

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

AUDIT REPORT  
OF  
CHARTER SCHOOL OF THE DUNES  
LAKE COUNTY, INDIANA  
July 1, 2004 to June 30, 2006



**FILED**  
03/20/2007



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Chief Administrative Officer	Dr. Brenda Moore Garyle Voss William Ignatowski	07-01-04 to 11-10-05 11-11-05 to 06-30-06 07-01-06 to 06-30-07
President of the School Board	Nancy Knightly	07-01-04 to 06-30-07



**STATE OF INDIANA**  
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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE CHARTER SCHOOL OF THE DUNES, LAKE COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, and each major fund of the Charter School of the Dunes (School Corporation), as of and for the years ended June 30, 2005 and 2006, which collectively comprise the School Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the School Corporation prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, and each major fund of the School Corporation as of June 30, 2005 and 2006, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated February 20, 2007, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School Corporation taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(Continued)

The School Corporation has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Schedule of Long-Term Debt was presented for additional analysis and is not a required part of the basic financial statements. The Schedule of Long-Term Debt has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

February 20, 2007



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE CHARTER SCHOOL OF THE DUNES, LAKE COUNTY, INDIANA

We have audited the financial statements of the Charter School of the Dunes (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated February 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-1 and 2006-2.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School Corporation's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-1 and 2006-2.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS  
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

February 20, 2007

CHARTER SCHOOL OF THE DUNES  
STATEMENT OF CASH AND INVESTMENTS  
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ <u>674,597</u>
 <u>Net Assets</u>	
Unrestricted	\$ <u>674,597</u>

The accompanying notes are an integral part of the financial statements.

CHARTER SCHOOL OF THE DUNES  
STATEMENT OF CASH AND INVESTMENTS  
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ <u>17,962</u>
 <u>Net Assets</u>	
Unrestricted	\$ <u>17,962</u>

The accompanying notes are an integral part of the financial statements.

CHARTER SCHOOL OF THE DUNES  
STATEMENT OF CASH ACTIVITIES  
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 1,491,211	\$ -	\$ 26,973	\$ (1,464,238)
Support services	2,218,474	13,539	182,402	(2,022,533)
Community services	64,399	-	-	(64,399)
Nonprogrammed charges	505,159	-	-	(505,159)
Debt service	<u>743,528</u>	<u>-</u>	<u>-</u>	<u>(743,528)</u>
 Total governmental activities	 <u>\$ 5,022,771</u>	 <u>\$ 13,539</u>	 <u>\$ 209,375</u>	 <u>(4,799,857)</u>
 General receipts:				
Property taxes				559,144
Other local sources				58,495
State aid				2,206,424
Grants and contributions not restricted				224,867
Bonds and loans				2,205,159
Investment earnings				<u>1,512</u>
 Total general receipts				 <u>5,255,601</u>
 Change in cash and investments				 455,744
 Net assets - beginning				 <u>218,853</u>
 Net assets - ending				 <u>\$ 674,597</u>

The accompanying notes are an integral part of the financial statements.

CHARTER SCHOOL OF THE DUNES  
STATEMENT OF CASH ACTIVITIES  
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 1,514,359	\$ -	\$ 19,126	\$ (1,495,233)
Support services	2,179,663	9,956	154,403	(2,015,304)
Community services	29,637	-	-	(29,637)
Nonprogrammed charges	248,629	-	-	(248,629)
Debt service	1,996,176	-	-	(1,996,176)
Total governmental activities	\$ 5,968,464	\$ 9,956	\$ 173,529	(5,784,979)
General receipts:				
Property taxes				1,838,424
Other local sources				31,702
State aid				2,522,131
Grants and contributions not restricted				479,136
Bonds and loans				248,626
Investment earnings				8,325
Total general receipts				5,128,344
Change in cash and investments				(656,635)
Net assets - beginning				674,597
Net assets - ending				\$ 17,962

The accompanying notes are an integral part of the financial statements.

