



Mary Taylor, CPA
Auditor of State

**INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

International Preparatory School
Cuyahoga County
c/o Hilary S. Taylor, Receiver
Weston Hurd, LLP
The Tower at Erieview
1301 East 9th Street, Suite 1900
Cleveland, Ohio 44114

To the Receiver:

We were engaged to audit the financial statements of the International Preparatory School, Cuyahoga County, Ohio, (the School) as of October 18, 2005 and for the period July 1, 2004 through October 18, 2005. The financial statements are the responsibility of the School's management.

The School failed to prepare financial statements for the period of time covered by the engagement. Governmental Accounting Standards Board (GASB) Statements provides the minimum requirements for external financial reporting, which include the Management Discussion and Analysis, (MD&A), the financial statements including the Statement of Net Assets, the Statement of Revenues, Expenditures, and Changes in Net Assets, and if required the Statement of Cash Flows, and the Notes of the Financial Statements.

The School did not make available the minute records of the Ohio Cities Governing Authority, (the governing board of the School).

The School did not provide evidence of its cash and cash equivalents as of June 30, 2005. The School failed to maintain correct and complete books and records of account, the School did not provide financial records which recorded the identity of all checks prepared for payments made, some cancelled checks were missing for which no supporting documentation were made available, and for those cancelled checks which were provided, original supporting documentation was not made available. For the period covered by this engagement, the bank accounts had not been reconciled.

The School did not provide a complete and accurate listing of revenues collected from all sources.

The School did not maintain records which included all checks prepared for payments made to employees, supporting documentation for payments made to employees (valid time cards, valid time sheets, and employee employment contracts) could not be located, and we were unable to identify the total amount of payments made to the school employees for payroll purposes.

The School failed to develop a capital asset accounting system, failed to maintain original supporting documentation which itemized and identified capital assets purchased, failed to identify the location of assets within the School, or develop and/or implement procedures to record capital asset additions and deletions.

International Preparatory School
Cuyahoga County
Independent Accountants' Report
Page 2

The School failed to maintain financial records of the expenditures made from the federal grant funds. The School did not prepare a federal awards expenditure schedule which would present additional information and is required by the U. S. Office of Management and Budget Circular A-133, *Audits of States and Local Governments and Non-Profit Organizations*.

Since the School did not provide the evidence described in paragraphs two through eight above, the scope of our auditing procedures was not sufficient to enable us to express, and we do not express an opinion on the financial activity of the School.

On October 18, 2005 the governing authority of the School voted to voluntarily terminate its community school contract with Lucas County Educational Service Center (LCESC). Furthermore, on February 27, 2006 the Governing Board of the LCESC issued a final decision to terminate the Community School Contract with TIPS effective November 7, 2005. Also, on January 13, 2006, the Common Pleas Court of Cuyahoga County appointed a receiver to oversee the final closure and distribution of assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2007 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 do 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.

Generally accepted accounting principles also requires the School to include Management's Discussion and Analysis for the period ended October 18, 2005. The School has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

The Auditor of State had billed the School for audit services provided for fiscal year 2005, 2004, 2003, and 2002. As of the date of this report, the School has been billed a total of \$98,064 and has yet to pay \$71,762. The outstanding amount has been referred to the Department of Education.



Mary Taylor, CPA
Auditor of State

January 30, 2007



Mary Taylor, CPA

Auditor of State

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

International Preparatory School
Cuyahoga County
c/o Hilary S. Taylor, Receiver
Weston Hurd, LLP
The Tower at Erieview
1301 East 9th Street, Suite 1900
Cleveland, Ohio 44114

To the Receiver:

We were engaged to audit the financial statements of the International Preparatory School, Cuyahoga County, Ohio, (the School) as of October 18, 2005 and for the period July 1, 2004 through October 18, 2005 and have issued our report thereon dated January 30, 2007. Our report indicated that because the School failed to prepare financial statements, including the required Statement of Net Assets, Statement of Revenues, Expenditures, and Changes in Net Assets, and Statement of Cash Flows and the note disclosures required by Generally Accepted Accounting Principles, and failed to adequately present, safeguard, or document revenue, disbursements, cash, capital assets, board minutes and federal reporting requirements, therefore, we did not express an opinion. In addition, our report indicated the Schools operation was terminated in October 2005 and the audit cost has not been paid in full. The Receiver was appointed by the Cuyahoga County Common Please Court on January 13, 2006.

