



Dave Yost • Auditor of State

**GREATER HEIGHTS ACADEMY
CUYAHOGA COUNTY**

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FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Ashe Culture Center
Attn: Jorethia Chuck, Representative
2125 Superior Avenue
Cleveland, Ohio 44114

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

To Greater Heights Academy and Sponsors:

We were engaged to audit the accompanying basic financial statements of Greater Heights Academy, Cuyahoga County, Ohio (the Academy), as of and for the year ended June 30, 2008. These financial statements are the responsibility of the Academy's management.

The Academy did not retain or present for examination sufficient competent evidence to support the student full-time equivalencies reported to the Ohio Department of Education (ODE) which supports the Foundation Revenue received.

The Academy did not maintain documentation to support the disclosures related to the items listed in paragraph two above.

The Academy failed to prepare financial statements and note disclosures for the year ended June 30, 2008. Government Accounting Standards Board (GASB) Statements provides the minimum requirements for external financial reporting, which include the Management Discussion and Analysis (MD&A), the financial statement including the Statement of Net Assets, The Statement of Revenues, Expenditures, and Changes in Net Assets, and if required the Statement of Cash Flows, and Notes to the Financial Statements. Since the Academy did not provide financial statements or notes; Auditor of State staff prepared the unclassified financial statements and notes listed in the table of contents using the Academy's accounting records. The Government Auditing Standards considers this service to impair the independence of the Auditor of State to audit the Academy.

Auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards* require us to obtain written representations from management. Management has not provided the Auditor of State written representations, including but not limited to, management's responsibility for preparing the financial statements in conformity with the Academy's accounting basis; the availability of original financial records and related data, the completeness and availability of all minutes of the legislative or other bodies and committee meetings, management's responsibility for the Academy's compliance with laws and regulations; the identification and disclosure to the Auditor of State of all laws, regulations, and provisions of contracts and grant agreements directly and materially affecting the determination of financial statement amounts and; the presence or absence of regulations, and provisions of contracts and grant agreements, and compliance with any debt covenants.

AU Section 337 permits auditors to rely on the judgment of lawyers and management as to the disclosure of unasserted claims. Letters of audit inquiry sent to the Academy's legal counsel were not responded to. Therefore, we were unable to obtain sufficient evidence regarding the completeness of unasserted claims.

Since the Academy did not provide sufficient evidential matter as described in paragraphs two through five above, the scope of our auditing procedures was not sufficient to enable us to express, and we do not express, an opinion of these financial statements referred to above for the year ended June 30, 2008.

During the year ended June 30, 2008, the Academy had cash expenditures in excess of cash receipts by \$21,201.

The Academy voluntarily closed on November 17, 2008 due to financial viability.

The accompanying financial statements present receipts and disbursements by fund totals only. Ohio Administrative Code Section 117-02-02(A) requested governments to classify receipt and disbursement transactions.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2014 on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. This Academy omitted this required supplementary information.

We conducted our engagement to opine on the financial statements that collectively comprise the Academy's basic financial statements taken as a whole. The schedule of federal awards receipts and expenditures provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of federal awards receipts and expenditures (the schedule) is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We were unable to obtain written representations from the Academy's management. Additionally, the Academy did not prepare the schedule; Auditor of State staff prepared the schedule and have impaired independence related to the schedule. As a result, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on whether the schedule of federal awards receipts and expenditures referred to above is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State
Columbus, Ohio

January 31, 2014

**GREATER HEIGHTS ACADEMY
CUYAHOGA COUNTY**

**UNCLASSIFIED STATEMENT OF FINANCIAL POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Cash Balance at Beginning of Year	\$ 68,346
Total Revenues	9,501,163
Total Expenditures	<u>9,522,364</u>
Cash Balance at End of Year	<u><u>\$ 47,145</u></u>

See Accompanying Notes to the Unclassified Financial Statements

**GREATER HEIGHTS ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE UNCLASSIFIED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

1. DESCRIPTION OF THE ENTITY

Greater Heights Academy (the Academy) is a non-profit corporation established December 15, 2003 pursuant to Ohio Revised Code Chapters 1702 and 3314 to address the needs of students in kindergarten through twelfth grade. The Academy's goal is to employ educators that thrive on seeing children succeed. The success of the child will increase self-esteem and provide opportunities for a rewarding future. The Academy, which is part of the State's Education program, is independent of any school district, and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy qualified as an exempt organization under Section 501 (c) (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status.

The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy was approved for operation under a contract with Ohio State Board of Education and commenced operation at the beginning of the 2004-05 school year.

The Academy was approved for operation under the contract with Ashe Culture Center, Inc. (the Sponsor) for a period of three years commencing October 18, 2005 and shall terminate on August 14, 2009. The Sponsor is responsible for evaluating the performance of the school and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.B, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the fund financial statement, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Academy does not apply FASB statements issued after November 30, 1989. Following are the more significant of the Academy's accounting policies.

**GREATER HEIGHTS ACADEMY
CUYAHOGA COUNTY, OHIO
NOTES TO THE UNCLASSIFIED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Presentation

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

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

B. Basis of Accounting

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

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

C. Budgetary Process

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

D. Cash and Cash Equivalents

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

E. Revenues

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

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

**GREATER HEIGHTS ACADEMY
CUYAHOGA COUNTY, OHIO
NOTES TO THE UNCLASSIFIED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Revenues (Continued)

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

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

Under the above programs the Academy received \$7,669,819 this fiscal year.

In addition to the above referenced revenues, the Academy also received a settlement from Cleveland Metropolitan School District in the amount of \$1,154,688.

Also included in revenues are miscellaneous items including, but not limited to, interest, proceeds from lines of credit, and donations.

