



**HARTE CROSSROADS ACADEMY/THE HARTE SCHOOL
FRANKLIN COUNTY**

**NON-GAGAS AUDIT
CLOSE OUT AUDIT**

FOR THE YEARS ENDED JUNE 30, 2007 AND 2006



Mary Taylor, CPA
Auditor of State

**HARTE CROSSROADS ACADEMY/THE HARTE SCHOOL
FRANKLIN COUNTY**

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Mary Taylor, CPA

Auditor of State

ACCOUNTANTS' REPORT

Richland Academy of the Arts
Attn: Marianne Cooper, Executive Director
75 N. Walnut Street
PO Box 1179
Mansfield, Ohio 44901

And

Lucas County Educational Service Center
Attn: Jim George, Superintendent
2275 Collingwood Blvd
Toledo, Ohio 43620

To The Sponsors:

We have selectively tested certain accounts, financial records, files, and reports of the Harte Crossroads Academy/The Harte School, Franklin County, Ohio, (Harte) as of and for the years ended June 30, 2007 and 2006 following Ohio Admin. Code Section 117-4-02.

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

Management has not provided a written representation letter, which is required by auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The Auditor of State has billed Harte for audit services provided for fiscal years 2005 through 2007. As of the date of this report, Harte has unpaid audit fees. AICPA Code of Professional Conduct, Section 100, ET Section 191 considers unpaid audit fees related to periods more than one year prior to the current period under audit to impair the independence of the Auditor of State.

As noted in Note 1, Harte ceased operation on March 16, 2007.

As noted in Note 1, Harte was placed in Receivership on April 4, 2007.

As noted in Note 13 a Court Judgment was granted against Harte in favor of the State of Ohio, on July 9, 2008.

This report is intended solely for the information and use of officials authorized to receive this report under Section 117.26, Ohio Rev. Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

October 16, 2009

**HARTE CROSSROADS ACADEMY/THE HARTE SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGE IN CASH BALANCE
FOR THE YEAR ENDED JUNE 30, 2007**

Operating Cash receipts:	
Foundation Payments	\$862,698
Other Operating Revenues	<u>6,451</u>
Total operating cash receipts	<u>869,149</u>
Operating Cash Disbursements	
Salaries & Wages	465,003
Fringe Benefits	136,777
Purchased Services	360,156
Materials & Supplies	29,800
Miscellaneous	27,834
Debt Service	
Principal	10,005
Interest	<u>21,187</u>
Total operating cash disbursements	<u>1,050,762</u>
Operating Loss	(181,613)
Non-operating cash receipts:	
State Subsidies	2,177
Federal Subsidies	31,809
Proceeds of Loan	145,917
Advance Repaid by Crossroads Preparatory Academy	47,000
Advance to Crossroads Preparatory Academy	(47,000)
Interest	<u>1,071</u>
Total non-operating cash receipts/ (disbursements)	<u>180,974</u>
Net receipts under disbursements	(639)
Cash balance, July 1,	<u>639</u>
Cash balance, June 30,	<u><u>\$0</u></u>

The notes to the financial statements are an integral part of this statement.

**HARTE CROSSROADS ACADEMY/THE HARTE SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGE IN CASH BALANCE
FOR THE YEAR ENDED JUNE 30, 2006**

Operating Cash receipts:	
Sales	\$131
Foundation Payments	596,585
Other Operating Revenues	<u>2,433</u>
Total operating cash receipts	<u>599,149</u>
Operating Cash Disbursements	
Fringe Benefits	45,175
Purchased Services	848,656
Miscellaneous	<u>1,205</u>
Total operating cash disbursements	<u>895,036</u>
Operating Loss	<u>(295,888)</u>
Non-operating cash receipts:	
State Subsidies	7,140
Federal Subsidies	258,716
Interest	<u>51</u>
Total non-operating cash receipts	<u>265,907</u>
Net receipts under disbursements	(29,981)
Cash balance, July 1,	<u>30,620</u>
Cash balance, June 30,	<u><u>\$639</u></u>

The notes to the financial statements are an integral part of this statement.

**HARTE CROSSROADS ACADEMY/THE HARTE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

NOTE 1 - DESCRIPTION OF SCHOOL

Key Individuals and Contract Agents

July 1, 2005 - June 30, 2006

Name	Title
Laurence (Larry) Brett, Jr.	Treasurer/Business Manager (Management Company Employee)
Anita Nelam	Management Company CEO, School Board President, School Director
Lucas ESC	Sponsor
ACE Charter Services (ACE) aka Harris Computer Systems	Fiscal Agent
Harte Crossroads Public Schools	Management Company

July 1, 2006 - March 16, 2007 (closing of the school)

Name	Title
Laurence (Larry) Brett, Jr.	Treasurer/Business Manager (Employee of School)
Anita Nelam	School Board President, School Director
Richland Academy of the Arts (Richland Academy)	Sponsor
Innovative Learning Solutions (ILS)	Fiscal Agent

School Description - Structure

The Harte Crossroads Academy, formerly known as The Harte School (Harte) was a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The school, which was part of the State's education program, was independent of any school district. The school could sue and be sued, acquire facilities as needed, and contract for any necessary services for the operation of the school. In August of 2006, the school changed its name from The Harte School to Harte Crossroads Academy.

Ms. Anita Nelam founded Harte in the fall of 2004, in Columbus, Ohio. During the years ended June 30, 2007 and June 30, 2006, Ms. Nelam was Harte's Board President and Director. Furthermore, Ms. Nelam was also the founder, and CEO of Harte Crossroads Public Schools (the Management Company), which served as the management company responsible for operating the school for the fiscal year ended June 30, 2006. There was no signed contractual agreement in place between the Harte and the Management Company. During this period, the school forwarded approximately 98% of its funds to the Management Company.

On June 30, 2006, under the direction of a new sponsor, Richland Academy, and a new fiscal agent, Innovative Learning Solutions, the Management Company ceased providing services to Harte. At this point Harte hired a Treasurer/ Business Manager and began operating without a third party management company.

**HARTE CROSSROADS ACADEMY/THE HARTE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(Continued)**

NOTE 1- DESCRIPTION OF SCHOOL (Continued)

School Sponsors

For the fiscal year ended June 30, 2006 Harte was sponsored by Lucas County Educational Service Center (Lucas County ESC), and contracted with ACE Charter Services for fiscal services. On August 23, 2005 Lucas ESC notified Harte that they would be put on probation due to the school's failure to meet the student performance requirements, failure to meet generally accepted standards of fiscal management, and for violations of Ohio Revised Code 3314 which applies to community schools. On December 13, 2005, Lucas County ESC notified Harte that the sponsor contract would be non-renewed as of June 30, 2006.

Harte then contracted with a new sponsor, Richland Academy of the Arts (Richland Academy), starting July 1, 2006. Richland Academy appointed Innovative Learning Solutions, Inc. (ILS) as fiscal agent. Harte was placed on probation by Richland Academy on January 29, 2007 following the school's first six month review, which identified the following deficiencies:

- Inability to produce financial statements
- Refusal of the school's director, Anita Nelam, to provide the dates of Scheduled Board meetings
- Lack of annual report of Harte
- Violation of "Individuals with Disabilities Education" Act
- Lack of Educational Plan
- Inability to produce a financial budget
- Misappropriation of \$100,000 deducted from employee paychecks that was not remitted to the IRS
- Refusal of repayment by the school to ODE for \$100,000 overpayment to the school by ODE
- Refusal to correct and properly code EMIS/CSADM reporting

Closing of School

In January 2007, the State Auditor's Office declared Harte unauditible for 2006 and as noted above, Richland Academy placed the School on probation status.

Harte did not correct any of the deficiencies noted in their six month review performed by Richland Academy. Richland Academy then removed Harte's Governing Board on March 1st, 2007.

On March 16, 2007, Richland Academy was notified by the Ohio Department of Education (ODE) that state foundation distributions to Harte would be halted due to the school's inability to provide ODE with accurate average daily student membership counts. Harte ceased operation on March 16, 2007.

On April 2, 2007, the State of Ohio Attorney General (the State), along with ODE and Richland Academy filed a Verified Complaint against Harte based upon the school's alleged noncompliance with provisions governing community schools and for its failure to submit the reports as required, to ODE and the Auditor of State of Ohio. The State also filed a motion for the appointment of a Receiver and a motion for temporary restraining order and a motion for preliminary injunction. On April 4, 2007, the court appointed a Receiver to take control of all assets of Harte.

**HARTE CROSSROADS ACADEMY/THE HARTE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Although required by the Ohio Administrative Code (OAC) section 117-2-03(B) which states that “all counties, cities and school districts, including educational service centers and community schools, shall file annual financial reports which are prepared using generally accepted accounting principles,” Harte did not prepare GAAP financial statements.

A. Basis of Presentation

The financial statements are presented on a cash basis of accounting. The basis of accounting is similar to the cash receipts and cash disbursements basis of accounting. Receipts are recognized when received in cash rather than when they are earned, and disbursements are recognized when paid rather than when a liability is incurred. As a result, financial statements presented in this report do not conform with GAAP.

Harte uses a single enterprise fund, cash basis financial statement presentation.

B. Budgetary Process

Unlike other public schools located in the State of Ohio, Harte is not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the contract between the school and its Sponsor. The contract between Harte and its Sponsors did not require budgetary compliance.

C. Cash

Harte maintained checking accounts and a payroll clearing account.

D. Capital Assets and Depreciation

In February of 2006, the Board adopted a Capital Asset Policy with a threshold of \$1,500 for asset capitalization. There was no evidence that this policy was ever implemented. Harte did not maintain capital asset records for the period under review. On June 20, 2007 the Court appointed a Receiver who performed an inventory count on all of the school’s assets. This listing was compared to the school’s invoices of assets purchased in order to determine if all the assets purchased were located during the inventory count.

NOTE 3- DEPOSITS

Harte maintained a cash pool. The Ohio Revised Code prescribes allowable deposits. The carrying amount of cash at June 30, 2007 and 2006 was as follows:

	June 30,2007	June 30, 2006
Demand Deposit	0.00	\$ 639.00

Deposits: Deposits were insured by the Federal Depository Insurance Corporation;

Harte maintained 8 checking accounts during the period from two different banks; together with a line of credit at each bank.