Internal Control Over Financial Reporting

In planning and performing our engagement, we considered the School's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-007 through 2005-015.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements which, we were engaged to audit, may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable conditions 2005-007 through 2005-015 listed above to be material weaknesses.

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International Preparatory School
Cuyahoga County
Independent Accountants' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Required by Government Auditing Standards
Page 2

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 and other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2005-001 through 2005-005 and 2005-006.

We intend this report solely for the information and use of the Receiver and federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

January 30, 2007



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

International Preparatory School
Cuyahoga County
c/o Hilary S. Taylor, Receiver
Weston Hurd, LLP
The Tower at Erieview
1301 East 9th Street, Suite 1900
Cleveland, Ohio 44114-1862

To the Receiver:

Compliance

We were engaged to audit the compliance of the International Preparatory School, Cuyahoga County, Ohio, (the School) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that apply to its major federal program for the period July 1, 2004 through October 18, 2005. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the School's major federal program. The School's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. Our responsibility is to express an opinion on the School's compliance based on our audit.

We were unable to conduct our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing other procedures we considered necessary in the circumstances. Our engagement does not provide a legal determination on the School's compliance with those requirements.

As described in items 2004-016 through 2004-025, we were unable to determine if the School complied with the requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*, to determine the completeness and existence of financial records and supporting documentation.

Since the School did not provide the evidence described in the above paragraph, the scope of our auditing procedures was not sufficient to enable us to express, and we do not express, an opinion on whether the School had complied with the requirements in regard to its federal programs for which it had received funding.

International Preparatory School

Cuyahoga County

Independent Accountants' Report on Compliance with Requirements

Applicable to the Major Federal Program and on Internal Control Over

Compliance in Accordance with OMB Circular A-133

Page 2

Internal Control Over Compliance

The School's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our engagement, we considered the School's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the School's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-007 through 2005-015.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider items 2005-007 through 2005-015 to be material weaknesses.

We intend this report solely for the information and use of the Receiver, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

January 30, 2007

**INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE PERIOD ENDED OCTOBER 18, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Disclaimer
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Disclaimer
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Title I - 84.010
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE PERIOD ENDED OCTOBER 18, 2005
(Continued)**

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

The comments with an asterisk (*) denote comments which were previously brought to management's attention for the fiscal year ended June 30, 2004, in which no corrective action has been taken.

Although the School closed in October 2005, recommendations are included should the School reopen or a related school open.

FINDING NUMBER	2005-001
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Finding for Recovery

The School permanently closed and ceased its operation as a community school in October 2005. Between July 1, 2004 and October 18, 2005, the School was over funded by the Ohio Department of Education in the amount of \$1,407,983, which was deposited into the School's account. The Ohio Department of Education calculated the amount overpaid for the year ended June 30, 2005 was \$361,446 and for the year ended June 30, 2006 was \$1,046,537. Since the School was not eligible for these funds, the funds were due the Ohio Department of Education and should have been returned.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public funds due the State that has not been remitted is hereby issued against The International Preparatory School, Hasina Shabazz, Treasurer and the estate of Da'ud Abdul Malik, Chairman of the Board of Trustees, jointly and severally, and in favor of the Ohio Department of Education in the amount of \$1,407,983.

FINDING NUMBER	2005-002
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***Books, Records of Accounts, and Minutes**

Ohio Revised Code Section 1702.15 provides, in part, that each corporation shall keep correct and complete books and records of account, together with minutes of the proceedings of its incorporators, members, directors, and committees of the directors or members.

The School failed to maintain correct and complete books and records of account, did not make available the minute records of the Ohio Cities Governing Authority, and failed to provide and maintain a complete file of supporting documentation and canceled checks which is also mentioned in the disclaimer.

We recommend the School maintain financial records which are correct, complete, and accurate. If necessary the School should review all of the training available and obtain the training necessary to maintain complete and accurate records of account.

**INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OMB CIRCULAR A -133 § .505

FOR THE PERIOD ENDED OCTOBER 18, 2005

(Continued)

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

FINDING NUMBER	2005-003
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***Uniform School Accounting System (USAS)**

Section II AA of the Community School Contract entered into between Lucas County Educational Service Center (LCESC) and The International Preparatory School (TIPS) required TIPS to maintain its financial records in the same manner as required by and pursuant to the rules of the Auditor of State of Ohio. Ohio Revised Code Section 3314.17 requires community schools to follow the requirements of Ohio Revised Code Section 3301.0714. This section provides for the Ohio Department of Education (ODE) to establish guidelines for a statewide Education Management Information System (EMIS). In response to the legislative mandate, ODE adopted the rule for school districts requiring the development and implementation of a statewide EMIS. Each school district must periodically collect and report the required information to the ODE, as required by the EMIS manual. This required information consists of the following:

Section A prescribes:

- Standards identifying and defining the type of data in the system;
- Procedures for annually collecting and reporting the data;
- Procedures for annually compiling the data;
- Procedures for annually reporting the data to the general public;

Section B prescribes:

- Guidelines outlining what information should be maintained in the system;

Section C prescribes:

- The education management information shall include cost accounting data for each district as a whole and by building;

Section D prescribes:

- Guidelines which require information about individual students, staff members, or both; and,

Section E further prescribes:

- Guidelines which describe any and all special reports which may be required.

In addition, the former Section 117-6-01 (B) of the Ohio Administrative Code and Chapter 4, Section 4.1 of the EMIS manual prescribe that each school district maintain its records on the Uniform School Accounting System (USAS). This system involves an account structure with district dimensions. To meet these requirements it is necessary for the school to maintain its financial records at specified minimum levels of detail for each dimension.

The School did not maintain its financial records in accordance with the requirement of the USAS system.

We recommend the School review the agreed upon requirements of the Community School Contract, the above noted sections of the Ohio Revised Code, and the Ohio Administrative Code which are part of the contract and are very specific as to this requirement. The School has no options in the implementation and use of this system.

**INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
FOR THE PERIOD ENDED OCTOBER 18, 2005
(Continued)**

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

FINDING NUMBER	2005-004
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***Five-Year Revenue and Expenditure Projection**

Ohio Revised Code Section 3314.03(A)(15) provides that the School is required to prepare a financial plan detailing an estimated school budget for each year of the period of the contract and specify the total estimated per pupil expenditure amount for each such year. The plan shall specify the yearly base formula amount that will be used for purposes of funding calculations under section 3314.08 of the Ohio Revised Code. This base formula amount for any year shall not exceed the formula amount defined under section 3317.02 of the Revised Code. The plan may also specify for any year a percentage figure to be used for reducing the per pupil amount of the subsidy calculated pursuant to section 3317.029 of the Revised Code the school is to receive that year under 3314.08 of the Revised Code.

The School did not prepare the financial plan as required, consequently, the Board was not able to approve an annual spending plan or approve the assumptions of the financial management in dealing with the finances of the School.

We recommend the Board and School management review the requirements of Ohio Revised Code section 3314.03 and take the necessary steps to meet this requirement including the approval of the governing board and reviewing the appropriateness of the amounts included in the estimated budget.

FINDING NUMBER	2005-005
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Fiscal Officer Designation Bonding Requirement

Ohio Revised Code Section 3314.011 provides the School designate an individual as the fiscal officer. Ohio Administrative Code (OAC) Section 117-6-07(B) requires the fiscal officer execute a bond, payable to the State of Ohio, prior to entering upon the duties of the fiscal officer. Subsection (B)(1) provides that the bond amount and surety is to be established by resolution of the governing authority. Subsection (B)(3) states that bonding is conditioned on the faithful performance of the employee's official duties. Subsections (C) and (D) require the executed bond be deposited with the governing authority, and, once certified, a copy be filed with the county auditor of the county in which the community school is located. Should an error or theft occur without a performance bond, the School may not be able to recover all of its lost revenues.

