



OHIO AUDITOR OF STATE
KEITH FABER



**LAWRENCE COUNTY ACADEMY
LAWRENCE COUNTY**

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OHIO AUDITOR OF STATE KEITH FABER



REPORT ON THE FINANCIAL STATEMENTS, INTERNAL CONTROL, AND COMPLIANCE

Lawrence County Academy
Lawrence County
Lawrence County Educational Service Center - Sponsor
304 N. 2nd Street
Ironton, Ohio 45638

To Lawrence County Academy:

We have selectively tested certain accounts, financial records, reports and other documentation of the Lawrence County Academy, Lawrence County, (the Academy), as of and for the year ended June 30, 2017. These procedures were designed to satisfy the audit requirements of Section 117.11, Ohio Rev. Code, and Section 117-4-02, Ohio Admin. Code. Our engagement was not designed as a basis to opine on the accompanying financial statements, internal control over financial reporting, or compliance. We therefore express no opinions on these matters.

Emphasis of Matter

As discussed in Note 10 to the 2017 financial statements, a settlement agreement was signed stating the Lawrence County Academy closed as of June 30, 2017.

Internal Control Over Financial Reporting

Certain of the aforementioned tests relate to internal control over financial reporting. The results of those tests may allow us to identify internal control deficiencies. An internal control deficiency 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, whether caused by error or fraud.

Our internal control tests were not designed to identify all internal control deficiencies that might exist. Therefore, unidentified weaknesses may exist. However, we consider Findings 2017-005 and 2017-006 reported in the Schedule of Findings to be internal control deficiencies management and those charged with governance should address.

Compliance and Other Matters

We also tested compliance with certain provisions of laws, regulations, contracts, and grant agreements, applicable to the Academy, noncompliance with which could directly and materially affect the determination of financial statement amounts. The results of our tests disclosed instances of noncompliance we believe could directly and materially affect the determination of financial statement amounts that we reported in the Schedule of Findings as items 2017-001 through 2017-004.

Academy's Response to Findings

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

A handwritten signature in black ink that reads "Keith Faber". The signature is written in a cursive style with a large, stylized initial "K".

Keith Faber
Auditor of State
Columbus, Ohio

February 28, 2019

**LAWRENCE COUNTY ACADEMY
LAWRENCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
UNAUDITED**

The discussion and analysis of the Lawrence County Academy's (the Academy) financial performance provides an overall view of the Academy's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

- Total Assets were \$199,257.
- Total Change in Net Position was an increase of \$72,156.

Overview of the Basic Financial Statements

The Academy is a single enterprise fund using proprietary fund accounting, similar to private sector business. The Basic Financial Statements are presented using the cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Statement of Net Position-Cash Basis and the Statement of Cash Receipts, Disbursements and Changes in Net Position-Cash Basis provide information on the Academy's cash basis operations and the success of recovering all its costs through charges and other income. Receipts are reported when received and disbursements are reported when paid.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Academy has elected to present its financial statements on the cash basis of accounting. This basis of accounting is a basis of accounting other than accounting principles generally accepted in the United States of America. Under the Academy's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

**LAWRENCE COUNTY ACADEMY
LAWRENCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
UNAUDITED
(Continued)**

Statement of Net Position – Cash Basis

Table 1 provides a summary of the Academy's net position for fiscal year 2017 as compared to 2016.

Table 1
Net Position

	<u>2017</u>	<u>2016*</u>
Assets		
Current Assets	<u>\$ 199,257</u>	<u>\$ 127,101</u>
Total Assets	<u>199,257</u>	<u>127,101</u>
Net Position		
Unrestricted	<u>199,257</u>	<u>127,101</u>
Total Net Position	<u><u>\$ 199,257</u></u>	<u><u>\$ 127,101</u></u>

* As restated, see Note 3.

Total assets increased \$72,156. This increase is due to an increase to cash and cash equivalents.

**LAWRENCE COUNTY ACADEMY
LAWRENCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
UNAUDITED
(Continued)**

Statement of Changes in Net Position– Cash Basis

Table 2 shows the changes in net position for fiscal year 2017 as compared to 2016.