F. Expenses

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

The Academy's major expenditures for fiscal year 2008 were payroll, building leases, construction/building maintenance, transportation, and security services.

3. CASH AND CASH EQUIVALENTS

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

The Academy maintains its cash balances at one financial institution located in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000, per qualifying account. The Academy has a general and payroll account. At June 30, 2008, the bank balance of the Academy's deposits was \$47,145. The entire bank balance was covered by the Federal Deposit Insurance Corporation (FDIC).

The Academy had no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the Academy or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee to secure repayment of all public monies deposited in the financial institution whose market value shall be at least 105% of deposits being secured. At June 30, 2008, none of the bank balance was exposed to custodial credit risk.

**GREATER HEIGHTS ACADEMY
CUYAHOGA COUNTY, OHIO
NOTES TO THE UNCLASSIFIED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

4. RISK MANAGEMENT

A. Property & Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year 2008, the Academy contracted with Pinkerton Insurance Co. for all of its insurance.

General liability coverage has a \$1,000,000 single occurrence limit and \$2,000,000 aggregate. Hired and Non-owned vehicles are covered at \$1,000,000 combined single limit of liability.

B. Workers' Compensation

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

C. Employee Medical and Dental Benefits

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

5. CONTINGENCIES

A. Grants

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

B. Litigation

The Academy was involved in a court case with Mangan and Associates, LLC during the fiscal year. The case was the result of the Academy not providing payment for services rendered by Mangan and Associates, LLC. The Academy agreed to a settlement on November 5, 2008 for \$112,175.

C. Full-Time Equivalency

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

6. SPONSOR

The Academy contracted with Ashe Culture Center Inc. as its sponsor and oversight services as required by law. Sponsorship fees are calculated at three percent of net state funds received by the Academy from the State of Ohio, as foundation. For the fiscal year ended June 30, 2008 the total sponsorship fees totaled \$185,966. The Academy paid \$66,809 during fiscal 2008, with the remaining balance of \$119,157 as part of the outstanding balance.

**GREATER HEIGHTS ACADEMY
 CUYAHOGA COUNTY, OHIO
 NOTES TO THE UNCLASSIFIED FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008
 (Continued)**

7. RELATED PARTY TRANSACTIONS

The Academy executed a lease agreement with Raintree Academy on May 19, 2004 for general classroom space at 1970 South Taylor Road, Cleveland Heights, Ohio. The lease period is from July 1, 2004 through July 1, 2014 at a monthly rate of \$41,667.67. The Academy paid \$500,000 to Raintree Academy during fiscal year 2008. Raintree Academy is owned by Joel Friedman, Superintendent of the Academy.

The Academy entered into a management agreement with Columbia-Prospect LLC to manage and operate the property located at 112 Prospect Avenue, Cleveland, Ohio at a monthly rate of \$13,000. Columbia-Prospect LLC is owned by Paul Singerman, son of the Academy's Board President, Gilbert Singerman and nephew of Superintendent, Joel Friedman. In addition, four checks written during fiscal year 2008 to Columbia-Prospect LLC were endorsed by Gilbert Singerman. The Academy paid \$159,900 in management fees in fiscal year 2008.

Northbound Inc. provided construction work for the academy at 112 Prospect Avenue, Cleveland, Ohio. Northbound Inc.'s statutory agent is Egon Singerman, son of the Academy's Board President, Gilbert Singerman and nephew of the Academy's Superintendent, Joel Friedman. In addition, Gilbert Singerman endorsed sixteen of the checks written to Northbound Inc. The Academy paid \$506,127 to Northbound Inc. during fiscal year 2008.

8. SUBSEQUENT EVENTS

After fiscal year 2008, fourteen judgments/settlements were made against the Academy totaling \$2,581,367.

The following list provides the parties involved and the resulting amount of each judgment, as well as the date each case was closed:

Party Involved	Amount of Settlement/Judgment	Date Closed
Community Bus Services, Inc.	\$831,127	9/29/2008
Mangan & Associates, LLC	112,175	11/5/2008
Arvon Funding, LLC	76,362	12/2/2008
Carron Asphalt Paving, Inc	17,883	12/24/2008
First Student Inc.	650,087	3/26/2009
Thyssenkrupp Elevator Corp.	23,649	4/15/2009
Ace Taxi Service, Inc.	31,225	6/29/2009
J&F Luxury Travel Inc.	27,900	7/24/2009
J. Bowers Construction Co.	4,387	7/29/2009
Comdoc, Inc.	3,611	8/3/2009
The Illuminating Company	78,085	4/30/10
City of Cleveland Heights	16,542	9/14/2010
TRCH LLC	708,334	12/10/2010
Total Amount:	\$2,581,367	

In addition to the above, the Academy also settled a case with A. Lopresti & Sons, Inc outside of court for an undisclosed sum.

Furthermore, the Academy ceased operation on November 17, 2008.

**GREATER HEIGHTS ACADEMY
CUYAHOGA COUNTY, OHIO
NOTES TO THE UNCLASSIFIED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

9. FEDERAL INVESTIGATION

On November 21, 2013, a federal grand jury returned indictments against four people charged with a scheme to defraud the Academy of more than \$400,000. Indictments on charges of wire fraud, mail fraud and conspiracy to launder money were handed down against Joel B Friedman, chairman of the Academy, Marianne Stefanik, secretary to chairman Friedman, Virgil B Holley, employed in various capacities at the Academy, including starting Holley Enterprises to provide security at the school, and Jefferey A. Pope, operator of the consulting business, R&D International in Maryland.

The defendants pleaded guilty and are scheduled to be sentenced in March 2014. The case was investigated by the Federal Bureau of Investigation and Internal Revenue Service.