**HARTE CROSSROADS ACADEMY/THE HARTE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(Continued)**

NOTE 4 - PENSION PLANS

A. School Employee Retirement System

Harte contributed to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and School Districts are required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of School District's contributions are used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The required contributions to SERS for the period under review could not be determined; however \$0 and \$18,824 were withheld from state foundation settlements for 2007 and 2006, respectively.

B. State Teachers Retirement System

Harte participated in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**HARTE CROSSROADS ACADEMY/THE HARTE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(Continued)**

NOTE 4 - PENSION PLANS (Continued)

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

In 2007 and 2006, \$44,856 and \$40,296, respectively, were withheld from Harte's foundation settlement for pension obligations to STRS. Upon the school's closing, STRS reports reflected Harte owing \$11,456 in back employee member contributions.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. During the period, approximately five employees paid into Social Security. The Board's liability was 6.2 percent of wages.

NOTE 5 – POSTEMPLOYMENT BENEFITS

Harte provided comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the school, this amount equaled \$4,521 for fiscal year 2007 and \$2,364 for fiscal year 2006.

**HARTE CROSSROADS ACADEMY/THE HARTE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(Continued)**

NOTE 5 – POSTEMPLOYMENT BENEFITS (Continued)

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. The required contributions for SERS for the period under review could not be determined.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006, were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

NOTE 6- DEBT

Harte obtained a \$450,000 operating loan with an initial interest rate of 10.250% in August 2006 from Richland Bank. The loan and any outstanding balances were shared jointly and severally with the entity's sister school, Crossroads. The Schools were able to draw down principal amounts as needed and only pay interest on the amounts they drew down.

**HARTE CROSSROADS ACADEMY/THE HARTE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(Continued)**

NOTE 6- DEBT (Continued)

The following chart shows the summary of draw downs and repayments of the loan:

\$450,000 Operating Loan					
Draws (Repayments)					
Date	The Management Company	Crossroads	Harte	Late Charge/ Interest	Principal Balance
8/30/2006	\$124.00	\$0.00	\$0.00	\$0.00	\$124.00
8/30/2006	50,020.00	0.00	0.00	0.00	50,144.00
9/1/2006	77,386.00	0.00	0.00	0.00	127,530.00
9/11/2006	25,020.00	0.00	0.00	0.00	152,550.00
9/14/2006	25,020.00	0.00	0.00	0.00	177,570.00
9/27/2006	0.00	77,027.43	91,954.96	0.00	346,552.39
9/29/2006	0.00	25,000.00	25,000.00	0.00	396,552.39
10/6/2006	0.00	864.96	752.46	0.00	398,169.81
10/16/2006	0.00	(665.44)	(665.44)	1,330.88	398,169.81
10/17/2006	0.00	14,806.98	21,451.92	0.00	434,428.71
10/27/2006	0.00	15,571.29	0.00	0.00	450,000.00
11/9/2006	0.00	(2,007.36)	(2,007.36)	3,814.72	449,800.00
11/9/2006	0.00	0.00	0.00	200.00	450,000.00
12/11/2006	0.00	0.00	(4,061.47)	3,861.47	449,800.00
12/11/2006	0.00	0.00	0.00	200.00	450,000.00
1/22/2007	0.00	0.00	(3,843.75)	3,843.75	450,000.00
2/20/2007	0.00	0.00	(7,631.24)	7,431.24	449,800.00
2/20/2007	0.00	0.00	0.00	200.00	450,000.00
3/19/2007	0.00	(13,022.52)	(10,004.90)	0.00	426,972.58
Total Drawdowns	\$177,570.00	\$133,270.66	\$139,159.34		
Total (Principal & Interest)	\$0.00	(\$15,695.32)	(\$28,214.16)		
Late Fees/Interest				\$20,882.06	
Net Drawdown	\$177,570.00	\$117,575.34	\$110,945.18	\$20,882.06	\$426,972.58

Note: Payments made on March 19, 2007 were made by the bank by clearing out the Schools' bank accounts to help pay off the principal balance owed.

The original loan balance was due on December 30, 2006. At that time the Schools renewed the loan with a maturity date of May 26, 2007. When the Schools closed in March of 2007, the outstanding balance owed was \$426,972.58.

In addition, the Harte had a line of credit with National City for \$35,000. It originated in 2005 and had a variable interest rate that was between 8-12%. The line of credit was drawn down in its entirety in fiscal year 2005. When Harte closed in March of 2007, the outstanding balance owed was \$34,651.94.

The table below shows the fees related to the line of credit with National City Bank.

	Finance Charges	Annual Fee	Late Fee	Overlimit Fee	Total
July 05-March 07	\$ 6,388.50	\$ 200.00	\$ 200.00	\$ 175.00	\$ 6,963.50

**HARTE CROSSROADS ACADEMY/THE HARTE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(Continued)**

NOTE 7 - RISK MANAGEMENT

A. Property and Liability

Harte was exposed to various risks of loss related to torts; damage to and destruction of assets; errors and omissions; theft; injuries to employees; and natural disasters. Harte contracted with Philadelphia Indemnity Insurance Company for property and general liability insurance with a \$1,000,000 single occurrence limit and \$2,000,000 aggregate with a \$500 deductible. Coverage duration was from 12/4/05 to 12/4/06. It could not be determined whether Harte had additional coverage.

In addition to the insurance, the Business Manager/Treasurer of the school, Laurence Brett, Jr. was bonded by Travelers Casualty and Surety Company of America for \$50,000 from December 1, 2005 through June 30, 2010.

B. Workers' Compensation

Harte was a member of the State Workers' Compensation System. Premiums were calculated by multiplying the monthly total gross payroll by a factor determined by the state. In 2007, the BWC estimated that Harte owed \$1,246 and it remains unpaid.

NOTE 8- EMPLOYEE BENEFITS

Harte provided health and dental policies and a \$15,000 Life Insurance for their employees through United Healthcare. Harte could not locate detailed information on these benefits.

NOTE 9 - COMMUNITY SCHOOL AVERAGE DAILY MEMBERSHIP (CSADM) COUNT

Harte could not locate any documentation supporting CSADM counts that were submitted to the Ohio Department of Education (ODE) to support funding.

ODE provided funding for Harte until it closed in March 2007.

NOTE 10- MANAGEMENT COMPANY

House Bill 364 took effect on April 8, 2003, and added Ohio Rev. Code § 3314.02.4., which states that a management company that provides services to a community school that amounts to more than 20 percent of the annual gross revenues of the school shall provide a detailed accounting including the nature and costs of the services it provides to the community school. This information shall be included in the footnotes of the financial statements of the school and be subject to audit during the course of the regular financial audit of the community school.

The footnote should list management company expenses during the year by object codes (e.g., salaries, supplies, etc.). This footnote should differentiate between the direct costs and the overhead costs that a management company allocates to a community school.

For the fiscal year ended June 30, 2006, Harte paid approximately \$848,656 or ninety eight percent (98%) of its gross revenues to its management company.

**HARTE CROSSROADS ACADEMY/THE HARTE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(Continued)**

NOTE 10- MANAGEMENT COMPANY (Continued)

However, the management company did not provide a detailed accounting of the actual nature and costs of the management services provided to Harte for fiscal year 2006.

Harte did not have a management company for fiscal year 2007.

NOTE 11- CONTINGENT LIABILITIES

On April 4, 2007, the court appointed a Receiver. The Receiver was required to provide creditors with notice of the Receiver's appointment and an Official Claim form. The Receiver established July 5, 2007 as the last day of filing proofs of claims or interests. The Receiver also retained outside legal counsel to serve as counsel to the Receiver with respect of implementation of the claims process, the review of claims, and the negotiations with creditors.

Claims filed totaled \$1,421,956 against Crossroads and Harte, jointly and severally. The outcome of these claims cannot be determined.

Amounts grantor agencies paid to Harte are subject to audit and adjustment by the grantor, principally the federal and state governments. The grantor may require refunding any disallowed costs. The grantor agencies are calling for a refund of a material amount of monies due to the lack of adequate supporting documentation.

The following amounts have been ordered due by the Franklin County Common Pleas Court to be returned to the Ohio Department of Education for the time period of July 1, 2004 through March 16, 2007, due to lack of adequate supporting documentation:

1. Federal Start Up/ Public Charter Schools Program - \$500,000
2. Misc Federal Programs- \$57,224
3. State Foundation Money (CSADM counts)- \$1,667,735
4. Food Service Operations- \$40,580

The Franklin County Common Pleas judgment in Note 13 reflects the amount being called for a refund.

NOTE 12- RELATED PARTY TRANSACTIONS

For the year July 1, 2005 through June 30, 2006, Anita Nelam was the Director of Harte and sister school Crossroads, the Board President of Harte and sister school Crossroads, and the CEO of the School's Management Company, *Harte Crossroads Public Schools*. Harte paid the Management Company a total of \$848,656, which is 98% of the school's gross revenue

NOTE 13- SUBSEQUENT EVENTS

On March 16, 2007, Harte closed due to its financial problems. Since then, numerous claims have been made against the school from former employees and vendor agencies for back payments. These claims were filed with the law firm hired by the Receiver for assistance. See Note 11 for additional information.

**HARTE CROSSROADS ACADEMY/THE HARTE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(Continued)**

NOTE 13- SUBSEQUENT EVENTS (Continued)

On July 9, 2008, the Franklin County Court of Common Pleas found that Plaintiff State of Ohio, Ohio Attorney General and Ohio Department of Education is entitled to judgment in the amount of \$3,288,162.74, plus interest from April 2, 2007, and court costs from the Defendants Harte Crossroads Academy/ The Harte School, Harte Crossroads High School/Crossroads Preparatory Academy, and the Harte Crossroads Public Schools Management Company. According to the Ohio Department of Education (ODE), this judgment was for all of the grants, both State and Federal, and state foundation money that the Schools could not provide proper documentation to substantiate how these funds were spent

Richland Bank utilized the funds remaining in both Crossroads' and Harte's bank accounts to pay down the \$450,000 Operating Loan. A claim has been filed by the Richland Bank for the balance of the unpaid debt.