Table 2
Change in Net Position

	2017	2016*
Cash Receipts		
Operating Cash Receipts:		
Foundation Payments	\$ 422,114	\$ 507,898
Non-Operating Cash Receipts:		
Interest	148	308
Federal and State Subsidies	19,214	95,352
Total Cash Receipts	441,476	603,558
Cash Disbursements		
Operating Cash Disbursements:		
Purchased Services	334,575	530,788
Materials and Supplies	94	615
Other	5,247	2,500
Total Operating Cash Disbursements	339,916	533,903
Non-Operating Cash Disbursements:		
Refund of Prior Year Receipts	29,404	-
Total Cash Disbursements	369,320	533,903
Special Item		
Surplus Funds Paid to Lawrence Co ESC	-	(342,718)
Change in Net Position	72,156	(273,063)
Net Position at Beginning of Year	127,101	400,164
Net Position at End of Year	\$ 199,257	\$ 127,101

* As restated, see Note 3.

During the 2016-2017 school year, there were approximately 55 students enrolled in the Academy. Per pupil base formula amount for fiscal year 2017 amounted to \$6,000 per student. Foundation payments and purchased services decreased as a direct result of the decrease in students from the prior year.

The Academy's business-type activities consist of enterprise activity. Community Schools receive no support from tax revenues.

Most cash disbursements are purchased services. Per contract, the Academy remits 3% of the monies received from the State to the Lawrence County Educational Service Center for administrative costs. The remaining purchased services amount was paid to the Educational Service Center for additional purchased services to provide instruction and other costs. See Note 7 for more detail.

Capital Assets and Long-Term Debt

At June 30, 2017, the Academy had no capital assets or long-term debt.

**LAWRENCE COUNTY ACADEMY
LAWRENCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
UNAUDITED
(Continued)**

Current Financial Issues

The state foundation monies are determined based on the student count and the foundation allowance per pupil. Approximately 96% percent of monies are from the foundation allowance, while 4% is comprised of federal and state operating grant funds and interest. As a result, Academy funding has been heavily dependent on the State's ability to fund local school operations. Since the Academy's cash receipts were heavily dependent on state funding and the health of the State's school aid, the actual monies received depends on the State's ability to collect monies. The Academy evaluated options with regards to sponsorship and signed a settlement to cease operations as of June 30, 2017.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives to all vested and interest parties. If you have questions about this report or need additional information, contact Brenda Hill at the Lawrence County Educational Service Center, 304 North Second Street, Ironton, Ohio 45638 as they have final responsibility for closeout procedures for the Academy.

**LAWRENCE COUNTY ACADEMY
LAWRENCE COUNTY**

**STATEMENT OF NET POSITION - CASH BASIS
AS OF JUNE 30, 2017**

Assets:

Current Assets:

Cash and Cash Equivalents

\$ 199,257

Total Assets

199,257

Net Position:

Unrestricted

199,257

Total Net Position

\$ 199,257

See accompanying notes to the basic financial statements.

**LAWRENCE COUNTY ACADEMY
LAWRENCE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGE IN NET POSITION - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Operating Cash Receipts:	
Foundation Revenue	\$ 422,114
Total Operating Cash Receipts	<u>422,114</u>
Operating Cash Disbursements:	
Purchased Services	334,575
Materials and Supplies	94
Other	5,247
Total Operating Cash Disbursements	<u>339,916</u>
Operating Income	<u>82,198</u>
Non-Operating Cash Receipts (Disbursements):	
Interest	148
Refund of Prior Year Receipts	(29,404)
Grants- Federal and State	19,214
Total Non-Operating Receipts (Disbursements)	<u>(10,042)</u>
Change in Net Position	72,156
Net Position at Beginning of Year - As Restated, See Note 3	<u>127,101</u>
Net Position at End of Year	<u><u>\$ 199,257</u></u>

See accompanying notes to the basic financial statements.

**LAWRENCE COUNTY ACADEMY
LAWRENCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 - DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Lawrence County Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades seven through twelve. The Academy's objective is to enhance and facilitate student learning among non-traditional student populations while utilizing a variety of innovative resources and educational strategies, which are customized to meet the needs of the individual students. 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 Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. In consideration of permitting the creation of the Academy, for the time, organization, oversight, fees, and costs of the Sponsor, the Academy makes annual payments of 3% percent of the total state funds received each year to the Sponsor.

The Academy operates under the direction of a seven member board of directors. The board of directors is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

The governing board has entered into a management contract with Lawrence County Educational Service Center to provide consulting services, including teacher training, curriculum development, financial management, and state relations. (See Note 7)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03(B) to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP), the Academy chooses to prepare its financial statements in accordance with the cash basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. These statements include adequate disclosure of material matters, in accordance with the basis of accounting described above.