**GREATER HEIGHTS ACADEMY
CUYAHOGA COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<i>Passed Through Ohio Department of Education:</i>			
Nutrition Cluster:			
School Breakfast Program	10.553	\$ 165,896	\$ -
School Lunch Program	10.555	299,650	400,363
Total Nutrition Cluster		<u>465,546</u>	<u>400,363</u>
Total U.S. Department of Agriculture		<u>465,546</u>	<u>400,363</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<i>Passed Through Ohio Department of Education:</i>			
Special Education, Part B - IDEA	84.027	164,113	164,113
Grants to Local Educational Agencies, Title I	84.010	259,338	259,338
Improving Teacher Quality, Title II-A	84.367	2,911	269
Technology, Title II-D	84.318	733	-
Safe and Drug-Free Schools, Title IV-A	84.184	10,875	10,875
State Grants for Innovative Programs, Title V	84.298	171	-
Total U.S. Department of Education		<u>438,141</u>	<u>434,595</u>
Total Federal Financial Assistance		<u>\$ 903,687</u>	<u>\$ 834,958</u>

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

**GREATER HEIGHTS ACADEMY
CUYAHOGA COUNTY, OHIO**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2008**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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



Dave Yost • Auditor of State

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

Ashe Culture Center
Attn: Jorethia Chuck, Representative
2125 Superior Avenue
Cleveland, Ohio 44114

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

To Greater Heights Academy and Sponsors:

We were engaged to audit the basic financial statements of the Greater Heights Academy, Cuyahoga County, Ohio (the Academy) as of and for the year ended June 30, 2008, and have issued our report thereon dated January 31, 2014, in which we disclaimed an opinion upon the financial statements because the Academy failed to provide supporting documentation to support the student fulltime equivalencies reported to the Ohio Department of Education (ODE) which supports the Foundation Revenue received. They did not provide support for the related disclosures in the accompanying financial statements. The Academy failed to prepare financial statements, notes and schedules for the year ended June 30, 2008. The accompanying financial statements present receipts and disbursements by fund totals only. Management has not provided the Auditor of State written representations and letters of audit inquiry sent to the Academy's legal counsel were not responded to. We also noted that we were not independent due to our role in preparing financial statements, notes and schedules. The Academy closed on November 17, 2008.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2008-004, 2008-015 and 2008-016 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2008-006 described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as items 2008-001 through 2008-015.

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

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



Dave Yost
Auditor of State

January 31, 2014



Dave Yost • Auditor of State

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

Ashe Culture Center
Attn: Jorethia Chuck, Representative
2125 Superior Avenue
Cleveland, Ohio 44114

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

To Greater Heights Academy and Sponsors:

Compliance

We were engaged to audit the compliance of Greater Heights Academy (the Academy) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2008. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the Academy's major federal programs. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Academy's compliance.

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

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

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

However, the results of our procedures also disclosed other instances of noncompliance with those requirements that OMB Circular A-133 requires us to report. The accompanying schedule of findings and questioned costs lists these instances as Findings 2008-017 through 2008-022 and 2008-024.

Internal Control Over Compliance

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2008-017 through 2008-024 to be material weaknesses.

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



Dave Yost
Auditor of State
Columbus, Ohio

January 31, 2014

**GREATER HEIGHTS ACADEMY
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Disclaimer
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Disclaimer
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster (CFDA 10.553 & 10.555) Special Education, Part B IDEA, CFDA #84.027
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2008-001

Finding for Recovery – Noncompliance – Duplicate Payments and No Public Purpose Payment

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

**GREATER HEIGHTS ACADEMY
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008
(Continued)**

FINDING NUMBER 2008-001 (Continued)

**Finding for Recovery – Noncompliance – Duplicate Payments and No Public Purpose Payment
(Continued)**

Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper “Public Purpose” states that the Auditor of State’s Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

We noted the following expenditures issued to vendors did not meet the criteria of proper public purpose:

- Duplicate payments were issued to Northbound, Inc. resulting in an overpayment of \$11,659 issued to vendor Northbound Inc.
- A payment was issued to Northbound, Inc. for charges totaling \$1,480 related to line of credit charges billed to vendor Columbia Prospect LLC. There is no evidence supporting that Northbound actually incurred a cost by paying these line of credit charges on behalf of Columbia Prospect, LLC. Also, there is no evidence supporting the line of credit charges incurred by Columbia Prospect LLC related to or benefitted Greater Heights Academy. These charges are not for a proper public purpose.
- A payment was issued to Northbound, Inc. for charges totaling \$2,681 related to legal fees billed to a separate vendor Columbia Prospect LLC. There is no evidence supporting that Northbound actually incurred a cost by paying these legal fees on behalf of Columbia Prospect, LLC. These charges are not for a proper public purpose.
- Payments were issued to Northbound, Inc. for charges totaling \$494 related to overdraft checking fees billed to vendor Northbound, Inc. Overdraft fees are not for a proper public purpose.
- A payment was issued to Northbound, Inc. for charges totaling \$710 related to goods and services provided to Board President, Gilbert Singerman. There is no evidence these goods or services benefitted or related to Greater Heights Academy. These charges are not for a proper public purpose.

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 Northbound, Inc in the amount of \$17,024 in favor of the Ohio Department of Education.