The disposition of the outstanding balance of the \$35,000 line of credit with National City Bank is not known.



Mary Taylor, CPA

Auditor of State

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

Richland Academy of the Arts
Attn: Marianne Cooper, Executive Director
75 N. Walnut Street
PO Box 1179
Mansfield, Ohio 44901

And

Lucas County Educational Service Center
Attn: Jim George, Superintendent
2275 Collingwood Blvd
Toledo, Ohio 43620

To The Sponsors:

We have selectively tested certain accounts, financial records, files, and reports of Harte Crossroads Academy/The Harte School, Franklin County, Ohio (Harte) as of and for the years ended June 30, 2007 and 2006, following Ohio Admin. Code Section 117-4-02. We noted Harte ceased operations as of March 16, 2007, and was placed in court ordered receivership following which a Court Judgment was granted against Harte in favor of the State of Ohio. We also noted Harte has unpaid audit fees as of the date of this report. Additionally, we noted Management has not provided a written representation letter, which is required by auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

Internal Control over Financial Reporting

During our procedures related to the internal control over financial reporting we noted matters that, in our opinion, may have adversely affected Harte's ability to record, process, summarize and report financial data consistent with assertions in the financial statements. In addition, these matters may have resulted in the occurrence of misstatements that are caused by error or fraud that would not be detected in a timely manner by employees when performing the assigned functions. These matters are described in the Schedule of Findings as items 2007-031 through 2007-039.

Compliance and Other Matters

We tested compliance with certain provisions of laws, regulations, contract, and grant agreements applicable to Harte. Noncompliance with these requirements may have impacted Harte's ability to determine financial statement amounts. The results of our tests disclosed instances of noncompliance or other matters that are reported in the accompanying Schedule of Findings as items 2007-001 through 2007-030.

We intend this report solely for the information and use of officials authorized to receive this report under Section 117.26, Ohio Rev. Code, and it is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

October 16, 2009

**HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

FINDING NUMBER 2007-001

Finding for Recovery - Undocumented Enrollment for State Foundation Funding

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

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

During the period of July 1, 2005 through March 16, 2007, there were no:

- student files to show how many students attended the school and the duration of attendance.
- records documenting how many hours the school was in session or what type of instruction was offered.
- attendance sheets.
- documentation over enrollment/withdrawal dates of its students.
- official student rosters.

Therefore, the assurance of 920 hours of instruction to each student could not be determined. Further, the Ohio Department of Education made unsuccessful attempts to conduct a student enrollment audit. Therefore, Harte cannot support the student attendance figures reported to ODE.

As a result, State Foundation payments totaling \$596,585 in fiscal year 2006 and \$862,698 in fiscal year 2007 were unsubstantiated.

On April 2, 2007, the State of Ohio, Ohio Attorney General, and the Ohio Department of Education sought a Judgment Entry against the Harte Crossroads Academy/ The Harte School (Harte), Harte Crossroads High School / Crossroads Preparatory Academy (Crossroads), and Harte Crossroads Public Schools, the Schools' management company, for \$3,288,162.74 and the judgment was granted by the Franklin County Common Pleas Court on July 9, 2008. The \$1,459,283 of foundation money noted above was part of this Judgment totaling \$1,667,735 of foundation payments for the fiscal years 2005 through 2007.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against The Harte School, and in favor of ODE in the amount of \$596,585.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Harte Crossroads Academy, and in favor of ODE in the amount of \$862,698.

**HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-001 (continued)

Finding for Recovery - Undocumented Enrollment for State Foundation Funding (continued)

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

In accordance with the foregoing facts, and pursuant to the Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Anita Nelam, President/CEO, and in favor of ODE in the amount of \$1,459,283.

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

FINDING NUMBER 2007-002

Finding For Recovery – Payroll Deductions

During fiscal year 2006, Harte delegated its accounting functions and forwarded 98% of its gross receipts to the Management Company, Harte Crossroads Public Schools. The Management Company paid its employees and was to make payroll deduction remittances to the various government agencies, including IRS tax payments, with the exception of employer and employee SERS and STRS payments which Harte was responsible for.

In September 2006, two months after the Management Company ceased to exist, Harte made a payment to the IRS, in the amount of \$13,337.30, for federal payroll taxes withheld from Management Company employees' pay, which were not remitted to the IRS while the Management Company was in operation. During fiscal year 2006, Harte's employees were being paid by the management company and the W-2's were from the management company. The taxes were the responsibility of the Management Company, and were not an obligation of Harte.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Harte Crossroads Public Schools, and in favor of Harte Crossroads Academy in the amount of \$13,337.30.

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

**HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-002 (continued)

Finding For Recovery – Payroll Deductions (continued)

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Anita Nelam, School President/CEO, and in favor of Harte Crossroads Academy in the amount of \$13,337.30.

This matter will be referred to the IRS.

FINDING NUMBER 2007-003

Finding For Recovery - Federal Start Up/Public Charter Schools Program (PCPS)

Education Department General Administrative Regulations (EDGAR), 34 C.F.R. Section 75.730 states that a grantee shall keep records that fully show:

- (a) The amount of funds under the grant;
- (b) How the grantee uses the funds;
- (c) The total cost of the project;
- (d) The share of that cost provided from other sources; and
- (e) Other records to facilitate an effective audit.

In addition, **OMB Circular A-133, Section .300** states that the auditee shall:

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

In fiscal year 2006, Harte drew down and received \$210,000 in community school start up funds from the Federal Government passed through the Ohio Department of Education.

Harte was unable to provide source documentation for grant expenditures. Harte forwarded grant monies to the Management Company. The Management Company did not maintain invoices to support expenditures or assure the grant funds were used for allowable grant projects.

As a part of this start up grant, the ODE attempted to review the schools financial records to assure these funds were spent for allowable purposes; however, Harte did not comply with ODE's request to produce grant expenditure records.

**HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-003 (continued)

Finding For Recovery - Federal Start Up/Public Charter Schools Program (PCPS) (continued)

On April 2, 2007, the State of Ohio, Ohio Attorney General, and the Ohio Department of Education sought a Judgment Entry against the Harte Crossroads Academy/The Harte School (Harte), Harte Crossroads High School/Crossroads Preparatory Academy (Crossroads), and the Harte Crossroads Public Schools, the School’s management company for \$3,288,162.74 and the judgment was granted by the Franklin County Common Pleas Court on July, 9, 2008. The \$210,000 noted above was part of this judgment totaling \$500,000 of Federal Start Up monies for fiscal years 2005 through 2007.

Had this been a federal Single Audit, the amounts mentioned above could have been questioned costs.

In accordance with the foregoing facts, and pursuant to the Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against The Harte School, in favor of ODE in the amount of \$210,000.

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

In accordance with the foregoing facts, and pursuant to the Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Anita Nelam, School President/CEO, and in favor of ODE in the amount of \$210,000.

Also, Harte was awarded the following amounts for schools that were in the planning stages in the Cleveland and Toledo areas of Ohio:

Name:	IRN Number	Amount:
The Harte School- Cleveland	000650	\$28,950
The Harte School- East Cleveland	000649	28,950
The Harte School- Toledo	000647	28,950
Total		\$86,850

The Ohio Department of Education (ODE) attempted to review the schools financial records to assure these funds were spent for allowable purposes; however, Harte did not make adequate efforts to comply with ODE’s request to produce grant expenditure records.

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

**HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-004

Finding For Recovery - Federal Money

2 C.F.R. Part 225 (formerly known as OMB Circular A-87), Appendix A, Section A.2 states that governmental units assume responsibility for administrating Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award. Appendix A, Section C.1.j provides that for a cost to be allowable, the expenditure must be adequately documented.

In fiscal year 2006, the below grant funds were forwarded to Harte's management company who did not provide invoices to the school to support any of the grant expenditures. In 2007, Harte did not maintain invoices for expenditures related to the below grants:

Program	2006	2007	Total
Title I Disadvantaged Children Targeted Assistance, CFDA 84.010	\$11,948	\$21,973	
Special Education Grants to States CFDA 84.027	5,832	2,548	
Drug Free Schools, CFDA 84.186	36	73	
Title V Innovative Education Program, CFDA 84.298	20	15	
Title II, Part D, Technology, CFDA 84.318	374	69	
Improving Teacher Quality State Grants (Title II, Part A), CFDA 84.367	743	285	
Total	\$18,953	\$24,963	\$43,916

Education Management Information System (EMIS) allows ODE to provide the different levels of government with data required to determine funding, such as the percentage of Highly Qualified Teachers, Special Educations information, and other data used to determine federal funding. Harte also did not maintain student attendance records; we could not determine how many students attended school and if they were entitled to this funding.

On April 2, 2007, the State of Ohio, Ohio Attorney General, and the Ohio Department of Education sought a Judgment Entry against the Harte Crossroads Academy/ The Harte School (Harte), Harte Crossroads High School / Crossroads Preparatory Academy (Crossroads), and Harte Crossroads Public Schools, the schools' management company, for \$3,288,162.74 and the judgment was granted by the Franklin County Common Pleas Court on July 9, 2008. The \$43,916 of federal grants noted above was part of this Judgment totaling \$57,224 for fiscal years 2005 through 2007.

Had this been a federal Single Audit, the amounts mentioned above could have been questioned costs.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against The Harte School, and in favor of ODE in the amount of \$18,953.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Harte Crossroads Academy, and in favor of ODE in the amount of \$24,963.

**HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-004 (continued)

Finding For Recovery - Federal Money (continued)

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

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Anita Nelam, School President/CEO, and in favor of ODE in the amount of \$43,916.

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

FINDING NUMBER 2007-005

Finding For Recovery - Food Service Operations

2 C.F.R. Part 225 (formerly known as OMB Circular A-87), Appendix A, Section C.1.j provides that for a cost to be allowable, the expenditure must be adequately documented. Appendix C, Section A.1 also provides that all costs and other data used to distribute the costs included in the plan should be supported by formal accounting and other records that will support the propriety of the costs assigned to Federal awards.