CHARTER SCHOOL OF THE DUNES  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2005

	General	Capital Projects	Other	Totals
Receipts:				
Local sources	\$ 582,048	\$ -	\$ 50,642	\$ 632,690
State sources	2,255,455	-	2,211	2,257,666
Federal sources	303,724	-	79,276	383,000
Bonds and loans	1,970,706	16,072	218,381	2,205,159
Interfund transfers	-	-	83,627	83,627
	<u>5,111,933</u>	<u>16,072</u>	<u>434,137</u>	<u>5,562,142</u>
Disbursements:				
Current:				
Instruction	1,491,211	-	-	1,491,211
Support services	2,039,933	16,072	162,469	2,218,474
Community services	8,488	-	55,911	64,399
Nonprogrammed charges	318,080	-	270,706	588,786
Debt services	743,528	-	-	743,528
	<u>4,601,240</u>	<u>16,072</u>	<u>489,086</u>	<u>5,106,398</u>
Excess (deficiency) of total receipts over (under) total disbursements	510,693	-	(54,949)	455,744
Cash and investments - beginning	<u>133,105</u>	<u>-</u>	<u>85,748</u>	<u>218,853</u>
Cash and investments - ending	<u>\$ 643,798</u>	<u>\$ -</u>	<u>\$ 30,799</u>	<u>\$ 674,597</u>

The accompanying notes are an integral part of the financial statements.

CHARTER SCHOOL OF THE DUNES  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2006

	<u>General</u>	<u>Other</u>	<u>Totals</u>
Receipts:			
Local sources	\$ 1,861,257	\$ 27,150	\$ 1,888,407
State sources	2,544,145	2,621	2,546,766
Federal sources	477,761	150,268	628,029
Bonds and loans	155,680	92,946	248,626
Interfund transfers	<u>40,000</u>	<u>103,559</u>	<u>143,559</u>
 Total receipts	 <u>5,078,843</u>	 <u>376,544</u>	 <u>5,455,387</u>
Disbursements:			
Current:			
Instruction	1,514,359	-	1,514,359
Support services	1,997,088	182,575	2,179,663
Community services	788	28,849	29,637
Nonprogrammed charges	196,506	195,681	392,187
Debt services	<u>1,996,176</u>	<u>-</u>	<u>1,996,176</u>
 Total disbursements	 <u>5,704,917</u>	 <u>407,105</u>	 <u>6,112,022</u>
Deficiency of total receipts under total disbursements	(626,074)	(30,561)	(656,635)
Cash and investments - beginning	<u>643,798</u>	<u>30,799</u>	<u>674,597</u>
Cash and investments - ending	<u>\$ 17,724</u>	<u>\$ 238</u>	<u>\$ 17,962</u>

The accompanying notes are an integral part of the financial statements.

CHARTER SCHOOL OF THE DUNES  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

The School Corporation's financial reporting entity is composed of the following:

Primary Government: Charter School of the Dunes

In determining the financial reporting entity, the School Corporation complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash and Investments and the Statement of Cash Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

The School Corporation reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The capital projects fund accounts for planned construction, repair, replacement or remodeling; and the purchase, lease, upgrade, maintenance, or repair of computer equipment.

CHARTER SCHOOL OF THE DUNES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

C. Measurement Focus and Basis of Accounting

The government-wide and governmental fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively.

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of ten days per year. Unused sick leave may be accumulated to a maximum of ten days. Accumulated sick leave is not paid to employees.

b. Personal Leave

School Corporation employees earn personal leave at the rate of one to two days per year. Personal leave does not accumulate from year to year.

CHARTER SCHOOL OF THE DUNES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

4. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

5. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

6. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the School Corporation's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available. At June 30, 2006, there was no restricted net assets.

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. Receipts and Disbursements

Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, and (2) operating grants and contributions. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Cash and Investments and the Statement of Cash Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.

CHARTER SCHOOL OF THE DUNES  
 NOTES TO FINANCIAL STATEMENTS  
 (Continued)

2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are reported as reimbursements.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Cash Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Cash and Investments.