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

Accordingly, former School Treasurer, Arlene Wilson, is jointly and severally liable in the amount of \$17,024 and in favor of the Ohio Department of Education.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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(Continued)**

FINDING NUMBER 2008-001 (Continued)

**Finding for Recovery – Noncompliance – Duplicate Payments and No Public Purpose Payment
(Continued)**

Official's Response:

Of the \$11,659 in duplicate payments made to Northbound, \$2470.50 was initially paid prior to Ms. Wilson becoming the School Treasurer in July 2007. Carl Shye, a former school treasurer serving two years in prison for embezzling more than \$400,000 from charter schools served as the treasurer before Ms. Wilson. Additionally, all duplicate invoices paid were not identical. One invoice reflected a payment made directly to Northbound while the second invoice would represent a payment made to a different vendor. All invoices were controlled by Dr. Joel Friedman who has recently been indicted for wire fraud, mail fraud and conspiracy to launder money associated with Greater Heights Academy. In regard to all other amounts paid, these payments were issued under board approved vendor contracts. As mentioned in the audit, "typically the determination of what constitutes a proper public purpose rests with the judgment of the governmental entity." The governmental entity in this case was the board who approved such expenditures. Ms. Wilson only acted as the School Treasurer for the school for four months and resigned after realizing Dr. Friedman would not implement her recommendations and improve his financial process. Ms. Wilson's record as a school treasurer has been impeccable since 1966. It is clear that substantial effort was made to fraudulently misrepresent payments approved by the board and thus victimize an unsuspecting treasurer.

FINDING NUMBER 2008-002

Finding for Recovery – Noncompliance – Cash Withdrawals and Memos

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

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

During the fiscal year 2008, checks written to cash were made from the Greater Heights Academy's Bank accounts for which supporting documentation was not on file, nor was the purpose or necessity of the cash withdrawals and cash transfers documented. The payee is not known for these expenditures. See the table below:

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FINDING NUMBER 2008-002 (Continued)

Finding for Recovery – Noncompliance – Cash Withdrawals and Memos (Continued)

<u>Transaction Date</u>	<u>Transaction Type</u>	<u>Check Number</u>	<u>Written and Endorsed By</u>	<u>Amount</u>
2/15/2008	Check	6050350	Marianne Stefanik	\$688
2/15/2008	Check	6050351	Marianne Stefanik	506
2/15/2008	Check	6050352	Marianne Stefanik	457
2/15/2008	Check	6050353	Marianne Stefanik	464
2/15/2008	Check	6050354	Marianne Stefanik	517
2/15/2008	Check	6050355	Marianne Stefanik	819
2/15/2008	Check	6050356	Marianne Stefanik	483
2/15/2008	Check	6050357	Marianne Stefanik	1,000
2/15/2008	Check	6050358	Marianne Stefanik	1,000
2/15/2008	Check	6050359	Marianne Stefanik	761
2/15/2008	Check	6050360	Marianne Stefanik	829
2/15/2008	Check	6050362	Marianne Stefanik	657
2/15/2008	Check	6050363	Marianne Stefanik	859
2/15/2008	Check	6050365	Marianne Stefanik	513
2/15/2008	Check	6050367	Marianne Stefanik	368
2/15/2008	Check	6050368	Marianne Stefanik	524
3/01/2008	Check	6190317	Carl Shye	<u>3,800</u>
Total cash transactions				<u>\$14,245</u>

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

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

In accordance with the forgoing facts, and pursuant to Section 117.28 of the Ohio Revised Code, a finding for recovery for public monies illegally expended is hereby issued against Marianne Stefanik, Assistant Administrator/Check Signer in the amount of \$10,445, and against Carl Shye, Treasurer (through 5/14/08), in the amount of \$14,245 and in favor of the Ohio Department of Education.

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FINDING NUMBER 2008-003

Finding for Recovery – Noncompliance – No Public Purpose Payment

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

Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper “Public Purpose” states that the Auditor of State’s Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

We noted the following expenditures issued to vendors did not meet the criteria of proper public purpose:

- A payment was issued to Columbia Prospect LLC, Inc. for charges totaling \$1,500 related to line of credit charges billed by Park View Federal Savings Bank to Columbia Prospect, LLC. No documentation was maintained denoting that the line of credit was related to Greater Heights Academy expenses incurred for the operation or maintenance of the Columbia Building.
- A payment was issued to Columbia Prospect LLC, Inc. for charges totaling \$4,947 related to legal fees billed by Singerman, Mills, Desberg, & Kauntz to vendor Columbia Prospect, LLC. No documentation was maintained denoting that the legal fees were related to Greater Heights Academy expenses incurred for the operation or maintenance of the Columbia Building.

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 Columbia Prospect LLC, Inc. in the amount of \$6,447 in favor of the Ohio Department of Education.

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FINDING NUMBER 2008-004

Noncompliance and Material Weakness – Condition of Accounting Records

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

Management is responsible for developing and maintaining complete and accurate financial records. Instead of complete and accurate financial records, we noted that the records consisted of the following:

- 1099 Forms for independent contractors were not provided;
- Form 990 was not provided;
- Cash Reconciliations provided included \$612,220 in outstanding checks that had cleared the bank accounts before the end of the fiscal year;
- During testing of non-payroll transactions, AOS noted the following:
 - One instance where the invoice amount did not agree to the amount of the check;
 - Five instances where the invoice amount referenced outside invoices (i.e., Home Depot) that were not provided in the voucher package;
 - Twenty-eight instances where no invoices or supporting documentation was provided;
 - One instance where the payment did not agree with the check register;
 - One instance where the cancelled check could not be located; and
 - Two instances where checks that cleared the bank account were not included in the check register.
- Non-sequential checks were issued out of the payroll account;
- Two employees did not have a personnel file;
- Contracts were not provided for two employees;
- Termination records were not provided for fourteen of fifteen employees tested;
- Student records were not provided;
- Federal school breakfast and lunch program expenditures were significantly less than program receipts indicating inaccurate recordkeeping;
- Intergovernmental receipts totaling \$632,786 were not recorded on the Academy's receipt ledger;
- Federal Food Service Intergovernmental Revenue in the amount of \$49,405 was improperly recorded as State Food Service Grant Intergovernmental Revenue;
- Twenty-three transactions totaling \$240,528 did not maintain documentation to support the expenditure;
- Incorrect data was recorded in the ledger for 6 transactions;
- The Sponsor's annual report was not provided; and
- No Capital Asset System in place.