7 C.F.R. Section 210.7, (b) & (c) state, in part, that the total general and special cash assistance reimbursement paid to any school food authority for lunches served to children during the school year are not to exceed the sum of the products obtained by multiplying the total reported number of lunches, by type, served to eligible children during the school year by the applicable maximum per lunch reimbursements prescribed for the school year for each type of lunch. Additionally, to be entitled to reimbursement under this part, each school food authority shall ensure that Claims for Reimbursement are limited to the number of free, reduced price and paid lunches and meal supplements that are served to children eligible for free, reduced price and paid lunches and meal supplements, respectively, for each day of operation. To ensure that the Claim for Reimbursement accurately reflects the number of lunches and meal supplements served to eligible children, the school food authority shall, at a minimum:

- (i) Correctly approve each child's eligibility for free and reduced price lunches and meal supplements based on the requirements prescribed under 7 CFR part 245;
- (ii) Maintain a system to issue benefits and to update the eligibility of children approved for free or reduced price lunches and meal supplements.

**HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-005 (continued)

Finding For Recovery - Food Service Operations (continued)

For fiscal years 2006 and 2007, Harte did not maintain consistent attendance records as noted in Finding Number 2007-001. Due to the lack of attendance documentation maintained by the Harte, it could not be determined if the amount of meals purchased from Arlene’s Cuisine, Harte’s food vendor, was reasonable based on the number of students in attendance each day.

Program	2006	2007	Total
School Breakfast, CFDA 10.553	\$ 10,269	\$ 4,449	
National School Lunch, CFDA 10.555	19,843	2,397	
Total	\$ 30,112	\$ 6,846	\$ 36,958

On April 2, 2007, the State of Ohio, Ohio Attorney General, and the Ohio Department of Education sought a Judgment Entry against the Harte Crossroads Academy/ The Harte School (Harte), Harte Crossroads High School / Crossroads Preparatory Academy (Crossroads), and Harte Crossroads Public Schools, the schools’ management company, for \$3,288,162.74 and the judgment was granted by the Franklin County Common Pleas Court on July 9, 2008. The \$ 36,958 noted above was part of this Judgment totaling \$40,580 for food service grants for the fiscal years 2005 through 2007.

Had this been a federal Single Audit the amounts mentioned above could have been questioned costs.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against The Harte School, and in favor of ODE in the amount of \$30,112.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Harte Crossroads Academy, and in favor of ODE in the amount of \$6,846.

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

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Anita Nelam, School President/CEO, and in favor of ODE in the amount of \$36,958.

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

HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-006

Interest in Public Contract

Prior to June 30, 2006, **Ohio Rev. Code Section 3314.03(A)(11)(e)** required a community school to comply with Chapter 102 of the Revised Code except that nothing in that chapter shall prohibit a member of the school's governing board from also being an employee of the school and nothing in that chapter or section 2921.42 of the Revised Code shall prohibit a member of the school's governing board from having an interest in a contract into which the governing board enters that is not a contract with a for-profit firm for the operation or management of a school under the auspices of the governing authority.

However, **Ohio Ethics Commission Advisory Op. No. 2003-001** states, in part, that R.C. 102.03(D) and 2921.42(A)(1) prohibit a member of the board of a community school from participating, in any manner as a board member, in board actions to approve any kind of contract in which she has an interest.

Ohio Rev. Code Sec. 2921.42(A)(1) states that no public official shall knowingly authorize, or employ the authority or influence of the public official's office to secure authorization of any public contract in which the public official, a member of their family, or any of their business associates has an interest. In addition, **Ohio Rev. Code Section 102.03(D)** states 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.

Anita Nelam was the Board President of Harte and sister school Crossroads and the Schools' Director/Superintendent, as well as the CEO of Harte Crossroads Public Schools, the Management Company with whom the Schools contracted to provide all school related services for 2006.

During this period of time, Ms. Nelam signed School checks payable to the Management Company, and signed convenience checks written on a line of credit obtained by the Schools, payable to the Management Company.

This issue will be referred to the Ohio Ethics Commission.

**HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-007

Payroll

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 any 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. In addition, Ohio Rev. Code Section 3314.03(A)(8) requires that each contract entered into between a sponsor and the governing authority of a community school shall require the school to maintain financial records in the same manner as all public school districts in the State of Ohio.

Our testing of payroll disbursement transactions revealed the following:

- Lack of payroll ledgers, and bank reconciliations.
- No SERS/STRS documentation for employees.
- No teacher contracts were presented for the audit period.
- No documentation of "highly qualified" teachers, See Finding Number 2007-004.
- Numerous bank statements were missing which resulted in subpoenas being issued.
- Gross pay amounts for many employees varied on multiple occasions throughout the period without any documentation to support the change in pay.
- There was no board approval in the minutes, or otherwise, of salary/hourly amounts for teachers, administrators, or hourly employees.
- Numerous payroll checks were not supported by timesheets, or any other documentation of hours worked, nor were there job descriptions for full or part time employees.
- Taxes and retirement withholdings were not always withheld from paychecks which resulted in fines and late fees, as well as past due balances.
- No indication was presented to show how vacation, sick leave, comp time or overtime balances were tracked or maintained.
- Copies of cancelled checks related to payroll were not maintained.
- Payroll ledgers were not maintained for the months of July and August 2006.

As a result of the above, we were not able to gain assurances over the accuracy and completeness of Harte's payroll transactions totaling approximately \$590,652 for the period September 15, 2006 through February 28, 2007. As noted above, Harte did not keep any accounting records for July and August of 2006. The above weaknesses and lack of record keeping greatly increased the possibility for fraud and abuse related to payroll transactions

We obtained a payroll schedule that was created by Harte's Director of Operations, which was submitted by the school to the Ohio Department of Jobs and Family Services (ODJFS) for unemployment purposes. Fifteen employees were paid in excess of the pay schedules submitted to us from ODJFS for the period July 1, 2006 through March 16, 2007 ranging from \$347 - \$7,667. We received no additional information from Harte to justify the additional pay.

**HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-007 (continued)

Payroll (continued)

We were also provided with Employee Information Sheets by Harte's Fiscal Agent, ACE. These Employee Information Sheets provided basic information on employees as well as their contracted salary amounts. The sheets were used as a basis for employee contracted amounts for fiscal year 2006. Four employees were paid in excess of the contracted amount noted on their Employee Information Sheets for the period July 1, 2005 through June 30, 2006 ranging from \$2,182 - \$15,385. We received no additional information from Harte to justify the additional pay.

Additionally, the lack of information and policies for employee fringe benefits associated with sick leave, vacation, comp time or overtime did not allow us an opportunity to determine whether any of Harte's employees received, used or correctly obtained these benefits.

It could not be determined whether Harte or Crossroads may have over compensated the employees noted above. As such, this finding is also reported in its sister school report Crossroads Preparatory Academy/Harte Crossroads High School.

FINDING NUMBER 2007-008

Unsupported Expenditures

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 any person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division.

During our testing we noted the following:

- Records presented for audit were in no discernable order. Even after significant work by Harte's sponsors and contracted fiscal agents, Harte's records were intermixed with the Management Company's records and records of Crossroads. After this process, many expenditures still had no invoices or receipts to support payments.
- Checks were written out of sequential order, copies of cancelled checks were not consistently maintained, and no voided checks were maintained. Numerous check copies and bank statements were subpoenaed to help substantiate actual recorded expenditures.
- Numerous electronic transfer payments were made to vendors without approval.
- Miscellaneous reimbursements were made to the School Board, management, and employees without detailed support, such as receipts and/or other supporting documentation.
- Bank accounts were not reconciled.
- The School Board did not approve expenditures prior to being made, nor did they review expenditures after they were made to ensure they were accurately recorded, necessary and for a proper public purpose.

**HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-008 (continued)

Unsupported Expenditures (continued)

- No one independent of the purchasing process reviewed the activity to ensure the accuracy, appropriateness, or allowability of the expenditure.
- Harte did not have a policy in place for the procurement of goods or services.

In fiscal year 2007 Harte expended funds in the amount of \$1,481 for reimbursements to three employees for which there were no supporting documentation (i.e. invoices or receipts for specific transactions). These unsupported amounts ranged from \$51 to \$1,000 per individual. Also, due to the overall lack of records we were unable to gain any assurances over the accuracy and completeness of records for expenses totaling \$1,097,762.

In fiscal year 2006, the Management Company also expended funds on behalf of Harte and Crossroads in the amount of \$141,243 for reimbursements to 27 employees for which there was no supporting documentation (i.e. invoices or receipts for specific transactions). These unsupported amounts ranged from \$100 to \$27,388 per individual.

In fiscal year 2006, the Management Company also expended funds on behalf of Harte and Crossroads in the amount of \$2,283,350 to 21 vendors for which there were no supporting documentation (i.e. invoices or receipts for specific transactions). These unsupported amounts ranged from \$108 to \$2,205,239, the largest being Harte Crossroads Public Schools (the management company). Also, we could gain no assurances on the \$848,656 paid directly from Harte to the Management Company because of the lack of detailed invoices from the Management Company.

The above weaknesses and lack of record keeping greatly increased the possibility for fraud and abuse related to non payroll transactions. These weaknesses significantly reduced management's ability to effectively monitor the finances and make appropriate operating decisions. Further it could not be determined which School over compensated the individuals and vendors for 2006. As such, this finding is also reported in its sister school report, Crossroads Preparatory Academy/Harte Crossroads High School.

FINDING NUMBER 2007-009

Liability Insurance

The Ohio Rev. Code Section 3314.03(11)(b) states that each contract entered into between the sponsor and the governing authority of a community school must specify that the governing authority will purchase liability insurance, or otherwise provide for the potential liability of the school.

We were provided a liability insurance policy from Philadelphia Insurance Company for the period December 4, 2005 through December 4, 2006. There was some indication that Harte was delinquent on the insurance premium payments, and it could not be determined if Harte was actually covered for the policy period. There was no liability insurance for the time period of December 5, 2006 through March 16, 2007.

**HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-010

Sponsor Monitoring

Ohio Rev. Code Section 3314.023 states that a representative of the sponsor shall meet with the governing authority of the school and shall review the financial records of the school at least once every two months.