Although directed through a subpoena, the minute records of the Ohio Cities Governing Authority (Board of International Preparatory School) were not made available for inspection; therefore, we were unable to verify the Schools adherence to the requirements of these sections of the Ohio Revised Code and the Ohio Administrative Code.

We recommend the School and the sponsor review the provisions of Ohio Revised Code Section 3314.011 and OAC Section 117-6-07 and take the necessary steps to ensure that the fiscal officer is identified by the Board, the individual is adequately bonded and is licensed or has completed the required continuing education training.

**INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OMB CIRCULAR A -133 § .505

FOR THE PERIOD ENDED OCTOBER 18, 2005

(Continued)

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

FINDING NUMBER	2005-006
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Government Auditing Standards

Government Auditing Standards, Paragraph 5.17 requires disclosure when auditors conclude that significant abuse has occurred or is likely to have occurred. *Government Auditing Standards*, Paragraph 4.19 describes abuse as behavior where:

"No law, regulation, or provision of a contract or grant agreement is violated. Rather, abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances."

Enterprise International, LLC was incorporated by Hasina Shabazz, Treasurer of TIPS, and Da'ud Abdul Malik, Chairman of the Board of Trustees of the School. In addition, these two individuals are husband and wife. According to the Secretary of State's website, they are the registered owners of Enterprise International, LLC. In July 2001, Enterprise International purchased the building where the School was located for approximately \$1,400,000. In July 2001, the School entered into a three year lease with Enterprise International, LLC, which provided for monthly lease payments of \$39,000 plus maintenance cost. For fiscal year 2002, the lease payments totaled \$468,000; for fiscal year 2003, \$468,000. Based on a review of the records that were available during fiscal year 2004, the School paid \$249,600. In July 2004, the lease was renewed on the building which increased the monthly payments to \$45,000 plus maintenance cost. Based on a review of the records that were available, the School paid \$415,000 in rent for fiscal year 2005 and \$153,000 for fiscal year 2006, until the School closed in October 2005. During these five years, lease payments totaled \$1,753,600.

This transaction has the potential to be classified as an abuse because:

- During the five year period, the School payments exceeded the purchase price of the building;
- Most cost associated with the lease of the building were charged to the School, including the maintenance cost; and
- A prudent person or organization investing in a building would have constructed the lease to transfer title to the School at the point the cumulative principal payment exceeded the building's value.

FINDING NUMBER	2005-007
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***Accurate Balances as of the Balance Sheet Date**

Management is responsible for maintaining records which accurately record the financial position of the School. We were not provided with financial statements for fiscal year 2005.

Without accurate and complete financial records and the preparation of financial statements, the financial position of the School cannot be determined. Also, in the absence of complete and accurate records, the School could experience losses, lose assets, and have debt amounts in excess of their ability to repay.

It is imperative that accurate and complete records which exhibit true balances be maintained. If necessary, the sponsor and designated fiscal officer should read and study the available authoritative literature, consult with their sponsor, request guidance from the Ohio Department of Education, and develop a program of recordkeeping which will provide assurance of financial statement accuracy and integrity.

**INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OMB CIRCULAR A -133 § .505

FOR THE PERIOD ENDED OCTOBER 18, 2005

(Continued)

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

FINDING NUMBER	2005-008
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***Developing and Implementing an Effective Monitoring Control System**

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

Some effective monitoring controls include:

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

The lack of effective monitoring controls could lead to the misallocation or misstatement of School funds, expenditure of funds contrary to the directives of the governing board, non-compliance with federal or state laws or regulations, which could result in a loss of funding from these sources, and errors or irregularities occurring in financial transactions affecting the bank reconciliations which could go undetected.

We recommend that management prepare monthly financial statements and submit them to the Board at each regularly scheduled meeting. The Board should then review these financial statements and when satisfied as to their accuracy approve them through the minute records. In addition, management should ensure that any reports required by the grantor agencies, per the terms of grant agreements, are completed accurately and filed with the respective grantor agencies in a timely manner. Management should also ensure that proper segregation of duties exists, including an independent review of the monthly bank reconciliations.

**INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OMB CIRCULAR A -133 § .505

FOR THE PERIOD ENDED OCTOBER 18, 2005

(Continued)

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

FINDING NUMBER	2005-009
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***Condition of Accounting Records**

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

- Monthly bank statements, some canceled checks, some invoices which were received from vendors for items purchased, and ADP records of most payrolls;
- The files of canceled checks were incomplete;
- Supporting documentation for non-payroll expenditures was lacking or non-existent;
- No records existed of Board approval for employee salary and/or wage rates;
- Capital asset records did not exist;
- There was no evidence of the Board reviewing or approving any of the financial activity of the School; and
- Monies deposited were commingled and these funds were not identified on individual receipt records.

Although directed by a subpoena, management failed to provide financial and support documentation; consequently, we were unable to analyze, review, inspect for completeness, verify the accuracy of, or determine the existence of the School's financial records.

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

FINDING NUMBER	2005-010
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Financial Reporting

Section 2200.102 of the Codification of Governmental Accounting and Financial Reporting Standards provides the minimum requirements for general purpose external financial reporting as follows:

- Management's Discussion and Analysis;
- Basis financial statements which include;
- Statement of Net Assets;
- Statement of Revenues, Expenditures, and Changes in Net Assets; and
- Statement of Cash Flows.

**INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505**

FOR THE PERIOD ENDED OCTOBER 18, 2005

(Continued)

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

FINDING NUMBER	2005-010
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Financial Reporting (Continued)

The School failed to prepare financial statements for the period of time covered by this engagement. These financial statements were required to be prepared in accordance with Governmental Accounting Standards Board (GASB) Statement Number 34 to be in conformity with Accounting Principles Generally Accepted in the United States of America.

It is vital that the School develop and present financial statements which are comprised of all required financial statements and disclosures. Without properly prepared financial statements, the users of the financial statement, including the Board and parents could reach improper conclusions on the School. We recommend the sponsor of the School monitor the preparation of the financial statements more closely to ensure proper and timely financial reporting.

FINDING NUMBER	2005-011
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Note Disclosures Required by Generally Accepted Accounting Principles

Governmental Accounting and Financial Reporting Standards codification section 2300.106 states, the notes to the financial statements are essential to the fair presentation of the financial statements. They are intended to communicate information that is necessary and that cannot be included in the financial statements themselves. The notes provide necessary disclosure of material items, the omission of which would cause the financial statements to be misleading. The notes are an integral part of the financial statements and are intended to be read with the financial statements. The more significant notes are identified as follows:

- Summary of significant accounting policies;
- Budgeting;
- Receivables;
- Payables;
- Capital Assets;
- Definition of cash and cash equivalents used in the statement of cash flows;
- Policy regarding the use of FASB pronouncements;
- Cash deposits with financial institutions;
- Investment (if applicable);
- Purchased Services;
- Capital Leases;
- Non-Capital (Operating) Leases;
- Risk Management;
- Debt service requirements to maturity;
- Significant contingent liabilities;
- Significant effects of events subsequent to the balance sheet date; and
- Annual pension costs and obligations; and commitments under leases.

The above notes to the financial statements are not all inclusive and additional disclosures should be made if necessary. The School did not present notes to the financial statements.

**INTERNATIONAL PREPARATORY SCHOOL
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505**

FOR THE PERIOD ENDED OCTOBER 18, 2005

(Continued)

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

FINDING NUMBER	2005-011
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Note Disclosures Required by Generally Accepted Accounting Principles (Continued)

It is vital that the School develop and present financial statements which are comprised of all required financial statements and disclosures. Without these disclosures the financial statements are incomplete, could be misinterpreted, and improper conclusions could be reached.

FINDING NUMBER	2005-012
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***Development and Implementation of Payroll Processing Procedures**

As noted in Finding Number 2005-002 above, the School had not made available the minute records of the Ohio Cities Governing Authority. Due to our inability to review these minute records we could not confirm if the Board had or had not approved the annual or hourly payroll amounts of employees. If the Board had not approved salaries and hourly wages, it may be possible that individuals were paid amounts which were not intended by the Board.

Procedures for payroll processing should include, but are not limited to:

- Approval by the Board of Trustees of all pay rates;
- Comparison of all employees' gross wages paid with the approved pay rates as documented in employee contracts;
- Approval and tracking of sick time usage and balances for each employee; and
- Verification of the required BCI background checks are on file for all employees of the School.