Management failed to provide financial and support documentation; consequently, we were unable to analyze, review, inspect for completeness, verify the accuracy of, or determine the existence of the Academy's financial records.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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FINDING NUMBER 2008-005

Finding for Recovery – Noncompliance – Interest in Public Contracts

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

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

Ohio Rev. Code Section 2921.42(H) states public contracts are void *ab initio* and unenforceable, where a public official, a member of the public official's family, or any of the public official's associates has an interest in that contract. Such contracts are only permissible, per Ohio Rev. Code Section 2921.42(C), where all four of the following elements are met:

- (1) The subject of the public contract is necessary supplies or services for the political subdivision or governmental agency or instrumentality involved;
- (2) The supplies or services are unobtainable elsewhere for the same or lower cost, or are being furnished to the political subdivision or governmental agency or instrumentality as part of a continuing course of dealing established prior to the public official's becoming associated with the political subdivision or governmental agency or instrumentality involved;
- (3) The treatment accorded the political subdivision or governmental agency or instrumentality is either preferential to or the same as that accorded other customers or clients in similar transactions;
- (4) The entire transaction is conducted at arm's length, with full knowledge by the political subdivision or governmental agency or instrumentality involved, of the interest of the public official, member of the public official's family, or business associate, and the public official takes no part in the deliberations or decision of the political subdivision or governmental agency or instrumentality with respect to the public contract.

During the audit period, a relationship existed between an Academy Board Member; Gilbert Singerman and vendor Northbound Inc.

The Academy issued checks to Northbound Inc. for construction work on the Prospect Avenue property that were endorsed by Gilbert Singerman. These checks totaled \$381,416. Further, Mr. Singerman wrote a letter to Greater Heights Academy on Northbound, Inc. letterhead demanding payment for services rendered. There is no evidence of complying with Ohio Rev. Code Section 2921.42(C).

In accordance with the forgoing facts, and pursuant to Section 117.28 of the Ohio Revised Code, a finding for recovery for public monies illegally expended is hereby issued against Gilbert Singerman, in the amount of \$381,416 and in favor of the Ohio Department of Education.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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(Continued)**

FINDING NUMBER 2008-006

Noncompliance and Significant Deficiency – Record of Minutes/Holding Public Meetings

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

Ohio Rev. Code Section 121.22(F) provides that 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.

It is the responsibility of the governing board to oversee the Academy's operation and make decisions to ensure the entity's goals and objectives are complete. The Board minutes represent the official record of the Academy's events and resolutions passed by the Board.

The Board should stay informed of financial matters throughout the fiscal year. During the audit, we noted the following items:

- We were unable to determine whether meetings were held for four of the scheduled meeting dates as no records were available for review.
- Minute records were incomplete for the four meetings.
- Minutes were not signed by the appropriate personnel for one meeting.
- Prior meeting minutes were not approved for one meeting.
- Prior month's financial report was not reviewed for two meetings.

The Academy did not have procedures in place to maintain compliance with this section of law. In as much as the Board Members speak through its minutes, all actions of the Academy should be documented in the minute records with as much detail as possible, and with proper and accurate reference to supporting documentation. Without proper authorization, illegal transactions or payments could occur without the knowledge of the Academy officials. Also, these records provide management with the needed future references for informed decision making, and should be available for the public inspection of legislative decisions of the Board Members.

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FINDING NUMBER 2008-007

Noncompliance – Filing of Annual Financial Report

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

Amount of collections and receipts, and accounts due from each source and amount of expenditures for each purpose.

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

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

The Academy did not file the June 30, 2008 financial report, which was required to be filed no later than November 30, 2008.

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

No evidence was provided, by the Academy, that this required notice was published. This may prevent the public from being aware of the transparency available in the Academy. By not filing their financial reports and annual notice, the Academy is not fulfilling their duties of accountability and transparency to the public.

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FINDING NUMBER 2008-008

Noncompliance - Establishment of Records Retention Policy, Public Records Policies and Posters

Ohio Rev. Code Section 149.43 (B)(2) requires that entities shall have available a copy of its current records retention schedule at a location readily available to the public.

In addition, all public offices are required to create a poster describing its public records policy. The public office is required to display the poster in a conspicuous place in the public office and in all locations where the public office has branch offices, per Ohio Revised Code Section 149.43 (E)(2).

The Academy did not provide a copy of its records retention policy.

FINDING NUMBER 2008-009

Noncompliance - Annual Report of Activities

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

The Academy failed to provide any evidence of the required annual reports of its activities and progress in meeting the goals and standards as required by the above Ohio Revised Code Section, as well as, its financial status to the sponsor, the parents of all students enrolled in the Academy, and the legislative office of education oversight for the audit period.

FINDING NUMBER 2008-010

Noncompliance - Education Information Management System

Ohio Revised Code Section 3314.17 requires community schools to follow the requirements of Ohio Revised Code Section 3301.0714. This section provides for the Ohio Department of Education (ODE) to establish guidelines for a statewide Education Management Information System (EMIS). In response to the legislative mandate, ODE adopted the rule for school districts requiring the development and implementation of a statewide EMIS. Each school district must periodically collect and report the required information to the ODE, as required by the EMIS manual. This required information consists of the following:

Section A prescribes:

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

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FINDING NUMBER 2008-010 (Continued)

Noncompliance - Education Information Management System (Continued)

Section B prescribes:

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

Section C prescribes:

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

Section D prescribes:

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

Section E further prescribes

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

The Academy failed to meet the reporting and record keeping requirements as outlined above, therefore, we were unable to determine if the Academy properly filed EMIS reports.