II. Detailed Notes on All Funds

A. Deposits and Investments

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2005 and 2006, were as follows:

Transfer From	Transfer To	2005	2006
General Fund	Other governmental	\$ 83,627	\$ 103,559
Other governmental	General Fund	-	40,000
Totals		\$ 83,627	\$ 143,559

The School Corporation typically uses transfers for cash flow purposes according to various statutes.

III. Other Information

Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

CHARTER SCHOOL OF THE DUNES  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding post-employment benefits); and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

CHARTER SCHOOL OF THE DUNES  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT

June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
School Specialty - Opening Furniture & Equipment	\$ 26,382	\$ 26,382
Security Corp - Fire/Security Burglar System	14,747	5,733
Notes and loans payable		
State of Indiana - Common Loan Fund	1,680,304	95,388
Mercantile Bank	749,091	299,636
Total governmental activities long-term debt	<u>\$ 2,470,524</u>	<u>\$ 427,139</u>

CHARTER SCHOOL OF THE DUNES  
AUDIT RESULTS AND COMMENTS

AVERAGE DAILY MEMBERSHIP (ADM) - INCORRECT REPORTING TO THE STATE

The information presented for audit indicates enrollment figures on Form Number 30A, Report of Average Daily Membership (ADM) for State Support, were incorrect for the school year ending June 30, 2006.

The enrollment count date for 2005-2006 was September 16, 2005. The difference between the count reported on the ADM and the verified figures are shown below:

<u>School Year</u>	<u>Grade</u>	<u>Count as Reported on Form Number 30A</u>	<u>Actual Enrollment Figures</u>	<u>Difference</u>
2005-2006	1 Through 7	416	414	2

School Officials should contact the Indiana Department of Education, Division of School Finance, to determine possible steps to be taken to correct any overpayment/underpayment applicable to the School Corporation because of incorrect reporting. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

INTERNAL CONTROLS OVER RECEIPTS AND DEPOSITS

Internal controls over receipts were insufficient. Receipts were only written for after-school care and school lunches. Receipts were not written for field trips, fundraisers, or athletic event collections. When receipts were written, receipts and their composition could not be traced to the bank because duplicate deposit slips were not maintained. Duplicate deposit slips would help determine which receipts went with which deposits. Collections were deposited to the bank only once a week. Collections for the Parent Teacher Association, which is an outside organization, were also receipted using the School Corporation receipt books.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Indiana Code 5-13-6-1(c) states in part: ". . . all local officers . . . who collect public funds of their respective political subdivisions shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ." and that "Public funds deposited . . . shall be deposited in the same form in which they were received."

Indiana Code 20-41-1-7 states in part: "The treasurer shall have charge of the custody and disbursement of any funds . . . incurred in conducting any athletic, social, or other school function (other than functions conducted solely by any organization of parents and teachers) . . ." Therefore, activities and organizations which are not extra-curricular in nature should be responsible for their own accounting and cash handling systems. The extra-curricular account should not collect, receipt, remit, or disburse outside organizations monies. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

CHARTER SCHOOL OF THE DUNES  
AUDIT RESULTS AND COMMENTS  
(Continued)

SCHOOL FOOD VERIFICATIONS OF ELIGIBILITY

School lunch free and reduced verifications have not been performed within the guidelines established by the Indiana Department of Education. No verifications were presented for audit.

The Coordinated and Program Reviews of the National School Lunch Program conducted on May 18 - 20, 2004, in a letter dated June 21, 2004, stated the following verification findings:

1. The verification process was not completed on time, nor was an extension requested.
2. Documentation of the verification efforts was not centralized.
3. A copy of this year's verification summary was not e-mailed to the State Agency.
4. The claim review process, using the attendance factor, was not performed.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Officials should request a written position from the Indiana Department of Education stating whether the corrective action taken was sufficient or if additional verifications need to be performed when high incidences of errors in test sample verifications are noted. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

TIMELY REPORTING - SCHOOL LUNCH CND-1

The School Corporation included the October 2005 data with the November 2005 claim, which was more than ten days after month end, to allow the School Corporation to receive the School Lunch reimbursement for October.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

TRANSACTION RECORDING

The School Corporation's bank reconciliements reflected differences of \$1,751 and \$2,060 at June 30, 2005 and 2006, respectively. Two of the School Corporation's bank accounts and their related transactions were not recorded in the ledger. One account entitled "Trust and Agency Account" was used for extra-curricular purposes. The other unrecorded account was entitled "Playground Fund."