The Board should formally approve employment contracts or pay scales for all employees. Without this approval, it is possible that employees could be paid amounts which were not in accordance with the direction of the Board. Also, we recommend the Board monitor the amounts paid to employees.

FINDING NUMBER	2005-013
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***Policy Regarding Potential Conflicts of Interest**

The School did not have a conflict of interest policy identified with Board minute memorialization. Without an effective process for identifying and monitoring potential conflicts, the possibility of misuse or improper influence over purchasing or receipting is increased.

We recommend that the School develop and implement a policy that includes, but is not limited to the following provisions:

- (a) Public officials or employees are prohibited from using or authorizing the use of the authority or influence of office or employment to secure anything of value or promise or to offer anything of value that is of such character as to manifest a substantial and improper influence upon the public official or employee with respect to that persons duties.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OMB CIRCULAR A -133 § .505

FOR THE PERIOD ENDED OCTOBER 18, 2005

(Continued)

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

FINDING NUMBER	2005-013
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***Policy Regarding Potential Conflicts of Interest (Continued)**

(b) Public officials or employees are prohibited from soliciting or accepting anything of value that is of such character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties.

(c) Present and former public officials or employees are prohibited during their public employment or for twelve months thereafter from acting in a representation capacity or for any person on any matter in which the public official or employee personally participated as a public official or employee.

FINDING NUMBER	2005-014
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Capital Assets

Through the issuance of a subpoena, the School was directed to provide the records pertaining to capital assets and the capital asset policies and procedures. These records were not made available and for that reason we were unable to determine if the School had developed and maintained:

- A capital asset accounting system, which was comprised of a complete capital asset listing by location, with tag or other identification numbers and other pertinent information;
- Procedures to record assets as additions when purchased and deletions when disposed of through the year;
- A listing of capital assets purchased with federal funds to ensure that items purchased with federal funds are used for that specific purpose; and
- Invoices and supporting documentation for items.

To maintain adequate safeguards over capital assets, increase reporting efficiency and diminish the risk that the School's assets may be misplaced, we recommend the sponsor monitor controls that management has developed and implemented and determine if the School is performing procedures throughout the year for the recording and updating of capital assets, including an individual listing of items purchased with federal funds. These procedures should include tagging all capital assets meeting the established capitalization threshold. Further, addition and disposal forms should be completed and approved by management when assets are acquired and retired. This information should then be entered into the capital asset accounting system and include such information as the tag number, location of the asset, description of the item, cost, acquisition date, and any other pertinent information. Periodic physical inventories should be performed, and the capital assets listed on the accounting system should be compared to the items on hand and any discrepancies should be investigated.

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FOR THE PERIOD ENDED OCTOBER 18, 2005

(Continued)

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

FINDING NUMBER	2005-015
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*** Tax Exempt Status**

The School did not present documentation that it has applied to the Internal Revenue Service to obtain tax exempt status pursuant to Section 26 USC 501 (c) (3). The School has made no provision for any potential current or future tax liability which could result from not obtaining the Section 501(c)(3) tax exempt status. Further, we found no evidence the School had filed any tax returns.

We recommend the sponsor consult with qualified tax counsel to determine necessary tax filings with the Internal Revenue Service, pay any outstanding taxes due, and negotiate a settlement concerning any fees and/or penalties which may be assessed.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

FINDING NUMBER	2005-016
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Federal Compliance

OMB Circular A-133 Section 300(e) provides that the auditee is responsible for appropriate submission of the audit reports to the appropriate government officials and organizations. OMB Circular A-133 Section 320(a) further provides that the audit report and data collection form must be submitted within the earlier of 30 days after the reports are received from the auditors, or nine months after the end of the audit period, unless a longer period is agreed upon in advance by the cognizant or oversight agency.

No evidence was provided that the School had notified the cognizant or oversight agency when it became apparent that an audit report and data collection form would not be available within the prescribed reporting time.

We recommend the sponsor monitor the reporting requirements of the School to ensure proper submission of audit report filings or notification to the oversight agency.