FINDING NUMBER 2008-011

Noncompliance - Undocumented Enrollment for State Foundation Funding

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

Enrollment numbers are submitted through the Education Management Information System (EMIS) to the Ohio Department of Education (ODE) and are used to determine the amount of State Foundation money each Academy 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.

For the audit period of July 1, 2007 through June 30, 2008 there were no:

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

The assurance of 920 hours of instruction to each student could not be determined and support was not provided for the student attendance figures reported to Ohio Department of Education (ODE).

As a result, state foundation payments totaling \$6,744,996 in fiscal year 2008 was unsubstantiated.

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FINDING NUMBER 2008-012

Noncompliance – Five Year Forecast

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

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

The Academy filed a five year projection in October 2007. However, the Academy did not update the five-year projection between April first and May thirty-first of that fiscal year and submit it to the Ohio Department of Education.

Failure to update the five-year projection diminishes management's ability to adequately monitor the Academy's current and projected financial viability and make informed decisions.

FINDING NUMBER 2008-013

Noncompliance – Lease-Purchase Agreement

Ohio Revised Code Section 3313.375 states that the board of education of a city, local exempted village, or joint vocational school district or the governing board of an educational service center or community school may enter into a lease-purchase agreement providing for the construction, enlarging, furnishing and equipping; lease; and eventual acquisition of a building or improvements to a building for any school district or educational service center purpose.

The Section also states that if a school district, educational service center or community school chooses to enter into a lease-purchase agreement, the agreement must provide for a lease with a series of 1 year renewable lease terms totaling not more than thirty years. Furthermore, the agreement must state that at the end of the series of lease terms, the title to the leased property shall be vested in the school district, educational service center or community school, provided that all obligations stated in the agreement have been satisfied.

During the course of the audit, we noted that the Academy had previously entered into a lease-purchase agreement with Myer's University for the Columbia Building at 112 Prospect Ave., Cleveland, Ohio. Subsequent to entering into this lease-purchase agreement, the Academy entered into an agreement with Columbia Prospect, LLC, in which the Academy agreed to assign its right, title, and interest in and to the Option under the lease-purchase agreement including, and without limitation, the Academy's right in and to the Down Payment, Additional Payments and any other deposits, earnest money or other sums deposited with the landlord and/or the escrow agent.

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FINDING NUMBER 2008-013 (Continued)

Noncompliance – Lease-Purchase Agreement (Continued)

The contract between the Academy and Columbia Prospect, LLC negates the option to purchase under the lease-purchase agreement between the Academy and Myer's University and, consequently, the Academy does not comply with Ohio Revised Code Section 3313.375 as stated above.

FINDING NUMBER 2008-014

Noncompliance – Remittances of Employee Withholdings

Ohio Revised Code Section 3307.291 states the treasurer of each employer, on receipt from the employer of the voucher for deductions from the compensation of teachers and for the contributions of the employer, shall transmit monthly or at such times as the state teachers retirement board designates the amounts specified in such voucher to the secretary of the board. The secretary, after making a record of all such receipts, shall pay them to the treasurer of state for use according to this chapter.

Further, Ohio Revised Code Section 3309.47 states that 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. On a finding by the board that an employer has failed or refused to deduct contributions for any employee during any year and to transmit such amounts to the retirement system, the retirement board may make a determination of the amount of the delinquent contributions, including interest at a rate set by the retirement board, from the end of each year, and certify to the employer the amounts for collection.

During the audit, we noted that withholdings for retirement systems as well as federal, state, and local taxes were being withheld but not remitted by the Academy timely. As a result the IRS began garnishing funds out the Academy's account.

Failure to remit withholdings to the appropriate jurisdictions in a timely matter increases the likelihood that errors or irregularities may have occurred which would not be detected by management in a timely manner. The Academy should ensure that all withholdings are remitted in a timely and accurate manner.

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FINDING NUMBER 2008-015

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

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

Additionally, OMB Circular A-133 § .300(b) states that the auditee shall “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.

Monitoring is comprised of regular management and supervisory activities established to oversee whether management’s objectives are being achieved. This process involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions.

Monitoring should assist management in identifying unexpected results and/or possible misstatements.

Some effective monitoring practices include:

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

The Academy failed to perform adequate monitoring over financial activities. The lack of effective monitoring could lead to the misallocation or misstatement of Academy funds, expenditure of funds contrary to the directives of the Board, and non-compliance with federal or state laws or regulations. This could result in a loss of funding from federal and state sources, and errors or irregularities occurring in financial transactions which affect the bank reconciliations could go undetected. See Federal Finding 2008-024 in Section 3 below. *Government Auditing Standards* also requires us to report this finding in this section of this Schedule.

**GREATER HEIGHTS ACADEMY
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008
(Continued)**

FINDING NUMBER 2008-016

Material Weakness – Lack of Management Representation

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

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

As part of a Circular A-133 compliance audit, the auditor should obtain written representations from management about matters related to federal awards. Therefore, in addition to the management representations obtained in connection with an audit of the financial statements, the auditor should obtain written representations from management concerning the identification and completeness of federal award programs, representations concerning compliance with compliance requirements, and identification of known instances of noncompliance.