CHARTER SCHOOL OF THE DUNES  
AUDIT RESULTS AND COMMENTS  
(Continued)

The School Corporation had another extra-curricular checking account for which no ledger was maintained. The checking account had a balance of \$1,714 at June 30, 2006.

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Activity or activities as used herein has reference to conducting any athletic, social, class, or other school function and the collection, custody and disbursement of any money in connection therewith, other than functions conducted solely by any organization of parents and teachers, which does not include public money. The collection, custody, and disbursement of the money for an activity are represented in the accounting records by a fund and the control account for all of the activity funds is designated as the "School Extra-Curricular Account." (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

#### INTERNAL CONTROLS OVER FINANCIAL REPORTING

The controls over the receipting, disbursing, recording, and accounting for the financial activities were insufficient. The School Corporation accounted for multiple funds in the General Fund. The transfers and loans between funds as reported on the Financial Report (Form 9) could not always be verified to the ledger.

There was no separate accounting by fund for federal grants. Although there was an accounting of the federal grant receipts and expenditures within the General Fund by using an object code, there were no grant cash balances by fund. Additionally, there was no accounting by federal grant program year (i.e., Title I: FY2005; FY2006).

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

A fund constitutes a complete accounting entity and all financial transactions, both receipts and disbursements, are to be recorded in the fund to which they pertain. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 3)

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

#### CAPITAL ASSET RECORDS

An inventory or record of capital assets was not presented for audit.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded on the applicable Capital Assets Ledger. A complete inventory should be taken at least every two years for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

CHARTER SCHOOL OF THE DUNES  
AUDIT RESULTS AND COMMENTS  
(Continued)

PRESCRIBED FORMS

Prescribed forms were not used by the Charter School or for the extra-curricular activity account.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9) (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

PUBLIC RECORDS RETENTION

Claims and supporting documentation could not be located for six of the expenditures reviewed. One invoice included hand written adjustments for credits and charges in the amounts of \$76,193.93 and \$80,745.59, respectively, without documentation.

Indiana Code 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

LATE FEES

The Charter School of the Dunes paid \$1,036.36 to Northwest Indiana Public Service Company (NIPSCO) for late fees on service billing payments.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Charter School did not prepare a Schedule of Expenditure of Federal Awards for the audit period July 1, 2004 through June 30, 2006.

Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standards setting bodies and also with various accounting guides, manuals and other publications, (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporation, Chapter 9)

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE CHARTER SCHOOL OF THE DUNES, LAKE COUNTY, INDIANA

Compliance

We have audited the compliance of the Charter School of the Dunes (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on the School Corporation's compliance based on our audit.

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

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-3, 2006-4, and 2006-5.

Internal Control Over Compliance

The management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School Corporation's internal control over compliance with requirements that could have a direct and material effect on 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.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(Continued)

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the School Corporation's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-3, 2006-4, and 2006-5.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

February 20, 2007

CHARTER SCHOOL OF THE DUNES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Years Ended June 30, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 9,431	\$ 21,679
National School Lunch Program	10.555		86,122	128,678
Child and Adult Care Food Program	10.558		<u>225</u>	<u>1,668</u>
Total for federal grantor agency			<u>95,778</u>	<u>152,025</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Title I Grants to Local Educational Agencies	84.010	05-9310, 06-9310	<u>208,631</u>	<u>219,110</u>
Safe and Drug Free Schools and Communities - State Grants	84.186		<u>3,737</u>	<u>3,115</u>
Charter Schools	84.282		<u>95,947</u>	<u>127,328</u>
Innovative Education Program Strategies (Title VI of ESEA)	84.298	03-279, 04-182	<u>-</u>	<u>4,263</u>
Technology Literacy Challenge Fund	84.318			
Enhancing Education Through Technology		FY 2004	14,025	-
		FY 2005	<u>3,943</u>	<u>3,663</u>
Total for program			<u>17,968</u>	<u>3,663</u>
Reading First State Grants	84.357		<u>2,923</u>	<u>171,708</u>
Improving Teacher Quality State Grant	84.367	03-269, 04-079	<u>29,383</u>	<u>54,562</u>
Total for federal grantor agency			<u>376,557</u>	<u>587,412</u>
Total federal awards expended			<u>\$ 454,367</u>	<u>\$ 735,774</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