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FOR THE PERIOD ENDED OCTOBER 18, 2005
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Total Questioned Costs \$1,598,515

Federal School Breakfast

Finding Number	2005-017
CFDA Title and Number	Federal School Breakfast 10.553
Federal Award Number / Year	133694/2005
Federal Agency	U. S. Department of Agriculture
Pass Through Agency	Ohio Department of Education

During our engagement to audit the financial records of the School, we were unable to determine if the School complied with the requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*. The School did not provide documentation to enable a review of the compliance with the circular. Financial records were incomplete, original supporting documentation was lacking or non-existent, bank statements were missing, cancelled checks were not on file, we were not provided with applications for free and reduced breakfast from the students, we were not provided with eligibility determinations, the School did not provide evidence that the reporting requirements were met, and no evidence was provided of the number of breakfasts served. Based on the inability to perform an audit and the School not preparing a schedule of federal award expenditures, we question all of the costs for this program. Total questioned costs \$36,097.

National School Lunch

Finding Number	2005-018
CFDA Title and Number	National School Lunch Program 10.555
Federal Award Number / Year	133694/2005
Federal Agency	U. S. Department of Agriculture
Pass Through Agency	Ohio Department of Education

During our engagement to audit the financial records of the School, we were unable to determine if the School complied with the requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*. The School did not provide documentation to enable a review of the compliance with the circular. Financial records were incomplete, original supporting documentation was lacking or non-existent, bank statements were missing, cancelled checks were not on file, we were not provided with applications for free and reduced lunch from the students, we were not provided with eligibility determinations, the School did not provide evidence that the reporting requirements were met, and no evidence was provided of the number of lunches served. Based on the inability to perform an audit and the School not preparing a schedule of federal award expenditures, we question all of the costs for this program. Total questioned costs \$185,719.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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FOR THE PERIOD ENDED OCTOBER 18, 2005

(Continued)

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Title One

Finding Number	2005-019
CFDA Title and Number	Grants to Local Education Agencies – ESAS Title I 84.010
Federal Award Number / Year	133694/2005
Federal Agency	U. S. Department of Education
Pass Through Agency	Ohio Department of Education

During our engagement to audit the financial records of the School, we were unable to determine if the School complied with the requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*. The School did not provide documentation to enable a review of the compliance with the circular. Financial records were incomplete, original supporting documentation was lacking or non-existent, bank statements were missing, cancelled checks were not on file, we were not provided with documentation supporting participant eligibility for the program, and we had no capital asset records to identify any equipment which was purchased with the program funds. Based on the inability to perform an audit, we question all of the costs for this program. Total questioned costs \$1,043,349.

IDEA Part B

Finding Number	2005-020
CFDA Title and Number	Grants to Local Education Agencies – ESAS IDEA Part B 84.026
Federal Award Number / Year	133694/2005
Federal Agency	U. S. Department of Education
Pass Through Agency	Ohio Department of Education

During our engagement to audit the financial records of the School, we were unable to determine if the School complied with the requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*. The School did not provide documentation to enable a review of the compliance with the circular. Financial records were incomplete, original supporting documentation was lacking or non-existent, bank statements were missing, cancelled checks were not on file, we were unable to verify if funds were used in a timely manner, we did not have the grant agreement to determine if specified services or expenditure levels were maintained, and we had no capital asset records to identify if any equipment had been purchased with the program funds. Based on the inability to perform an audit and the School not preparing a schedule of federal award expenditures, we question all of the costs for this program. Total questioned costs \$204,002.

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FOR THE PERIOD ENDED OCTOBER 18, 2005

(Continued)

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Drug Free Schools Grant

Finding Number	2005-021
CFDA Title and Number	Grants to Local Education Agencies – ESAS Drug Free Schools Grant 84.186
Federal Award Number / Year	133694/2005
Federal Agency	U. S. Department of Education
Pass Through Agency	Ohio Department of Education

During our engagement to audit the financial records of the School, we were unable to determine if the School complied with the requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*. The School did not provide documentation to enable a review compliance with the circular. Financial records were incomplete, original supporting documentation was lacking or non-existent, bank statements were missing, cancelled checks were not on file, we were unable to verify if funds were used in a timely manner, we did not have the grant agreement to determine if specified services or expenditure levels were maintained, and we had no capital asset records to identify if any equipment had been purchased with the program funds. Based on the inability to perform an audit and the School not preparing a schedule of federal award expenditures, we question all of the costs for this program. Total questioned costs \$21,560.