On July 1, 2006, Richland Academy became Harte's sponsor; however there was no evidence that they reviewed Harte's financial records every two months.

FINDING NUMBER 2007-011

Sponsor Annual Evaluation Reports

Ohio Rev. Code Section 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.

According to the Ohio Department of Education's - Office of Community Schools Division, Richland Academy, Harte's sponsor did not submit the required evaluation to ODE. Further, neither Lucas Educational Service Center nor Richland Academy, the sponsors during the period, provided these evaluations to the students attending the community school.

FINDING NUMBER 2007-012

Fiscal Responsibility/Board Monitoring of Financial Reports

Ohio Admin. Code Sections 117-2-01(D)(3) & (5) state, in part, that when designing the public office's system of internal control and the specific control activities, management should ensure adequate security of assets and records, and verify the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records. Ohio Admin. Code Section 117-2-01(D)(4) states, in part, when designing the public office's system of internal control and the specific control activities, management should plan for adequate segregation of duties or compensating controls.

As noted throughout this report, the records that Harte presented for audit were in disarray, which included many missing records. From reviewing Harte's operations, it appears the internal controls were not implemented over fiscal operations and fiscal activity was not being monitored by someone independent of the Management Company or contracted fiscal agents. Evidence of communication between Harte's Board, the management company and the contracted fiscal agents did not exist. This condition hindered Harte's ability to adequately provide sound management decisions.

**HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-012 (continued)

Fiscal Responsibility/Board Monitoring of Financial Reports (continued)

During July and August 2006, Harte was operating with two contracted fiscal agents, ACE Charter Services (ACE) and Innovative Learning Solutions (ILS), neither of whom were able to provide us with accounting activity for the two month period. ILS assumed fiscal agent status in July 2006, however, most operations remained with ACE. As a result, neither fiscal agent recorded the necessary accounting activity to provide complete financial data for the two month period. There is no evidence to indicate that Harte's Treasurer or governing board were monitoring these companies throughout this period.

When Richland Academy became sponsor of Harte (July 1, 2006 through March 16, 2007) the school was operating in a deficit condition, the line of credit and operating loan were exhausted, and cash flow ceased.

In addition, Anita Nelam, Board President and Larry Brett, School Treasurer/Business Manager had the primary authority to make purchases on behalf of Harte. There was no evidence in the minutes that there was School Board approval or review of any purchases for the period from July 1, 2005 through March 16, 2007. In addition, during fiscal year 2007, Harte obtained an Operating Loan with Richland Bank to which Anita Nelam had full access. Ms. Nelam signed off on the loan papers and drew down money which was deposited into her management company. Harte's loan was exhausted and Harte defaulted on its repayment schedule. During this time, there was no evidence of Board oversight of this activity.

It is the responsibility of Harte's fiscal officer, management, and those charged with governance to design, implement, monitor, and identify deficiencies in the internal control environment. However, Harte's fiscal officer, management, and governing board did not design or implement an adequate system of internal control. As a result, Harte ceased operations and was subject to a court-ordered Judgment Entry to repay various grantors.

FINDING NUMBER 2007-013

Service Organizations

For 2006, Harte contracted with ACE Community School Services (ACE) for fiscal services and other administrative services. As part of this agreement, Harte delegated its financial accounting and transaction processing, a significant function of Harte, to ACE. ACE utilized its internally-developed accounting software package to perform these functions. Harte did not establish procedures to determine whether the ACE accounting software package had sufficient controls in place and was operating effectively to reduce the risk that financial transactions had not been authorized or completely and accurately processed in accordance with the contract.

Harte's fiscal officer, management and the governing board were responsible for assuring the completeness and accuracy of their accounting transactions processed by its service organization. Statement of Auditing Standards (SAS) No. 70, as amended prescribes standards for reporting on service organizations. An unqualified Type Two *Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness* in accordance with SAS No. 70 should have provided the school with reasonable assurance that transactions were completely and accurately processed. However, Harte did not request or obtain a SAS No. 70 report from ACE for the period.

**HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
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**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-013 (continued)

Service Organizations (continued)

As a result, Harte could not determine whether ACE's accounting processes had sufficient controls in place and were operating effectively to reduce the risk that financial transactions were not being authorized or processed in accordance with the contract.

FINDING NUMBER 2007-014

Five Year Forecast

Ohio Rev. Code Section 5705.391 and Ohio Admin. Code 3301-92-04, require that community schools submit a five year forecast by October 31st of each year to the Ohio Department of Education. This section also includes references to annual appropriations and annual revenue estimates. The board of education shall update its five-year projection between April first and May thirty-first of each fiscal year and submit it to the department of education. In addition, Harte should accompany their forecast with written assumptions to support the basis of projected dollar amounts.

For 2006, Harte submitted a five year forecast, however, the only assumption accompanying the forecast indicated the school was "predicting growth in enrollment each year and is assuming Basic Aide per pupil will increase by 2.2% each year." Harte did not have evidence to support this assumption.

Further, Harte did not submit its 2007 forecast during the required timeframe and later closed in March of 2007. During this period, it was also noted that Harte had a negative fund cash balance in the amount of \$(23,281.24) in January 2007.

FINDING NUMBER 2007-015

Filing of Annual Financial Reports

Ohio Rev. Code Section 3314.03(A)(8) provides that the contract between a sponsor and the governing authority of a community school shall require that a community school maintain its financial records in the same manner as school districts. **Ohio Rev. Code Section 117.38** provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Admin. Code Section 117-2-03(B) requires the School to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP).

Governmental Accounting Standards Board (GASB) 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:

HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
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SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-015 (continued)

Filing of Annual Financial Reports (continued)

- Summary of significant accounting policies;
- Budgeting;
- Payables and Receivables;
- 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 and Investments (if applicable)
- Purchased Services;
- Capital and 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
- Commitments under leases.

Harte's financial statements were required to be prepared using generally accepted accounting principles (GAAP) which is designed to enhance the decision-making capabilities of the Board, those charged with the operations of the school, and others with regulatory interests in the results of operations and available resources of the school. GAAP basis financial statements provide financial statement users with an accurate financial picture of the school's results of operations and available resources by including accrued assets, liabilities, revenues and expenses.

Harte did not provide cash or GAAP basis financial statements for July 1, 2005 through June 30, 2006 or for the period of July 1, 2006 through March 16, 2007. In addition, Harte did not provide financial statements on another basis of accounting. The accompanying financial statements and notes were prepared with the available records provided for audit.

FINDING NUMBER 2007-016

Availability of Public Records

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

**HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-016 (continued)

Availability of Public Records (continued)

There were significant delays in receiving requested records. The following deficiencies were noted in financial records:

- Over half of all bank statements were missing
- Files of cancelled and voided checks were not maintained
- Supporting documentation for non payroll expenditures was significantly lacking, or non-existent
- Capital Asset records did not exist
- No duplicate cash receipt book was maintained for "over the counter" cash receipts
- No deposit slips for cash deposits were located
- No employee contracts were located
- No approved salary rates were located
- Revenue and expense ledgers were not maintained for the months of July and August 2006

This led to the unauditible status declared by the Auditor of State's office in January of 2007. In addition, the Ohio Department of Education (ODE) made multiple unsuccessful requests throughout the period to review financial records and student records to determine compliance with the schools Startup (PCSP) Grant and determine the accuracy of Student Average Daily Membership (ADM) counts.

Neither Harte's contracted fiscal agents, nor the Treasurer/Business Manager, could locate certain monthly bank statements or credit card statements. Management failed to provide adequate financial and support documentation to analyze, review and inspect for completeness, verify accuracy, or determine existence of the school's financial records. Subpoenas were issued to obtain these documents.

FINDING NUMBER 2007-017

Deposit of Public Funds

Ohio Rev. Code Section 9.38 provides that public money must be deposited with the treasurer of the public office or with the designated depository on the business day next following the day of receipt, if the total amount of such moneys received exceeds one thousand dollars. If the total amount of the public moneys so received does not exceed one thousand dollars, the person shall deposit the moneys on the business day next following the day of the receipt, unless the public office of which that person is a public official adopts a policy permitting a different time period, not to exceed three business days next following the day of receipt, for making such deposits, and the person is able to safeguard the moneys until such time as the moneys are deposited. The policy shall include provisions and procedures to safeguard the public moneys until they are deposited.

Due to the lack of records or an indication of when cash or checks were received, we were unable to determine if cash collected was deposited timely, as required above.

**HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
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**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-018

Management Company Footnote

Ohio Revised Code Section 3314.024 states that a management company providing services to a community school and charging more than twenty percent of the school's annual gross revenues shall provide a detailed accounting, including the nature and costs of the services it provides to the community school. This information shall be included in the footnotes of the financial statements of the school and be subject to audit during the school's regular financial audit. This footnote should list management company expenses during the year by object codes (e.g., salaries, supplies, etc.). Pursuant to Ohio Rev. Code Section 3314.03(A)(8), community schools must use the Uniform Schools' Accounting System (USAS), which requires classifying costs by function and object codes. Also, this footnote should differentiate between the direct costs and any overhead costs a management company allocates to a community school. Auditor of State Bulletin 2004-009, also outlines the note disclosure requirements of management companies.

Harte's management company, Harte Crossroads Public Schools, received 98% percent (\$848,656) of the school's annual gross revenues from July 1, 2005 through June 30, 2006, but did not provide Harte with the required footnote information or assurances.

FINDING NUMBER 2007-019

Public Meetings

Ohio Revised Code Section 121.22(F) states every public body shall, by rule, establish a reasonable method whereby any person may determine the time and place of all regularly scheduled meetings and the time, place, and purpose of all special meetings.

A public body shall not hold a special meeting unless it gives at least twenty-four hours advance notice to the news media that have requested notification, except in the event of any emergency requiring immediate official action. In the event of an emergency, the member or members calling the meeting shall notify the news media that have requested immediate notification.

Community Schools are not exempt from these requirements.

Harte did not maintain any documentation to indicate Board meeting dates were made known to the public.

**HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-020

Student Data

The **Ohio Rev. Code Section 3314.17(C)** states that each fiscal officer appointed under section 3314.011 of the Revised Code is responsible for annually reporting the community school's data under section 3301.0714 of the Revised Code. **Ohio Rev. Code Section 3301.0714(B)(1)(c)-(l) & (n)** requires the following data must be reported to the Ohio Department of Education:

- Average student grades in each subject in grades nine through twelve
- Academic achievement levels as assessed by the testing of student achievement
- The number of students designated as having a disabling condition
- The numbers of students reported to the state board
- Attendance rates and the average daily attendance for the year
- Expulsion, Suspension, Graduation and Dropout rates
- The percentage of students receiving corporal punishment
- Rates of retention in grade

Harte, specifically the Treasurer, was responsible for ensuring the aforementioned student information was updated to the Ohio Department of Education's (ODE's) Community School Average Daily Membership (CSADM) and Education Management Information System (EMIS) databases.

For the years ended June 30, 2007 and 2006, Harte failed to maintain student files for all students.

Because of the lack of documentation, we were unable to ascertain the following:

- An accurate average daily membership count
- The resident district of students
- The appropriate meal status of students (i.e. free, reduced, or full price)
- The enrollment and withdrawal dates of students
- The age of students
- Student transcripts (including classes enrolled and grades received)
- The grade level of students, as well as rates of graduation, expulsion, suspension, and dropout

Since most State and Federal grants and entitlements are based of student attendance and socioeconomic status of students, the accuracy of funding received could not be ascertained. As a result, the State has sought and been granted a judgment in the amount of \$3,288,162.74, plus interest from April 2, 2007, and court costs from Harte, and sister school Crossroads. Refer to finding 2007-001 for additional information regarding the Judgment Entry.

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

**HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-021

Licensed Teachers

Ohio Rev. Code Section 3314.03(A)(10), provides that all community school classroom teachers are to be licensed in accordance with Ohio Revised Code Sections 3319.22 to 3319.31, except that a community school may engage non-certificated persons to teach up to twelve hours per week pursuant to Ohio Revised Code Section 3319.301. A permit must be issued by the Ohio Department of Education to these "non-certificated" persons in order to teach. Also, 34 C.F.R. Section 200.56, requires Title I teachers to be highly qualified as defined in this section.

Harte did not maintain teaching certificates, diplomas or copies of degrees for any of the school's teachers. There was also no evidence that any certification or degree was verified by Harte. Along with this, Harte did not maintain any documentation to support the hiring of non-certified personnel, or "highly qualified" personnel for title programs.

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

FINDING NUMBER 2007-022

Federal Withholding

26 U.S.C. Section 3402 requires an employer to deduct and withhold federal income tax from the wages of any School employees. Circular E of the Internal Revenue Service Publication 15 requires that a Form W-4 (exemptions) for federal income tax deductions be filed for each employee. If a Form W-4 is not filed by the employee, deductions are to be made as single with no dependents. Further, this publication provides that an employer is required to deduct and withhold federal income tax from the salaries and wages of their employees. Such withholdings are to be remitted to the Internal Revenue Service.

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

Due to lack of personnel records it could not be determined if:

- form W-4 (exemptions) were filed
- the proper tax amounts were withheld from all personnel
- withholdings were properly remitted to the Internal Revenue Service.

This matter will be referred to the Internal Revenue Service.

FINDING NUMBER 2007-023

Income Tax Withholding

Ohio Rev. Code Section 5747.07 states in part, that every employer required to deduct and withhold any amount of taxes in section 5747.06 of the Revised Code shall file a return and shall pay the amount required by law.

We were unable to determine if the proper amount of taxes were remitted to the State Tax Commissioner.

This matter will be referred to the Tax Commissioner.

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**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-024

Local Tax Withheld

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. Community Schools are not exempt from this requirement.

Due to lack of records, we were unable to determine if the school properly remitted local tax withheld from employees to the City of Columbus, where Harte was located.

This matter will be referred to the local tax commissioner.

FINDING NUMBER 2007-025

Retirement Remittance - STRS

Ohio Rev. Code Section 3307.26 states that the contribution for all teachers shall be deducted by the employer on each payroll in an amount equal to the applicable per cent of the teachers' paid compensation for such payroll period or other period as the board may approve. All contributions on earned compensation for teachers participating in plans established under section 3307.81 of the Revised Code shall be remitted at intervals required by the state teachers retirement system under section 3307.86 of the Revised Code. All contributions on earned compensation for teachers participating in the plan described in sections 3307.50 to 3307.79 of the Revised Code shall be remitted to the State Teachers Retirement System by the thirtieth day of June of each year.

Due to lack of records we were unable to determine if Harte properly remitted retirement contributions to the State Teachers Retirement System. However, \$44,856 and \$40,296 were withheld from the school's foundation settlements for 2007 and 2006, respectively.

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

FINDING NUMBER 2007-026

Retirement Remittance - SERS

Ohio Rev. Code Section 3309.47 states that each school employees retirement system contributor shall contribute eight percent of his compensation to the employees' savings fund. The contributions by the direction of the school employees retirement board shall be deducted by the employer from the compensation of each contributor on each payroll of such contributor for each payroll period and shall be an amount equal to the required per cent of such contributor's compensation. Each contributor shall pay with the first payment to the employees' savings fund each year a sum to be determined by the board, as provided by law, which amount shall be credited to the expense fund.

Due to lack of records we were unable to determine if Harte properly remitted retirement contributions to the State Employees Retirement System. However \$0 and \$18,824 were withheld from state foundation settlements for 2007 and 2006, respectively.

This matter will be referred to the State Employees Retirement System

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**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-027

Remittance - BWC

Ohio Rev. Code Section 4123.38 provides that every employer mentioned in division (B)(1) of section 4123.01 of the Revised Code, which includes school districts, shall contribute to the public insurance fund the amount of money determined by the administrator of workers' compensation, and the manner of determining contributions and the classifications of employers as provided in sections 4123.39 to 4123.41 and 4123.48 of the Revised Code.

Due to lack of records we were unable to determine if Harte properly remitted Bureau of Workers Compensation premiums as provided under Ohio Rev. Code Section 4123.38. A review of the check registers indicated Harte paid \$1,011 and \$0 for fiscal years 2007 and 2006, respectively.

This matter will be referred to the Bureau of Workers Compensation.

FINDING NUMBER 2007-028

Community School Closing Procedures

Ohio Rev. Code Section 3314.015(E) requires the Ohio Department of Education to adopt procedures for use by a community school governing authority and sponsor when the school permanently closes and ceases operation. The guidance covers requirements of law, including aspects of federal and state funding requirements; actions taken and not taken by sponsors in the past; as well as relevant information which may be needed at some future point, after a school closes.

When the school closes the following actions should be taken:

- Arrange for dissemination of all school records to students' districts of residence, with a list of all records and their destination sent to the sponsor
- Arrange to send all school's non-student, non-personnel records to the sponsor
- Inform the school's staff of the decision to close the school:
Review the history of the school, provide the reasons for closing, share the school's commitment to the staff (facilitate employment, ensure STRS and SERS contributions, clarify medical benefits, etc.)
- Inform the students and parents of the decision to close the school
- Inform the public
- Schedule a final Full Time Equivalency (FTE) review
- Notify the Information Technology Center and arrange for a method by which all outstanding EMIS data will be reported
- Notify the traditional public school district in which the community school is located and traditional public school districts providing transportation to the community school
- Account for all school property throughout the closing (utilize fixed assets list and inventory to account for all items)
- Establish date, after school has closed to make disposition of schools property;
(notify all other community schools and traditional public schools of the date of the sale)
- Verify that the Auditor of State has been contacted and a financial audit date established
- Prepare financial statements for audit
- Submit financial statements to the Auditor of State including the results of the property sale
- Utilize proceeds and foundation dollars and any other income to pay the following order:
STRS/SERS retirement and other adjustments, teachers and staff, employment taxes and federal taxes, audit preparation, private creditors, state treasury general revenue fund and grant status with Final Expenditure Reports (FERs) and obligations

**HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-028 (continued)

Community School Closing Procedures (continued)

- Arrange for an accounting firm or the Auditor of State to verify the following financial information:
 - complete cash analysis
 - compile bank statements for the year and give to the sponsor
 - document outstanding accounts payable and clear with bank
 - collect and void all unused checks
 - document and provide any petty cash to sponsor
 - close bank accounts once all transactions are cleared
 - verify all payroll reports including taxes and retirements

Harte did not follow the above school closing procedures when it closed.

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

FINDING NUMBER 2007-029

Board Minutes

White v. Clinton Cty. Bd. of Commrs' (1996), 76 Ohio St.3d 416, Ohio Rev. Code Sections 121.22, and 149.43, when read together, impose a duty on the School to maintain a full and accurate record of their proceedings. Minutes of meetings must be promptly recorded and open for public inspection per *State, ex rel. Fairfield Leader v. Ricketts (1990), 56 Ohio St.3d 97*. Furthermore, R.C. 121.22(G) states if a public body holds an executive session to consider any of the matters listed in divisions (G)(2) to (7) of that section, the motion and vote to hold that executive session shall state which one or more of the approved matters listed in those divisions are to be considered at the executive session.

The following deficiencies were noted:

- The Board Secretary did not maintain a complete written record of meetings, and minutes that were provided, lacked any form of detail. We also noted instances of meetings with just an agenda and some meetings did not have minutes.
- The Board did not approve prior meeting minutes on a consistent basis.
- The minutes indicated the Board was not provided financial reports for review.
- Executive sessions were held, but the reasons for the executive sessions were not documented.
- Pay rates or salary schedules for employees were not documented and approved in the minutes.
- Minutes were not signed by the Governing Board.

The minute records were incomplete. Therefore, we were unable to gain assurances regarding the Governing Board's actions and deliberations. Additionally, management has not provided a written representation letter, which is required by auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
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**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-030

Line of Credit – Finding For Recovery

State ex rel. McClure v. Hagerman (1951) 155 Ohio St. 320, provides that expenditures made by a governmental entities 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, 1982 Op. Att’y Gen. No. 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 states that governmental entities may not make expenditures of public monies unless they are for a valid public purpose. There are two criteria that demonstrate whether an expenditure is for a public purpose. First, the expenditure is required for the general good of all inhabitants and second, the primary objective of the expenditure is to further a public purpose, even if an incidental private end is advanced. Additionally, the Bulletin indicates that the Auditor of State’s Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

In January of 2007, Harte made a payment on Crossroads’ National City Bank line of credit in the amount of \$1,721.83. A public school should not be paying the debt of another public school.