CHARTER SCHOOL OF THE DUNES  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Charter School of the Dunes (School Corporation) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of school corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

CHARTER SCHOOL OF THE DUNES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	yes

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	yes

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies
84.357	Reading First State Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2006-1, SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Charter School did not prepare a Schedule of Expenditures of Federal Awards for the audit period July 1, 2004 through June 30, 2006.

Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standards setting bodies and also with various accounting guides, manuals and other publications, (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporation, Chapter 9)

We recommended that officials maintain a complete and accurate accounting of all federal grant programs.

CHARTER SCHOOL OF THE DUNES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

FINDING 2006-2, INTERNAL CONTROLS OVER FEDERAL GRANT FUNDS

A separate accounting by fund for federal grants was not maintained. Although there was an accounting of the federal grant receipts and expenditures within the General Fund by using an object code, there were no grant cash balances by fund. Additionally, there was no accounting by federal grant program year (i.e., Title I: FY2005; FY2006).

Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standards setting bodies and also with various accounting guides, manuals and other publications. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporation, Chapter 9)

The internal controls over grant funds were not adequate. Failure to establish adequate grant fund internal controls and demonstrate compliance with the grant fund requirements may jeopardize the School's ability to obtain federal awards in the future.

We recommended that the Charter School implement procedures and internal controls that will ensure that each federal grant award is maintained in a separate fund.

Section III – Federal Award Findings and Questioned Costs

FINDING 2006-3, FINANCIAL REPORTING

Federal Agency: United States Department of Education  
Federal Program: Title I Grants to Local Educational Agencies, Reading First State Grants  
CFDA Number: 84.010, 84.357  
Award Numbers: 05-9310, 06-9310  
Pass Through: Indiana Department of Education

The School Corporation filed eight Title I quarterly reports during the audit period. Of the eight reports filed, seven were filed four to one hundred six days late.

The School Corporation filed the required Reading First Mid-Point Expenditure Report as of December 31, 2005. The expenditure report did not agree to the ledger since the report included encumbrances. No supporting documentation was available for these encumbrances to verify the accuracy of the report.

Circular A-133 \_\_\_\_\_.300(b) states:

"The auditee shall:

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs."

Failure to adhere to the reporting requirements could cause the School Corporation to become ineligible to receive Federal funds.

We recommended that the School Corporation implement procedures to ensure that reports are filed timely and that financial information is available to support the required reports.

CHARTER SCHOOL OF THE DUNES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

FINDING 2006-4, CASH MANAGEMENT

Federal Agency: United States Department of Education  
Federal Program: Reading First State Grants  
CFDA Number: 84.357  
Pass-Through Entity: Indiana Department of Education

The Reading First grant was reviewed to determine if the fund balance at month end exceeded the subsequent month's expenditures by more than 15%. Seven of the fourteen months tested exceeded the subsequent month's expenditures by more than 15%.

As part of the grant application, the pass-through entity requires the local educational agency to sign-off on the provision which states in part: ". . . the amount of the estimated cash request will not result in a cash surplus greater than the estimated expenditures."

34 CFR 80.20(b)(7) states in part: "Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

Failure to follow the specific grant guidelines may jeopardize the Charter School's ability to obtain federal awards in the future.

We recommended that the Charter School implement procedures to match their drawdown requests to the budgeted monthly expenditures, with the goal to minimize the amount of cash on hand at the end of the month.