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 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. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

**LAWRENCE COUNTY ACADEMY
LAWRENCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation

The accounts of the Academy are organized on the basis of funds, each of which is considered a separate accounting entity. The Academy has created a single type of fund and a single fund within that type. The fund accounts for the governmental resources allocated to it and the segregation of cash and investments for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions.

The fund type, which the Academy uses, is described below:

Proprietary Fund Type – This fund type accounts for operations that are organized to be self-supporting through user charges. The fund included in this category used by the Academy is the Enterprise Fund.

Enterprise Fund - An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (disbursements) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The District's enterprise fund is used to enhance and facilitate student learning among non-traditional student populations while utilizing a variety of innovative resources and educational strategies, which are customized to meet the needs of the individual students.

C. Cash and Cash Equivalents

All monies received by the Academy were accounted for by the Rock Hill Local School District, which served as the Academy's fiscal agent during fiscal year 2017. All cash received by the fiscal agent were maintained in a separate bank account in the Academy's name.

D. 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 Section 5705.391, the Academy must prepare a five year spending plan and submit it to the Ohio Superintendent of Public Instruction, unless specifically provided in the contract between the academy and its sponsor. The contract between the Academy and the Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast that is to be updated on an annual basis.

E. Net Position

Net position represents the difference between assets and liabilities. Since under the Academy's current basis of accounting, the Academy does not record any other assets other than cash and investments and does not record any liabilities, net cash position is equivalent to cash and investments. The Academy currently does not record any restrictions on its net position.

**LAWRENCE COUNTY ACADEMY
LAWRENCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Operating Receipts and Disbursements

Operating cash receipts are those cash receipts that are generated directly from the primary activities. For the Academy, these cash receipts are primarily foundation payments from the State. Operating cash disbursements are necessary costs incurred to provide the goods or services that are the primary activity of the Academy. Cash receipts and disbursements not meeting this definition are reported as non-operating.

G. Intergovernmental Cash Receipts

The Academy currently participates in the State Foundation Basic Aid Program. Cash receipts from this program are recognized as operating cash receipts in the accounting period in which all eligibility requirements are met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements are met. Eligibility requirements include timing requirements, which specify the fiscal 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 expenditures requirements, in which the resources are provided to the Academy on a reimbursement basis.

H. Capital Assets and Long-Term Debt

The Academy had no capital assets or long-term debt at June 30, 2017.

NOTE 3 – RESTATEMENT OF BALANCE

For fiscal year 2017, the Academy has revised its financial presentation comparable to the provisions of GASB 34 for financial reporting but on a cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The Academy had previously reported on a GAAP basis of accounting which was in accordance with accounting principles generally accepted in the United States of America. The implementation of cash basis financial statements resulted in the following restatements on net position as previously stated:

	<u>Total Business- Type Activities</u>
Net Position June 30, 2016	\$132,376
Prepaid Items	(59,977)
Intergovernmental Payable	<u>54,702</u>
Busintess-Type Activities Net Position Restated June 30, 2016	<u><u>\$127,101</u></u>

**LAWRENCE COUNTY ACADEMY
LAWRENCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 - DEPOSITS

At June 30, 2017, the carrying amount of the Academy's deposits was \$199,257 and the bank balance was \$226,977. As of June 30, 2017, the entire bank balance was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

NOTE 5 - RISK MANAGEMENT

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 ended 2017, the Academy obtained insurance through their Sponsor. The Lawrence County Educational Service Center participates in the Ohio School Plan (OSP), a public entity insurance purchasing pool. The Lawrence County Educational Service Center pays an annual premium to the OSP (See Note 9).

The types and amounts of coverage provided by the Ohio School Plan are as follows:

General Liability:	
Each Occurrence	\$3,000,000
Aggregate Limit	5,000,000
Products – Complete Operations Aggregate Limit	3,000,000
Fire Legal Liability	500,000
Medical Expense Limit – per person/accident	10,000
Employers Liability – Stop Gap:	
Per Accident	3,000,000
Per Disease Each Employee	3,000,000
Per Disease Policy Limit	3,000,000
Employee Benefits Liability:	
Per Claim	3,000,000
Aggregate Limit	5,000,000

Claims did not exceed coverage for the past three fiscal years.

