
AND THE PERIOD JULY 1, 2011 TO SEPTEMBER 8, 2011
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING 2011-020

**Withholding of Payroll Taxes
Material Non-Compliance/Material Weakness**

Ohio Rev. Code Section 3307.01 requires enrollment and participation of teaching employees in the State Teachers Retirement System (STRS); Ohio Rev. Code Section 3309.01 requires the enrollment and participation of most other non-teaching employees in the School Employees Retirement System (SERS). Employees who are exempt from participating in these retirement plans must meet exemption criteria. The School is required to withhold employee retirement contributions and make matching contributions.

As noted in Finding 2011-011, for the period of July 2010 through September 2011 the School used a third-party administrator (TPA) to process its payroll transactions. The TPA withheld funds from employees' gross pay, collected matching employer contributions from the School, and remitted the amounts due to the retirement systems.

In addition, throughout this same timeframe retirement contributions were also being withheld from the School's monthly Foundation Settlements from the Ohio Department of Education. Notwithstanding this, the School still owes \$3,110.98 for retirement contributions to STRS and SERS for the employee and employer share of retirement for the period of July 2010 through September 2011. This liability is not reflected on the financial statements for the school.

This matter will be referred to the State Teachers Retirement System and the School Employees Retirement System.

Officials' Response:

We did not receive a response from Officials to this Finding.

FINDING 2011-021

**Accuracy of W-2 Reporting
Material Non-Compliance**

26 U.S.C. Section 3401 defines "wages" to include all remuneration (other than fees paid to a public official) for services performed by an employee for the employer.

26 CFR Section 1.6041-2 requires employee's gross income, must be reported as wages or other compensation on the employee's Form W-2, and are subject to withholding and payment of employment taxes.

For calendar year 2010 we noted W-2s of twelve employees for which the amount of gross wages reported on the Form W-2 was less than the total gross wages per the School's accounting system; variances ranged between \$1,225 and \$2,997. For calendar year 2011 we noted W-2s for five employees for which the amount of gross wages reported on Form W-2 was more than the total gross wages per the School's accounting system; variances ranged in amount between \$1,169 and \$1,240.

This matter will be referred to the Internal Revenue Service.

**NOTTEN SCHOOL FOR SCIENCE TECHNOLOGY ENGINEERING AND MATHEMATICS
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
FISCAL YEAR ENDED JUNE 30, 2011
AND THE PERIOD JULY 1, 2011 TO SEPTEMBER 8, 2011
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING 2011-021

**Accuracy of W-2 Reporting (Continued)
Material Non-Compliance (Continued)**

Officials' Response:

We did not receive a response from Officials to this Finding.

FINDING 2011-022

**Audit Evidence / Financial Statement Reporting
Material Weakness**

Management was unable to provide sufficient audit evidence to support 100% of the grants receivables, fixed assets, accounts payable, intergovernmental payable, equity, income, other income or expenses reported on their financial statements.

After management initially provided records for the audit, there were significant delays in receiving any subsequent records requests. The Treasurer could not locate original copies of monthly bank statements, debit card statements and invoices and other documentation to support the School's financial transactions. We obtained the bank statements from the School's financial institution through subpoena.

In addition, as noted in Finding 2011-013, the School did not present a cash flow statement, notes to the basic financial statements or Management's Discussion and Analysis (MD&A)

Governmental Accounting Standards Board (GASB) Cod. 2200.102 provides that the minimum requirements for general purpose external financial reporting includes a cash flow statement as part of the basic financial statements and Management's Discussion and Analysis (MD&A) as required supplementary information. Although MD&A is not part of the basic financial statements, the Governmental Accounting Standards Board (GASB) considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. GASB Cod. 2300.106 states the notes are essential to the fair presentation of the basic financial statements.

Furthermore, management has not provided the Auditor of State certain written representations required by AICPA U.S. Auditing Standards AU-C Section 580.

Failure to provide sufficient audit evidence, present financial statements in accordance with GASB requirements and provide required representations resulted in an opinion modification on the Independent Accountants' Report.

We recommend the School maintain audit evidence to support the amounts recorded in their accounting records and reported on the financial statements as well as develop policies and procedures for complete and accurate financial statement reporting.

Officials' Response:

We did not receive a response from Officials to this Finding.



Dave Yost • Auditor of State

NOTTEN SCHOOL FOR SCIENCE TECHNOLOGY ENGINEERING AND MATHEMATICS

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 5, 2015**