FINDING 2006-5, PERIOD OF AVAILABILITY

Federal Agency: United States Department of Education  
Federal Program: Title I Grants to Local Educational Agencies  
CFDA Number: 84.010  
Award Numbers: 05-9310, 06-9310  
Pass-Through Entity: Indiana Department of Education

Each Title I grant has a period of availability of 15 months with a maximum of 15% carryover for another 12 months. The Charter School maintains all of the Title I grant awards in one object class. Thus, a determination of which expenses go with which award and whether each grant award meets the period of availability could not be completed.

34 CFR 80.23 states:

"(a) General. Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

CHARTER SCHOOL OF THE DUNES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

(b) Liquidation of Obligations. A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee."

Failure to follow the specific grant guidelines may jeopardize the Charter School's ability to obtain federal awards in the future.

We recommended that School Officials designate separate funds for each grant award.

CHARTER SCHOOL OF THE DUNES  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

# The Charter School of the Dunes

860 North Lake Street Gary, Indiana 46403  
Phone (219) 939-9690 Fax (219) 939-9031

February 16, 2007

Melvin L. Standifer, F.E.  
Indiana State Board of Accounts

RE: Charter School of the Dunes, Corrective Action Plan

Please find attached the responses/corrective action plan to findings identified in the 2005-06 Single Audit for Charter School of the Dunes. Please let me know if you need any additional information.

Section II Financial Statement Findings:

## FINDING NO. 2006-1, SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The request for preparation of the Schedule of Expenditures of federal awards was not communicated to the finance office. Management's past experience in working with single audits in other SEAs has been that the auditors prefer that we wait until financial audit is substantially complete to assure that there are no adjustments that would impact the expenditures being reported on the Schedule of Expenditures of Federal Awards. Because the finance office was not aware of the request from SBOA for advance preparation of the Schedule of Expenditures of Federal Awards, we were simply planning on preparing the schedule when SBOA was substantially completed with their fieldwork. Since this was the first single audit management has worked with the Indiana SBOA on, we were relying on our past experience and expectations of other SEA auditors regarding the timing of preparing the Schedule. Upon SBOA auditor communication that the Schedule was delinquent, management offered to prepare it, but SBOA auditors had already put the schedule together. Going forward management will prepare the Schedule in advance of auditor arrival.

## FINDING NO. 2006-2, INTERNAL CONTROLS OVER FEDERAL GRANT FUNDS

As part of the SBOA audit of federal programs, we were requested to provide details of expenditures of federal funds. Those reports were provided by management to auditors. The general ledger account detail reports provided were from our accounting system and were generated by filtering accounts with a segment representing the fund code used in the Indiana Accounting and Uniform Compliance Guidelines Manual. Auditors reviewed expenditures and were able to match those reports back to final expenditure reports filed for each grant. With our system, we can generate a report that shows the difference between received grant dollars and expenditures. This tells us if we need to request a change to the scheduled draws that get submitted along with the grant application when we determine that we are either in an over or under drawn position if it appears that the over/under drawn position will not correct itself within

*The mission of the Charter School of the Dunes is to embrace a diverse student body and inspire success through an innovative curriculum, while cultivating environmental stewardship, by holding accountable students, family, school, and community.*

the next 30 days. When we went through our first year audit with SBOA, we made it a point to discuss how we were tracking federal grants with SBOA auditor Robert James. Upon his review and verbal acknowledgement that we were ok with using general fund to account for grant funds as long as we were able to generate reports that identified federal grant expenditures, we continued accounting for expenditures in the general fund as we had been doing. Our interpretation of section 3 of the Indiana Accounting and Uniform Compliance Guidelines Manual was that there were specific funds that were required by Indiana law.(those required funds are identified in first paragraph) and "if" a school was to choose to use optional funds, the full list of fund numbers to use is provided. The "special funds" part of section 3 goes on to read that "Special Funds may be established to account for monies received by a school corporation for a specific purpose or purposes if no local tax revenues are involved. These Funds may be supported by gifts, donations, endowments or be established pursuant to federal statutes. For example, money received from federal grants prior to any required expenditures to support the program or project being financed may be accounted for by establishing separate funds appropriately titled..." This section on special funds goes on to state that certain programs that require matching funds must be run through the general fund. Because of the "may"/"must" terminology being used and the prior SBOA auditor's indication that things were being accounted for as required, we were rather surprised that this would be a federal audit finding.