**LAWRENCE COUNTY ACADEMY
LAWRENCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 - MANAGEMENT AGREEMENT

The Academy entered into a 5-year contract, effective May 10, 2013 with an expiration date of June 30, 2018, with the Lawrence County Educational Service Center for educational management services. The contract contains a provision which extends the contract for successive one-year periods unless terminated by either party. In exchange for its services, the Lawrence County Educational Service Center receives a management fee equal to 3% percent of all revenue received from the State. Terms of the contract require the Educational Service Center to provide the following:

1. Monitor the Academy's compliance with all applicable laws;
2. Monitor and evaluate the academic and fiscal performance and the organization and operation of the Academy on at least an annual basis;
3. Report on an annual basis the results of the evaluation to the Department of Education and to the parents of the students enrolled in the Academy;
4. Provide technical assistance to the Academy;
5. Intervene in the Academy's operation to correct problems in the overall performance, declare the Academy to be on probationary status pursuant to Section 3314.073 of the Ohio Revised Code, suspend the operation of the Academy pursuant to Section 3314.072 of the Ohio Revised Code, or terminate the sponsorship contract as pursuant to Section 3314.07 of the Ohio Revised Code;
6. Have in place a plan of action to be undertaken in the event the Academy experiences financial difficulties or closes prior to the end of a school year.

NOTE 7 - PURCHASED SERVICES

For the year ended June 30, 2017 purchased service expenses were payments for services rendered by various vendors, as follows:

Other Direct Costs	\$ 334,168
Management Services	29
Travel Mileage/Meeting Expense	378
Total Purchased Services	<u>\$ 334,575</u>

NOTE 8 - CONTINGENCIES

A. Grants

The Academy receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on any of the financial statements of included herein or on the overall financial position of the Academy at June 30, 2017.

**LAWRENCE COUNTY ACADEMY
LAWRENCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 – CONTINGENCIES – (Continued)

B. State Funding

The Ohio Department of Education 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.

C. Litigation

The Academy is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

NOTE 9 - INSURANCE PURCHASING POOL

The Academy's Sponsor, the Lawrence County Educational Service Center participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

NOTE 10 – SUBSEQUENT EVENTS

A settlement agreement was signed and the Academy closed as of June 30, 2017. Based on the agreement entered into by the Academy and the Lawrence County Educational Service Center, the Academy was required to pay its ending cash balance over the Lawrence County Educational Service Center. Below is a summary of the activity that happened between July 1, 2017 and November 2017 to finalize out the Academy's financial activity.

Cash balance as of FYE June 30, 2017	\$ 199,257.00
Cash Receipts received from July to November 2017:	
Casino Tax Revenue:	\$ 1,215.00
Interest:	\$ 40.00
	<u>\$ 1,255.00</u>
Cash Disbursements made from July to November 2017:	
Pay Out to Lawrence County ESC:	\$ 200,512.00
Ending Cash Balance for Academy by November 30, 2017:	\$ -

**LAWRENCE COUNTY ACADEMY
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2017**

<i>Finding Number</i>	2017-001
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Noncompliance

Ohio Rev. Code § 3317.031 and § 3314.08 outline standards for Community School Funding. Ohio Rev. Code § 3314.08 provides the formula by which Community Schools are funded. Community Schools receive funding from the state through the per-pupil foundation allocation. Unlike city, local, exempted village and joint vocational school districts, Community Schools have no tax base from which to draw funds for buildings and investment in infrastructure. Ohio Rev. Code § 3314.191 states that no payments will be made under Ohio Rev. Code § 3314.08 during the first year of operations unless certain conditions are met.

Pursuant to Ohio Rev. Code § 3317.031, districts are required to maintain a “membership record” that includes certain information regarding every student enrolled, including withdrawal dates and days absent. Districts are required to maintain each such record “for at least five years.” Further, districts must maintain documentation to support any withdrawal code reported for a student. Information regarding the preferred documentation that districts should maintain in student files for the different withdrawal codes varies. Also, in instances where districts are unable to secure the preferred documents, other documentation may be considered acceptable alternatives to support the relevant withdrawal code. A table of the acceptable documentation can be found in the EMIS manual.

We identified the following conditions where proper attendance documentation was not maintained by the Academy:

- Out of 25 students tested, 2 of the students were grade 13 and never attended. This generated an FTE because they were defaulted to state EMIS calendar.
- Out of 25 students tested, 2 of the student files did not contain a withdrawal form or any other type of support to show that the withdrawal date and code in the system was accurate.
- Out of 7 students tested, 2 of the special education disability students' files had an Individualized Education Plan (IEP) or Evaluation Team Report (ETR) in them with different effective dates from the date in EMIS system.
-

We recommend the Academy implement procedures to ensure that all documentation required for student enrollment and attendance is maintained.

Officials' Response:

The Academy closed June 30, 2017.