Additionally, management's refusal to furnish all written representations that the auditor considers necessary in the circumstances constitutes a limitation on the scope of the audit sufficient to require a qualified opinion or disclaimer of opinion on the auditee's compliance with major program requirements.

Management was not willing to provide written representation. The Academy suddenly ceased operation on November 17, 2008.

Therefore based on management's refusal to provide written representations in connection with the audit of the financial statements or matters related to federal award we disclaimed an opinion on the financial statements and disclaimed an opinion on the auditee's compliance with major federal program requirements. See Federal Finding 2008-023 in Section 3 below. *Government Auditing Standards* also requires us to report this finding in this section of this Schedule.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Noncompliance/Questioned Costs/Material Weakness – Nutrition Allowable Expenditures

Finding Number	2008-017
CFDA Title and Number	Nutrition Cluster: #10.553 School Breakfast Program #10.555 National School Lunch Program
Federal Award Number / Year	2008
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

**GREATER HEIGHTS ACADEMY
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008
(Continued)**

FINDING NUMBER 2008-017 (Continued)

Noncompliance/Questioned Costs/Material Weakness – Nutrition Allowable Expenditures (Continued)

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

2 CFR Part 225 Appendix A Section C(1)(J) provides that to be allowable under Federal awards, costs must be adequately documented.

During fiscal year 2008, the Academy spent \$400,363 in Nutrition Cluster funds. The Academy did not provide or maintain student applications for free and reduced meals or attendance records to evidence the students' service under the Federal Nutrition Program. The Academy did provide records for meals served for four months of the school year, and for only one of the two schools and only for lunches served. This support showed that Academy appeared to overstate the number of lunches by 3,288 total lunches when comparing Academy records to the Site Claim forms provided by ODE.

Based on the above non-compliance, lack of records and overstatement of lunches we are questioning expenditures totaling \$400,363 charged to this federal program.

Procedures need to be implemented to ensure that all Federal expenditures are adequately supported as required by 2 CFR Part 225.

Noncompliance/Material Weakness – Reporting Claims for Reimbursements

Finding Number	2008-018
CFDA Title and Number	Nutrition Cluster: #10.553 School Breakfast Program #10.555 National School Lunch Program
Federal Award Number / Year	2008
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

7 CFR Section 210.8 (a) states the school food authority shall establish internal controls which ensure the accuracy of lunch counts prior to the submission of the monthly Claim for Reimbursement. At a minimum, these internal controls shall include: an on-site review of the lunch counting and claiming system employed by each school within the jurisdiction of the school food authority; comparisons of daily free, reduced price and paid lunch counts against data which will assist in the identification of lunch counts in excess of the number of free, reduced price and paid lunches served each day to children eligible for such lunches; and a system for following up on those lunch counts which suggest the likelihood of lunch counting problems.

**GREATER HEIGHTS ACADEMY
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008
(Continued)**

FINDING NUMBER 2008-018 (Continued)

Noncompliance/Material Weakness – Reporting Claims for Reimbursements (Continued)

The Academy did provide records for meals served for four months of the school year, and for only one of the two schools and only for lunches served.

Failure to maintain such records increases the likelihood that errors or irregularities involving claims reimbursements submitted may have occurred which would not be detected by management in a timely manner. Complete and accurate records need to be maintained as required by 7 CFR Section 210.8 (a).

Noncompliance/Material Weakness – Eligibility and Verification of Free and Reduced Price Applications

Finding Number	2008-019
CFDA Title and Number	Nutrition Cluster: #10.553 School Breakfast Program #10.555 National School Lunch Program
Federal Award Number / Year	2008
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

7 CFR Section 245.3(c) states each School Food Authority shall serve free and reduced price meals or free milk in the respective programs to children eligible under its eligibility criteria. When a child is not a member of a family (as defined in § 245.2), the child shall be considered a family of one. In any school which participates in more than one of the child nutrition programs, eligibility shall be applied uniformly so that eligible children receive the same benefits in each program. If a child transfers from one school to another school under the jurisdiction of the same School Food Authority, his eligibility for free or reduced price meals or for free milk, if previously established, shall be transferred to, and honored by, the receiving school if it participates in the National School Lunch Program, School Breakfast Program, Special Milk Program and the School Food Authority has elected to provide free milk, or is a commodity-only school.

Further Section 245.6 details the application, eligibility and certification procedures of children for free and reduced price meals and free milk.

The Academy did not provide or maintain student applications for free and reduced meals or attendance records to evidence the students' service under the Federal Nutrition Program. The Academy did not provide evidence of that the required verification of free and reduced applications were performed.

Failure to maintain such records increases the likelihood that errors or irregularities involving free and reduced meals may have occurred which would not be detected by management in a timely manner. Complete and accurate records including student free and reduced meals applications, attendance records and verification procedures need to be maintained.

**GREATER HEIGHTS ACADEMY
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008
(Continued)**

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

Finding Number	2008-020
CFDA Title and Number	#84.027 - Special Education IDEA-Part B
Federal Award Number / Year	2008
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

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

2 CFR Part 225 Appendix A Section C(1)(J) provides that to be allowable under Federal awards, costs must be adequately documented.

During fiscal year 2008, the Academy spent \$164,113 in Special Education funds awarded to the Academy. The Academy did not provide or maintain student records or attendance records to evidence the students' service under the Special Education Program. Additionally, the Academy did not provide the necessary Individualized Education Program records as required.

Based on the above non-compliance and lack of records we are questioning expenditures totaling \$164,113 charged to this federal program.

Procedures need to be implemented to ensure that all Federal expenditures are adequately supported as required by 2 CFR Part 225.