#### Section III Federal Award Findings and Questioned Costs:

##### FINDING NO. 2006-3. FINANCIAL REPORTING

Federal Agency: United States Department of Education  
Federal Program: Title I, Reading First State Grants  
CFDA Number: 84.010, 84.357  
Award Numbers: 05-9310, 06-9310  
Pass-Through Entity: Indiana Department of Education

Late filing of interim reporting - new procedures have been implemented to ensure interim financial reporting will be filed timely going forward.

Inconsistency of interim report with general ledger – The Reading First grant interim reports were prepared by operational staff and not by the finance department, accordingly some purchase orders that had been placed but for which invoices hadn't been received were included in the interim report. The finance office should be completing interim financial reporting to ensure that costs are reported in the proper period. Going forward, the finance office will and operations will reconcile interim Reading First financial reports with the general ledger before site administration files the reports.

##### FINDING NO. 2006-4. CASH MANAGEMENT

Federal Agency: United States Department of Education  
Federal Program: Reading First State Grants  
CFDA Number: 84.357  
Award Numbers: 05-9310  
Pass-Through Entity: Indiana Department of Education

Excess cash on hand – the finance department will monitor reading first cash draws and request modifications to the draw schedule submitted by site administration if the timing of spending isn't following the plan submitted in the grant application. The finance department thought that the school's site administration's regular communication with John Wolf at Indiana Department of Education regarding the Reading First application budget was identifying cash management issues. Evidently, that wasn't the case. The finance department will monitor cash management

of the Reading First program going forward and request changes in scheduled payments as necessary.

**FINDING NO. 2006-5. PERIOD OF AVAILABILITY**

Federal Agency: United States Department of Education  
Federal Program: Title I Grants to Local Educational Agencies  
CFDA Number: 84.010  
Award Numbers: 05-9310, 06-9310  
Pass-Through Entity: Indiana Department of Education

The cost report for each Title I allocation received to date has been filed based on fiscal year spend as the school has spent at least 85% of its allocation each year within the first 12 months of activity. Since unspent allocation amounts at the end of the initial 15 months up to a maximum 15% get rolled into the following year's budget allocation, we spend the carryover funds first. This is demonstrated on the quarterly reporting that requires that we show how much carryover allocation and how much regular allocation has been spent. In order to make this easier to see, we've begun using an unused segment of the account number to identify each individual allocation. We will be able to demonstrate in the general ledger not just spending for individual grants but also individual grant allocations and no longer just show that we spend the carryover allocation first.

If you should have any questions or need additional information, please do not hesitate to contact me or the school's administrative office.



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CHARTER SCHOOL OF THE DUNES  
EXIT CONFERENCE

The contents of this report were discussed on February 20, 2007, with William Ignatowski, Chief Administrative Officer; Danielle Sleight, School Board Treasurer; Roger W. Gray, Mosaica Education, Inc., Senior Vice President of School Finance; and Linda Becker, Mosaica Education, Inc., Finance Officer. The official response has been made a part of this report and may be found on pages 37 through 39.

# The Charter School of the Dunes

860 North Lake Street Gary, Indiana 46403  
Phone (219) 939-9690 Fax (219) 939-9031

March 3, 2007

Indiana State Board of Accounts  
Mary Jo Small  
Porter County Government Center  
155 Indiana Ave  
Valparaso, IN 46383

RE: Charter School of the Dunes, Audit Results and Comments

Please find attached the responses to SBOA audit comments for Charter School of the Dunes.  
Please let me know if you need any additional information.

## AVERAGE DAILY MEMBERSHIP (ADM) - INCORRECT REPORTING TO THE STATE

Management Response: Administration is looking into how such a discrepancy could have occurred.

## INTERNAL CONTROLS OVER RECEIPTS AND DEPOSITS

Management response: Administrative staff will begin retaining copies of deposit slips and will issue receipts to individuals turning in collections for field trips and fundraisers. A separate receipt book will be used for PTA funds.