<i>Finding Number</i>	2017-002
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Noncompliance

Ohio Rev. Code § 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.

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

Ohio Admin. Code § 117-2-03(B), which further clarifies the requirements of Ohio Rev. Code § 117.38, requires the Academy to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP).

We identified the following noncompliance:

- The Academy prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while material, cannot be determined at this time;
- Because the Academy filed 2017 financial statements prepared in accordance with the modified cash basis of accounting, their financial statements should have been filed within sixty days after the close of the fiscal year end; however, the Academy did not file their modified cash basis financial statements until January 17, 2019, which was after the filing extension due date of August 29, 2017.

Pursuant to Ohio Rev. Code § 117.38 the Academy may be fined and subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the Academy's ability to evaluate and monitor the overall financial condition of the Academy.

To help provide the users with more meaningful financial statements, the Academy should prepare its annual financial statements according to generally accepted accounting principles and complete and file their annual financial statements with the Auditor of State by the required date.

Officials' Response:

The Academy closed June 30, 2017.

<i>Finding Number</i>	2017-003
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Noncompliance

Ohio Rev. Code § 3314.19 states the sponsor of each community school annually shall provide the following assurances in writing to the department of education not later than ten business days prior to the opening of the school: (N) That for any school that operates using the blended learning model as defined in section 3301.079 of the Revised Code, the sponsor has reviewed the following information, submitted by the school (1) An indication of what blended learning model or models will be used.

Ohio Department of Education’s House Bill 2 Guidance for Blended Learning for Community Schools states in addition to contract language, the community school also must notify the Ohio Department of Education’s Office of Community Schools, in writing, no later than July 1 preceding the school year if it wishes to begin or cease using a blended learning model.

The Academy used the blended learning mode, which was included in the sponsorship agreement; however, there was no documentation provided to auditors to support that the Academy had provided notification, in writing, to the Ohio Department of Education, of the method/model of blended learning that the Academy chose to follow.

We recommend the Academy maintain documentation from the Ohio Department of Education (ODE) to support notification to ODE of the Academy’s chosen model of blended learning.

Officials’ Response:

The Academy closed June 30, 2017.

<i>Finding Number</i>	2017-004
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Noncompliance

Ohio Rev. Code § 3314.02(E)(2)(c) states that each community school sponsor shall annually verify that a finding for recovery has not been issued against any governing authority member of that school, any individuals that propose to create the school, the operator, or any employee of the school. Ohio Rev. Code § 9.24 defines a finding for recovery as “a determination issued by the Auditor of State (AOS), contained in a report the AOS gives to the Attorney General pursuant to section 117.28 of the Revised Code, that public money has been illegally expended, public money has been collected but not been accounted for, public money is due but has not been collected, or public property has been converted or misappropriated.” AOS Bulletins 2003-009 and 2004-006 provide more information about Unresolved Findings for Recovery and searching the database. Sponsors may review these Bulletins and perform a certified search of the Unresolved Finding for Recovery database at the following link: <https://www.ohioauditor.gov/findings.html> . Sponsors should maintain documentation to support performance of their certified searches of the Finding for Recovery database.

There was no documentation on file to support that the Lawrence County Educational Service Center, as Sponsor of the Academy, performed any type of verification that the governing board had no findings for recovery issued against them. Without proper verification, questions could arise to possible findings for recovery against governing board members.

**FINDING NUMBER 2017-004
(Continued)**

We recommend the Academy's Sponsor annually verify the governing board does not have findings for recovery issued against them. This verification should be documented and maintained.

Officials' Response:

The Academy closed June 30, 2017.

<i>Finding Number</i>	2017-005
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Internal Control Deficiency

The Academy minute record is the official record of Board meetings and should provide a complete and accurate description of Board proceedings. Board members should acknowledge their approval of the minute record through their signature.

We noted the following conditions related to the Academy's minute records:

- The minute record was not signed for any of the monthly Board meetings.
- Although the minute record did state that financial statements were approved; it did not clearly identify what type of statements were being reviewed.

This resulted in an inability to determine whether the minute record was accurate and complete and whether there was proper monitoring by the Academy's Board.

We recommend the minute record be signed by the Board President and the Academy's fiscal agent. We further recommend financial reports be presented to the Board for monitoring purposes, and the minute record document what items are being reviewed and approved.

Officials' Response:

The Academy closed June 30, 2017.

<i>Finding Number</i>	2017-006
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Internal Control Deficiency

The Ohio Department of Education required the Academy to complete certain procedures to properly close the Academy as of June 30, 2017.