Noncompliance//Material Weakness – Special Reporting Disability Child Count Data

Finding Number	2008-021
CFDA Title and Number	#84.027 - Special Education IDEA-Part B
Federal Award Number / Year	2008
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Report of Children and Youth with Disabilities Receiving Special Education Under Part B of the Individuals With Disabilities Education Act, as amended (OMB Nos. 1820-0030, 1820-0043, 1820-0517, 1820-0521, and 1820-0621) requires that local educational agencies (LEA's) must report to the state educational agencies (SEA's) in accordance with the SEA-established procedure. Ohio Department of Education (ODE) requires that a summary of child data be submitted by each LEA (the report is to reflect information as of December 1). This summary is submitted to ODE electronically through EMIS (Disability Child Count Data report) and is a summary of the information on the Inclusion / Exclusions report (see Ohio Admin. Code 3301-51-03(c)).

**GREATER HEIGHTS ACADEMY
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008
(Continued)**

FINDING NUMBER 2008-021 (Continued)

Noncompliance//Material Weakness – Special Reporting Disability Child Count Data (Continued)

The Academy was unable to provide any student data records. Therefore we were unable to substantiate the information reported to the SEA on the Disability Child County Data report.

Failure to maintain student data records increases the likelihood that errors or irregularities in student data may have been reported to the SEA, which would not be detected by management in a timely manner. Complete and accurate records of student data, need to be maintained.

Noncompliance//Material Weakness – Individualized Education Program (IEP)

Finding Number	2008-022
CFDA Title and Number	#84.027 - Special Education IDEA-Part B
Federal Award Number / Year	2008
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

34 CFR 324 details the requirements for the development, review, and revision of IEP's for applicable children at the Academy

Ohio Administrative Code Section 3301-51-06 requires the Academy to adopt a policy describing the procedures to be followed for identifying, evaluating and re-evaluating students identified as needing special education services.

The Academy did not provide or maintain student records or attendance records to evidence the students' service under the Special Education Program. Additionally, the Academy did not provide the necessary IEP records as required.

Failure to maintain student data records increases the likelihood that errors or irregularities in the student data reported and services provided may have occurred which would not be detected by management in a timely manner. Complete and accurate records of student data including IEP's need to be maintained.

**GREATER HEIGHTS ACADEMY
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008
(Continued)**

Material Weakness – Lack of Management Representation

Finding Number	2008-023
CFDA Title and Number	Nutrition Cluster: #10.553 School Breakfast Program #10.555 National School Lunch Program #84.027 - Special Education IDEA-Part B
Federal Award Number / Year	2008
Federal Agency	U.S. Department of Agriculture U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

AICPA Codification of Auditing Standards (AU) section 333 and OMB Circular A-133 states that the auditor should obtain written representations from current management. Management was not willing to provide written representations. See Finding 2008-016 in Section 2 above for a detailed description. *Government Auditing Standards* also requires us to report this finding in this section of this Schedule.

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

Finding Number	2008-024
CFDA Title and Number	Nutrition Cluster: #10.553 School Breakfast Program #10.555 National School Lunch Program #84.027 - Special Education IDEA-Part B
Federal Award Number / Year	2008
Federal Agency	U.S. Department of Agriculture U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

OMB Circular A-133 § .300(b) states that the auditee shall “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. The Academy failed to perform adequate monitoring over financial activities including Federal programs. See Finding 2008-015 in Section 2 above for a detailed description. *Government Auditing Standards* also requires us to report this finding in this section of this Schedule.

Official’s Response:

Except for the response included in Finding Number 2008-001; there were no official responses provided by the Academy.

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**GREATER HEIGHTS ACADEMY
CUYAHOGA COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
JUNE30, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2007-001	Finding for Recovery – Noncompliance – Duplicate Payments and No Public Purpose Payment	No	No action has been taken by individual(s) with findings issued against them.
2007-002	Noncompliance and Material Weakness - Condition of Accounting Records	No	Repeated as 2008-004
2007-003	Finding for Recovery Noncompliance – Interest in Public Contracts	No	No action has been taken by individual(s) with findings issued against them.
2007-004	Noncompliance – Significant Deficiency - Record of Minutes/Holding Public Meetings	No	Repeated as 2008-006
2007-005	Noncompliance – Filing of Annual Financial Report	No	Repeated as 2008-007
2007-006	Noncompliance - Establishment of Records Retention Policy, Public Records Policies and Posters	No	Repeated as 2008-008
2007-007	Noncompliance - Annual Report of Activities	No	Repeated as 2008-009
2007-008	Noncompliance - Education Information Management System (EMIS)	No	Repeated as 2008-010
2007-009	Noncompliance and Material Weakness – Undocumented Enrollment for State Foundation Funding	No	Repeated as 2008-011
2007-010	Noncompliance – Five Year Forecast	No	Repeated as 2008-012
2007-011	Material Weakness – Lack of Management Representation	No	Repeated as 2008-016
2007-012	Questioned Cost/Noncompliance/Material Weakness – Allowable Cost/Cost Principles - CFDA # 84.010 Title I	N/A	Finding no longer valid

**GREATER HEIGHTS ACADEMY
CUYAHOGA COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
JUNE30, 2008
(Continued)**

2007-013	Questioned Cost / Noncompliance/ Material Weakness – Cash Management - CFDA # 84.010 Title I	N/A	Finding no longer valid
2007-014	Questioned Cost/ Noncompliance/Material Weakness – Period of Availability - CFDA # 84.010 Title I	N/A	Finding no longer valid
2007-015	Material Weakness – Lack of Management Representation - CFDA # 84.010 Title I	No	Repeated as 2008-023



Dave Yost • Auditor of State

GREATER HEIGHTS ACADEMY

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 25, 2014**