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

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code 117.28, a Finding for Recovery for Public monies illegally expended is hereby issued against Crossroads Preparatory Academy, the Harte Crossroads High School’s Treasurer/Business Manager, Laurence Brett Jr., and Travelers Casualty and Surety Company of America, his bonding company, jointly and severally, for \$1,721.83 in favor of the Harte Crossroads Academy Operating Fund.

FINDING NUMBER 2007-031

School Management

Harte, was incorporated with the State of Ohio as a Non-Profit Organization on June 1, 2004. Harte began with a five-member Board of Directors (increased to seven members in October 2004) of which Anita Nelam, founder of the school, was elected President.

Harte made its first payment to Harte Crossroads Public Schools (the Management Company) in August 2004. The Management Company was incorporated with the State of Ohio as a Non-Profit Organization on March 16, 2004 with Anita Nelam, Gabrielle Sempf, and James Cowardin being listed as initial directors in the Articles of Incorporation.

Harte could not provide nor locate a signed copy of a contract with the Management Company. Neither Lucas ESC, Harte’s sponsor through June 30, 2006, nor the Ohio Department of Education (ODE) could provide a contract between the Management Company and Harte.

**HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-031 (continued)

School Management (continued)

While Ms. Nelam, served as Director/Superintendent and Board President of Harte during fiscal year 2006, she appeared to independently manage the school with very little oversight of the Harte's Board. Since Ms. Nelam was also the CEO of the Management Company, it was difficult to determine when she was acting on behalf of the Management Company and when she was acting on behalf of the school. It was also difficult to determine where the Management Company interests ended and Harte's interests began. Since there was no signed agreement between Harte and the Management Company, the Management Company operated on its own and was not monitored by the Harte's Board against any criteria to ensure it was fulfilling its fiduciary responsibilities. In fact, Harte's Board met sporadically and the minutes contained very little substance or any indication that operations of the Management Company were monitored.

Harte and the Management Company also became financially intertwined during fiscal year 2006. For example, Harte obtained a line of credit for \$35,000 from National City Bank in April 2005; and in 2006 the Management Company made withdrawals from Harte's line of credit and deposited it directly into the Management Company's bank account for services provided to the school. According to school officials this was to subsidize operations between State Foundation payments. During fiscal year 2007, the Management Company made draws of \$177,570 against Harte's \$450,000 Operating Loan from Richland Bank for services provided. See Finding Number 2007-035. Additionally, Harte paid, approximately 98% of its gross revenues, or \$848,656, to the Management Company without obtaining any supporting documentation for fiscal year 2006.

On June 30, 2006, insofar as we can determine, the Management Company stopped providing services to Harte and all Management Company employees became employees of Harte.

The Management Company Board of Directors also served simultaneously on the Board for Harte through June 30, 2006, at which time the Management Company ceased operations. Significant turnover of the School Board was noted throughout the school's existence. For fiscal year 2006, Ms. Nelam served as the Management Company CEO, as well as the Board President and School Director/Superintendent. When the Management Company ceased to exist, she remained on Harte's Board as an ex-officio Board member and continued to be employed as Harte's Director/Superintendent.

The lack of a management company agreement and a clear distinction between the management of Harte and that of the Management Company limited Harte's ability to effectively monitor the management company and its performance.

FINDING NUMBER 2007-032

Miscellaneous Receipts

Sound internal controls require a school to establish policies over the collection, recording, safeguarding, and deposit of all receipts. Also, a duplicate receipt book should be maintained for all cash receipts, including but not limited to, state and local funding, student fees, field trip fees, and fundraiser monies and other miscellaneous receipts. The duplicate receipts should be reconciled to all validated bank deposits.

A duplicate receipt book was not maintained for student fees, field trip/event monies, fundraiser monies and other miscellaneous receipts.

**HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-032 (Continued)

Miscellaneous Receipts (Continued)

No records were presented other than a system generated receipts ledger, which lacked sufficient detail regarding the type of receipts being recorded. We confirmed with the Ohio Office of Budget and Management and Ohio Department of Education state and federal receipts were received and deposited by Harte, however, we were not presented with any supporting documentation of miscellaneous receipts, such as student fees, field trips, fundraisers or other. Additionally, bank deposit slips were not found for over-the-counter receipts.

Because of the lack of documentation provided for receipts we were unable to gain any assurances of accuracy and completeness over the miscellaneous receipts described above that were recorded by Harte. These conditions and the lack of management oversight greatly increased the risk of misappropriation of cash receipts.

FINDING NUMBER 2007-033

Capital Assets

A capital asset policy should contain a minimum threshold for capitalization, procedures for purchasing and disposition of all assets, tracking the location of assets, and a described method of depreciation.

The Board voted to set a capital asset capitalization threshold of \$1,500, however, a formal capital asset policy was never developed or implemented. Assets were not tagged, and no records were maintained for the acquisitions or disposal of capital assets.

The following assets were purchased by Harte but were not found in the final inventory of capital assets conducted on June 20, 2007 by the school's court appointed Receiver.

**HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-033 (continued)

Capital Assets (continued)

MISSING ASSETS SUMMARY CHART

Purchase Date	Asset Description	Quantity Purchased	Unit Price in Inventory	Quantity Not Found	Total Purchase Price of Missing Assets
7/30/05	27" Televisions	2	\$ 100	2	\$200
7/30/05	Washer	1	55	1	55
7/30/05	Dryer	2	65	2	130
9/22/05	Commercial Refrigerator	1	2,315	1	2,315
8/24/06	Systemax Widescreen 15.4" Notebook Laptop	3	1,300	3	3,900
8/24/06	Systemax Office DC Server (Internet Server box)	1	2,522	1	2,522
8/24/06	Hanns-G 15" Silver LCD flat screen Computer Monitor	55	129	50	6,450
8/24/06	Pentium D Desktop Computers	55	579	55	31,845
8/30/06	Linksys 16 PT Cable/DSL router	1	334	1	334
8/30/06	ARCvault 24 LTO 2HH Add on Tape Drive	1	2,300	1	2,300
9/6/06	Cisco 2801 AC Pwr 2AIM IP Base Router	1	1,480	1	1,480
9/6/06	Updated 1-Port WAN IF Interface Card	1	750	1	750
9/6/06	Cisco 2801 128MB Sodimm-Dram RAM module	1	761	1	761
9/9/2006	HP laptop Notebook & Accessories	1	1,377	1	1,377
9/13/06	25 Compaq Laptop P4 1.8 Ghz w/ 14.1" Screen	25	560	24	13,440
1/15/07	Infrared Classroom System (computerized chalkboard)	1	5,800	1	5,800
FY 07 **	50 Desktop Computers, Dell, mostly Compaq Pentium 3's *	50	500	10	5,000
					\$78,659

* = This purchase price was estimated based on the purchase price of similar computers as original invoice could not be found.

** = Original invoice could not be found, this was a verbal confirmation from the salesperson from Golden Ticket marketing that handled the account.

Our review could not determine the actual disposition of the above noted assets.

It should be noted that due to the condition of Harte's records we were unable to determine which school paid or received these assets. Therefore the same dollar amount is noted in both the Harte and Crossroads Reports.

**HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-034

Unpaid Claims

Upon being placed in court appointed Receivership in April 2007, employees and vendors filed claims against the Schools. Below is a summary of the claims that have been filed against Harte and Crossroads from July 1, 2004 through March 16, 2007. However, providing assurances on the completeness and accuracy of these claims was not an objective of our review, and accordingly, we do not express assurances on them. This list only includes those claims submitted against the Schools by individuals and vendors as of the Receiver's deadline.

<u>Type</u>	<u>Amount</u>
School Employees	\$ 231,256.52
School Vendors	469,410.72
Misc.Govt. Agencies	2,291.94
Legal Fees	6,906.48
ODJFS	15,610.31
Ohio Dept of Taxation	8,740.47
STRS	12,230.12
Richland Trust Co*	431,608.29
Lien Holders	241,360.00
Bureau of Worker's Compensation	2,540.75
Total	<u>\$ 1,421,955.60</u>

* - includes interest

Harte and Crossroads did not maintain fiscally sound or appropriate accounting records detailing amounts owed to vendors for goods or services received. The Board, Director/CEO, and Business Manager/Treasurer, did not receive or monitor financial reporting packages in such a way to possess sufficient knowledge of the Schools' cash position or financial solvency. As a result, the Schools were unable to remain a going concern, ceased operations, and were subject to the court-ordered Judgment Entry described above.

It should be noted that this list of unpaid claims includes both Harte and Crossroads. The Receiver did not require individuals or agencies to submit separate claims for each school.

FINDING NUMBER 2007-035

Loan and Line of Credit

In April 2005, Harte obtained a line of credit for \$35,000 with an initial interest rate of 8%. Harte continued to use this line of credit through fiscal year 2006 as the interest rate increased to 12%. The bank closed down the line of credit due to customer default in December 2006. The CEO of the Management Company, who was also a School Board Member, had complete control of the Line of Credit and made withdrawals. These withdrawals were subsequently deposited into the Management Company's bank accounts. No information was presented to indicate this Line of Credit was approved or monitored by Harte's governing board. When Harte entered into Receivership in March 2007, the outstanding balance of the Line of Credit was \$34,651.94.

**HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-035 (continued)

Loan and Line of Credit (continued)

Additionally, Harte obtained a \$450,000 loan with an initial interest rate of 10.25% in August 2006 from Richland Bank. Any liability for the loan was to be shared jointly and severally with the entity's sister school Crossroads. The Schools were able to draw down principal amounts, as needed, and only pay interest on the amounts that were drawn down. The following is a table showing which school, or when the Management Company, drew down and paid the loan:

\$450,000 Operating Loan					
Draws (Repayments)					
Date	The Management Company	Crossroads	Harte	Late Charge/ Interest	Principal Balance
8/30/2006	\$124.00	\$0.00	\$0.00	\$0.00	\$124.00
8/30/2006	50,020.00	0.00	0.00	0.00	50,144.00
9/1/2006	77,386.00	0.00	0.00	0.00	127,530.00
9/11/2006	25,020.00	0.00	0.00	0.00	152,550.00
9/14/2006	25,020.00	0.00	0.00	0.00	177,570.00
9/27/2006	0.00	77,027.43	91,954.96	0.00	346,552.39
9/29/2006	0.00	25,000.00	25,000.00	0.00	396,552.39
10/6/2006	0.00	864.96	752.46	0.00	398,169.81
10/16/2006	0.00	(665.44)	(665.44)	1,330.88	398,169.81
10/17/2006	0.00	14,806.98	21,451.92	0.00	434,428.71
10/27/2006	0.00	15,571.29	0.00	0.00	450,000.00
11/9/2006	0.00	(2,007.36)	(2,007.36)	3,814.72	449,800.00
11/9/2006	0.00	0.00	0.00	200.00	450,000.00
12/11/2006	0.00	0.00	(4,061.47)	3,861.47	449,800.00
12/11/2006	0.00	0.00	0.00	200.00	450,000.00
1/22/2007	0.00	0.00	(3,843.75)	3,843.75	450,000.00
2/20/2007	0.00	0.00	(7,631.24)	7,431.24	449,800.00
2/20/2007	0.00	0.00	0.00	200.00	450,000.00
3/19/2007	0.00	(13,022.52)	(10,004.90)	0.00	426,972.58
Total Drawdowns	\$177,570.00	\$133,270.66	\$139,159.34		
Total (Principal & Interest)	\$0.00	(\$15,695.32)	(\$28,214.16)		
Late Fees/Interest				\$20,882.06	
Net Drawdown	\$177,570.00	\$117,575.34	\$110,945.18	\$20,882.06	\$426,972.58

Note: Payments made on March 19, 2007 were made by the bank by clearing out Crossroads' and Harte's bank accounts to help pay off the principal balance owed.

The original loan had a maturity date of December 30, 2006, at which time the entire \$450,000 principal balance was due. However, on December 30, 2006 the Schools renewed the loan with a new maturity date of May 26, 2007. Harte and Crossroads closed on March 16, 2007 and Richland Bank used the Schools' remaining cash balances, held in other accounts at the bank, to pay down any unpaid principal. The unpaid principal balance of the loan is \$426,972.58.

**HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-035 (continued)

Loan and Line of Credit (continued)

The Board's failure to assure a detailed accounting and monitoring of these loans increased the risk of possible misuse of the proceeds. The Board allowed one individual, Anita Nelam, the ability to indiscriminately draw down funds at a time when the school was operating at a deficit. As a result, large liabilities remained unpaid for months at a time. Harte eventually closed.

FINDING NUMBER 2007-036

Late Fees, Charges, Penalties

Harte's Treasurer, Fiscal Agent and management were responsible for ensuring that payments were made to all vendors in a timely manner to avoid late fees.

There were many instances in which Harte was assessed finance charges and penalties for making late payments to various vendors, including the school's line of credit with National City Bank, and a loan with Richland Bank. The dollar amount of the late fees paid to vendors is indeterminable due to the lack of supporting documentation. The schedule below shows the fees and penalties related to the bank loans. It should also be noted that due to the late fees the interest rate on the Line of Credit from National City Bank went from 8% up to 12%.

	National City Bank	Richland Bank
Annual Fee	\$200.00	\$0.00
Late Fee	200.00	600.00
Overlimit Fee	175.00	0.00
Total Fees	\$ 575.00	\$ 600.00

**HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-037

Student Uniform/Clothing Policy

Harte did not have a formal policy authorizing the expenditure of school funds to pay for student uniforms/clothing.

Invoices show that purchases were made, totaling \$6,571, for uniforms/clothing for students of the school throughout the period of July 1, 2006 through March 16, 2007. No evidence of board approval or intent to purchase uniforms/clothing for its students, including the criteria for qualification of the students to receive such benefits, could be located.

It should be noted that due to the condition of the Harte and Crossroads' records we were unable to determine which school paid or received these clothes. Therefore, the same dollar amount is noted in both the Harte and Crossroads reports.

FINDING NUMBER 2007-038

Cell Phones

Nearly 30 of the 42 total Crossroad and Harte employees were provided with a school cell phone; however, the Board failed to adopt a cell phone policy to manage the activity and phone use. Crossroads and Harte procured one cell phone plan for both schools and each paid a portion of the bill.

Total plan charges for both Schools averaged between \$1,411 and \$1,550 each month. In addition, overage charges were as high as \$1,430 per month. For the months that cell phone bills were located, August 2006 through February 2007, the Schools had cell phone bills totaling \$16,769.

At one point, the Schools also provided a free cell phone to one of its vendors who resided in Canada. When the vendor was questioned as to why a free cell phone was provided, the reason given was so the Schools could contact the vendor if there were any questions about the products or services they purchased from the company. We were unable to substantiate the need for this arrangement.

Additionally, the Schools paid for a cell phone for a former employee. This cell phone was paid for by the Schools for several months after the employee's separation date. However, we were unable to determine if the cell phone was actually being used by the former employee, or if the Schools neglected to remove the former employee's name from the plan.

The Schools, in multiple instances, reimbursed employees for overages on their personal cell phones with no supporting documentation that the reimbursement was work-related.

The records reflect that employees were allowed to use cell phones without reimbursement to the Schools for excess charges, with no management oversight. It could not be determined if the phones were used strictly for school business.

HARTE CROSSROADS ACADEMY/ THE HARTE SCHOOL
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2007 AND 2006
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2007-039

Advance (Loan) Between Schools

Harte advanced \$47,000 to Crossroads' checking account during fiscal year 2007. The table below summarizes the advance of money between the Schools.

Date	Advance Harte	Pay-Back Crossroads
11/29/2006	\$ 14,000	\$0
12/12/2006	0	(14,000)
12/14/2006	11,000	0
12/29/2006	10,000	0
1/10/2007	0	(21,000)
1/12/2007	12,000	0
2/14/2007	0	(12,000)
	\$ 47,000	\$ (47,000)

Neither Harte nor Crossroads recorded the expense or receipt of this money on their general ledgers. The advance of money between the Schools was discovered when a reconciliation was completed between the Schools' ledgers and bank accounts.

It is noted that the money was paid back during the audit period; therefore no finding for recovery will be issued.

Officials' Response: We did not receive a response from Officials to the findings reported above.

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**HARTE CROSSROADS ACADEMY / THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007 AND 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	EDGAR, Title 34 C.F. R. Section 75.730 – Finding for Recovery – Federal Start up Monies and Public Charter Schools Program Monies – inadequate support for the expenditures.	No	Repeated as Finding Number 2007-003
2005-002	2 C.F.R Part 225, Appendix A, Section C.1.j. – Finding for Recovery – Other Federal Funds – inadequate support for the expenditures.	No	Repeated as Finding Number 2007-004
2005-003	Ohio Rev. Code 3314.03(A)(11)(a) – Finding for Recovery - Undocumented Enrollment for State Foundation Funding.	No	Repeated as Finding Number 2007-001
2005-004	2 C.F.R Part 225, Appendix A, Section C.1.j. – Finding for Recovery – Inadequate documentation for federal lunch reimbursement.	No	Repeated as Finding Number 2007-005
2005-005	Ohio Rev. Code §§ 3314.03(A)(11)(d) and 149.43(B)(1) - Not maintaining supporting documentation for expenditures.	No	Repeated as Finding Number 2007-008
2005-006	Ohio Rev. Code §§ 3314.03(A)(11)(d) and 149.43(B)(1)– Not maintaining supporting documentation for receipts.	No	Similar to Finding Number 2007-032

**HARTE CROSSROADS ACADEMY / THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

2005-007	Ohio Rev. Code §§ 3314.03(A)(11)(d) and 149.43(B)(1)– Not maintaining supporting documentation for payroll expenditures.	No	Repeated as Finding Number 2007-007
2005-008	Ohio Rev. Code §§ 3314.03(A)(11)(d) and 149.43(B)(1)– Not providing sufficient documentation for audit .	No	Repeated, See Finding Numbers 2007-007, 2007-008 & 2007-032
2005-009	Ohio Rev. Code 3314.024 –The Management Company did not provide the school with the required footnote disclosure.	No	Repeated as Finding Number 2007-018
2005-010	Ohio Rev. Code 5705.391 – Not properly submitting five year forecasts.	No	Repeated as Finding Number 2007-014
2005-011	Ohio Rev. Code 9.38 – Receipts were not deposited timely	No	Repeated as Finding Number 2007-017
2005-012	Article XI Section 2 of the School's Code of Regulation – Not having proper approval for expenditures over \$10,000.	No	Similar to Finding Number 2007-008
2005-013	Ohio Rev. Code 2921.42(A) – Interest in Public Contract.	No	Repeated as Finding Number 2007-006
2005-014	Unpaid Claims from Receivership	No	Repeated as Finding Number 2007-034
2005-015	Payments to management company without supporting documentation or a signed contract.	No	Repeated as Finding Number 2007-031
2005-016	Payroll Account – not properly accounting for activity.	No	Similar Finding Number 2007-007
2005-017	Expense Account – Lack of monitoring controls and lack of supporting documentation.	Yes	Expense Account Closed in Fiscal Year 2005

**HARTE CROSSROADS ACADEMY / THE HARTE SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007 AND 2006
(Continued)**

2005-018	Capital Assets – not maintaining adequate capital asset records	No	Repeated as Finding Number 2007-033
2005-019	Board Monitoring – The Board did not monitor fiscal operations of the school.	No	Similar to Finding Number 2007-012
2005-020	Canceled and Voided Checks – not maintaining accountability over all checks.	No	Similar to Finding Number 2007-007 and 2007-008
2005-021	Expense Reimbursement Policy – No policy is in place despite a high volume of reimbursements.	No	Similar to Finding Number 2007-008



Mary Taylor, CPA
Auditor of State

**HARTE CROSSROADS ACADEMY/THE HARTE SCHOOL
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
FEBRUARY 4, 2010**