Those procedures had to be completed and documented, then submitted to the Ohio Department of Education using a Suspension and Closing Assurance Form.

The Academy did not document completion of the following steps, or did not maintain documentation that the steps were completed, on the Suspension and Closing Assurance form:

**FINDING NUMBER 2017-006
(Continued)**

- Prepare a list of all students (name and SSID), and the resident district to which the student's records are to be delivered.
- Have copies of each list of students ready for the resident school district receiving the records and the authorizer.
- Upon delivery of student records, provide a list of the records given to the district representative, and obtain the name and signature of the individual receiving the records and the date.

The Director of the Academy indicated that they were unaware that these procedures were required.

The Academy should maintain support for each close out procedure that they asserted was completed on the Assurance Form.

Officials' Response:

The Academy closed June 30, 2017.

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**LAWRENCE COUNTY ACADEMY
LAWRENCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017**

Finding Number	Finding Summary	Status	Additional Information
2016-001	Noncompliance and Internal Control Deficiency – Inaccurate Reconciliations and Untimely Monthly and Fiscal Year End Close-outs and Inaccurate Financial Reporting	Fully Corrected	Reconciliations were accurate and performed on a monthly basis. Monthly and Year End Close-outs of the SCOCA system were done timely.
2016-002	Noncompliance and Internal Control Deficiency – Violations related to sponsor contract	Fully Corrected	Rock Hill LSD became the Fiscal Agent for the Academy and therefore was not associated with the ESC (Sponsor). The fiscal agent provided the Board with monthly financial statements for approval. The monthly reports were used for financial monitoring and budgeting purposes.
2016-003	Internal Control Deficiency – Lack of detailed information related to disbursements, and lack of segregation of duties	Fully Corrected	There were no memo checks/ expenditures in FY17. Fiscal Agent Rock Hill LSD, Treasurer (no longer the ESC's (Sponsor) Treasurer) maintained documentation to support amounts charged by the Center for services provided to the Academy.
2016-004	Internal Control Deficiency – Payroll Account Overdraft Transfers	Fully Corrected	Fiscal Agent notified bank of the Academy's Tax Identification Number (TIN) so overdrafts would not occur.
2016-005	Finding for Recovery in the amount of \$233,731 against Lawrence County Educational Service Center and its former Treasurer, Teresa Lawless	Not Corrected	Not Corrected – This has not yet been repaid. The Lawrence County Educational Service Center has chosen to not repay this finding until other matters have been resolved concerning litigation with their former treasurer.

Lawrence County Academy
 Lawrence County
 Schedule of Prior Audit Findings
 Page 2

2016-006	Internal Control Deficiency– Minute record deficiencies were noted.	Partially Corrected	Partially corrected - Fiscal agent provided financial reports at Board meetings for approval. However, minutes were still not signed. See Finding Number 2017-005.
2016-007	Internal Control Deficiency – Lack of support for Center invoices to the Academy and lack of timely transfers and Excess Academy funds returned to districts of Academy board members	Fully Corrected	ESC provided invoices for services for the Academy to the Fiscal Agent and they were paid via check and no longer by wire transfers. Invoices from ESC included types of services that were provided to the Academy along with supporting documentation attached to the invoice. The Fiscal Agent also used a separate accounting system in SCOCA to track the Academy’s activity and it was not co-mingled with the ESC’s SCOCA system.
2016-008	Internal Control Deficiency – Contract entered into by the Center on behalf of the Academy with Haughland Learning Center	Fully Corrected	The Academy did not contract with Haughland Learning Center in FY17.
2016-009	Noncompliance – Annual financial report filed late	Not Corrected	Not corrected – See Finding Number 2017-002.
2016-010	Noncompliance – Lack of documentation from Ohio Department of Education (ODE) to support notification of Academy’s chosen model of blended learning.	Not Corrected	Not corrected – See Finding Number 2017-003.

2016-011	Noncompliance – Lack of documentation that Lawrence County Educational Service Center had performed any type of verification that the governing board had no findings for recovery issued against them.	Not Corrected	Not corrected – See Finding Number 2017-004.
2016-012	Noncompliance –Proper attendance documentation was not maintained by the Academy	Partially corrected.	Partially corrected - The Academy had an FTE review performed by Ohio Department of Education (ODE) FY17. There were still a few issues noted in the review. See Finding Number 2017-001.

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OHIO AUDITOR OF STATE
KEITH FABER



LAWRENCE COUNTY ACADEMY

LAWRENCE 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
MARCH 12, 2019**