Title V – Innovative Programs

Finding Number	2005-022
CFDA Title and Number	Grants to Local Education Agencies – ESAS Title V – Innovative Programs 84.298
Federal Award Number / Year	133694/2005
Federal Agency	U. S. Department of Education
Pass Through Agency	Ohio Department of Education

During our engagement to audit the financial records of the School, we were unable to determine if the School complied with the requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*. The School did not provide documentation to enable a review compliance with the circular. Financial records were incomplete, original supporting documentation was lacking or non-existent, bank statements were missing, cancelled checks were not on file, we were unable to verify if funds were used in a timely manner, we did not have the grant agreement to determine if specified services or expenditure levels were maintained, we were unable to determine if federal funds had been used to supplant and not supplement local funds, and we had no capital asset records to identify if any equipment had been purchased with the program funds. Based on the inability to perform an audit and the School not preparing a schedule of federal award expenditures, we question all of the costs for this program. Total questioned costs \$8,063.

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FOR THE PERIOD ENDED OCTOBER 18, 2005

(Continued)

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Title II-D Education Technology Grant

Finding Number	2005-023
CFDA Title and Number	Grants to Local Education Agencies – ESAS Title II-D Education Technology Grant 84.318
Federal Award Number / Year	133694/2005
Federal Agency	U. S. Department of Education
Pass Through Agency	Ohio Department of Education

During our engagement to audit the financial records of the School, we were unable to determine if the School complied with the requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*. The School did not provide documentation to enable a review compliance with the circular. Financial records were incomplete, original supporting documentation was lacking or non-existent, bank statements were missing, cancelled checks were not on file, we were unable to verify if funds were used in a timely manner, we did not have the grant agreement to determine if specified services or expenditure levels were maintained, and we had no capital asset records to identify if any equipment had been purchased with the program funds. Based on the inability to perform an audit and the School not preparing a schedule of federal award expenditures, we question all of the costs for this program. Total questioned costs \$37,866.

Title II-A Improving Teacher Quality

Finding Number	2005-024
CFDA Title and Number	Grants to Local Education Agencies – ESAS Title II-A Improving Teacher Quality 84.367
Federal Award Number / Year	133694/2005
Federal Agency	U. S. Department of Education
Pass Through Agency	Ohio Department of Education

During our engagement to audit the financial records of the School, we were unable to determine if the School complied with the requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*. The School did not provide documentation to enable a review compliance with the circular. Financial records were incomplete, original supporting documentation was lacking or non-existent, bank statements were missing, cancelled checks were not on file, we were unable to verify if funds were used in a timely manner, we did not have the grant agreement to determine if specified services or expenditure levels were maintained, and we had no capital asset records to identify if any equipment had been purchased with the program funds. Based on the inability to perform an audit and the School not preparing a schedule of federal award expenditures, we question all of the costs for this program. Total questioned costs \$61,859.

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(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Ohio Schools Facility Commission

Finding Number	2005-025
CFDA Title and Number	School Renovation, IDEA, and Technology Program 84.352A
Federal Award Number / Year	133694/2005
Federal Agency	U. S. Department of Education
Pass Through Agency	Ohio Department of Education

During our engagement to audit the financial records of the School, we were not given documentation for the existence of this grant, financial records detailing the obligations of the funds and the subsequent payments to contractors were not made available, we were not made aware of advertisements of the invitation for bids from interested contractors, contract awards, contractors files, construction progress reports, prevailing wage assessments made by the school, or draw down requests. Based on the lack of records we were unable to determine if the School complied with the requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*. Based on the inability to perform an audit and the School not preparing a schedule of federal award expenditures, we question all of the costs for this program.

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



Mary Taylor, CPA

Auditor of State

INTERNATIONAL PREPARATORY SCHOOL

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 22, 2007**