## SCHOOL FOOD VERIFICATIONS OF ELIGIBILITY

Management response: Administration will monitor the free & reduced lunch verification process to ensure that required verification sampling is sufficiently documented for audit purposes.

## TIMELY REPORTING - SCHOOL LUNCH CND-1

Management response: Per discussion with meal records clerk, this process was authorized by Barbara Wine, the field consultant for Charter School of the Dunes, as a one time fix but not as regular practice.

## TRANSACTION RECORDING

Management response: The accounts noted were activity accounts where cash was being held in trust on behalf of other organizations and groups in. Since school didn't have right to decide how to spend funds, management had not included cash in school's general ledger.

*The mission of the Charter School of the Dunes is to embrace a diverse student body and inspire success through an innovative curriculum, while cultivating environmental stewardship, by holding accountable students, family, school, and community.*

Management has posted cash balances to general ledger in response to auditor comments and will continue recording activity as required.

#### INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management response –

The loans and transfers noted in the first paragraph were accounted for in the school's general ledger using pooled cash and interfund accounts (Transfers / Loans / Due to other funds / Due from other funds).

The separate accounting by fund for federal grants was not done as our interpretation of language in section 3 of Indiana Accounting and Uniform Compliance Guidelines Manual was that use of separate funds was optional unless there was a matching requirement, in which case it was required that accounting for federal grants be maintained as part of the general fund. We had discussed this interpretation with the SBOA auditor that audited the School's records in 2005 and he indicated that the process of having a general fund account segment identify the specific grant the revenue/expense was coming from/being funded by was acceptable. None of the federal guidelines in OMB Circular A-133 require the use of separate funds to account for federal grant awards. Accordingly, we accounted for federal grant activity in a manner that would allow us to be able to report how specific grant allocations were spent.

Internal controls for the School's accounting and financial reporting systems are designed to mitigate control risk to an acceptable level. Certain segregations of duties are not deemed to be cost effective to implement when risks can be effectively mitigated without incurring cost of redundant staffing levels. It is important to note that SBOA auditors did not have any recommended adjustments to the financial statements which would indicate that controls are adequate to prevent material misstatements from going uncorrected.

With regards to tracking receipts and disbursements by fund, the school maintains complete accounting records on fund basis of accounting. Individual funds are self balancing. Activities of the school do include transactions, however, that cross a variety of funds and are accounted for via interfund accounts (loan/transfer/due to/due from).

#### CAPITAL ASSET RECORDS

Management response – the school's capital asset schedule was updated subsequent to year end and will be maintained on a regular basis going forward.

#### PRESCRIBED FORMS

Management response – the school's administration and management will review prescribed form list and seek approval for forms that are inconsistent with those identified for use.

#### PUBLIC RECORDS RETENTION

Management response – Invoices and support were provided to auditors. As part of the audit process, auditors inquired of an administrative clerical staff person instead of the business office. Once the business office was made aware that auditors had not been provided the support for the listed transactions, copies of support were sent to auditors.

### LATE FEES

Management response – Delays in landlord forwarding utility bills for payment resulted in late fees. Administration will continue to work with landlord to improve timing, however, management cannot allow utility shutoffs to occur and disrupt the educational process.

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Management response - The request for preparation of the Schedule of Expenditures of Federal Awards was not communicated to the business office. Management's past experience in working with single audits in other SEAs has been that the auditors prefer that we wait until financial audit is substantially complete to assure that there are no adjustments that would impact expenditures being reported on the Schedule. Because the business office was not aware of the request from SBOA for advance preparation of the Schedule, we were simply planning on preparing the schedule when SBOA was substantially completed with their fieldwork. Since this was the first single audit management has worked with the Indiana SBOA on, we were relying on our past experience and expectations of other SEA auditors regarding the timing of preparing the Schedule. Upon SBOA auditor communication that the Schedule was delinquent, management offered to prepare it, but SBOA auditors had already put the schedule together. Going forward, the business office will prepare the Schedule in advance of SBOA arrival for fieldwork.

If you should have any questions or need additional information, please do not hesitate to contact the school's administrative office or myself.



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