

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

AUDIT REPORT

OF

KIPP INDIANAPOLIS COLLEGE PREPARATORY

MARION COUNTY, INDIANA

July 1, 2007 to June 30, 2009



FILED

03/31/2010

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Omotayo Ola-Niyi	07-01-07 to 06-30-08
	Vacant	07-01-08 to 10-31-08
	Andrea D. Turner	11-01-08 to 07-31-09
	Emily R. Pelino	08-01-09 to 06-30-10
Director of School	Lacey Beaty	07-01-07 to 03-31-08
	Omatayo Ola-Niyi	04-01-08 to 06-30-08
President of the School Board	Reid Litwack	07-01-07 to 01-31-07
	Mike Weaver	02-01-07 to 04-30-07
	Reid Litwack	05-01-07 to 02-01-10
	David Mann	02-02-10 to 06-30-10



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 KIPP INDIANAPOLIS COLLEGE
PREPARATORY, MARION COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kipp Indianapolis College Preparatory (School Corporation), as of and for the years ended June 30, 2008 and 2009, 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, each major fund, and the aggregate remaining fund information of the School Corporation as of June 30, 2008 and 2009, 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 March 2, 2010, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

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 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.

The Schedule of Funding Progress, as listed in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 Combining Schedules, as listed in the Table of Contents, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Combining Schedules, as listed in the Table of Contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Capital Assets and Schedule of Long-Term Debt have 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 them.

STATE BOARD OF ACCOUNTS

March 2, 2010



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE KIPP INDIANAPOLIS COLLEGE
PREPARATORY, MARION COUNTY, INDIANA

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kipp Indianapolis College Preparatory (School Corporation), as of and for the years ended June 30, 2008 and 2009, which collectively comprise the School Corporation's basic financial statements and have issued our report thereon dated March 2, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in item 2009-1 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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 grant agreements, 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.

We noted certain matters that we reported to management in a separate letter dated March 2, 2010.

The School Corporation's response to the findings identified in our audit is described in the accompanying section of the report entitled Official Response and Corrective Action Plan. We did not audit the School Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the School Corporation's management, School Board, 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

March 2, 2010

KIPP INDIANAPOLIS COLLEGE PREPARATORY
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2008

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u>		<u>Net (Disbursement) Receipts and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Totals</u>
Governmental activities:				
Instruction	\$ 1,197,726	\$ -	\$ 17,653	\$ (1,180,073)
Support services	1,278,364	12,815	213,626	(1,051,923)
Noninstructional services	184,694	-	-	(184,694)
Facilities acquisition and construction	103,756	-	-	(103,756)
Debt service	492,705	-	-	(492,705)
Total governmental activities	<u>\$ 3,257,245</u>	<u>\$ 12,815</u>	<u>\$ 231,279</u>	<u>(3,013,151)</u>
General receipts:				
Property taxes				673,620
Other local sources				475,813
State aid				1,144,643
Bonds and loans				920,532
Grants and contributions not restricted to specific programs				225,383
Investment earnings				812
Total general receipts				<u>3,440,803</u>
Change in net assets				427,652
Net assets - beginning				<u>3,846</u>
Net assets - ending				<u>\$ 431,498</u>
<u>Assets</u>				
Cash and investments				<u>\$ 431,498</u>
<u>Net Assets</u>				
Unrestricted				<u>\$ 431,498</u>

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

KIPP INDIANAPOLIS COLLEGE PREPARATORY
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2009

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u>		<u>Totals</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Disbursement) Receipts and Changes in Net Assets</u>
Governmental activities:				
Instruction	\$ 883,576	\$ -	\$ 12,588	\$ (870,988)
Support services	1,149,535	12,857	135,291	(1,001,387)
Noninstructional services	253,809	-	-	(253,809)
Facilities acquisition and construction	49,812	-	-	(49,812)
Debt service	<u>456,452</u>	<u>-</u>	<u>-</u>	<u>(456,452)</u>
 Total governmental activities	 <u>\$ 2,793,184</u>	 <u>\$ 12,857</u>	 <u>\$ 147,879</u>	 <u>(2,632,448)</u>
 General receipts:				
Property taxes				311,677
Other local sources				130,616
State aid				1,391,299
Bonds and loans				73,679
Grants and contributions not restricted to specific programs				445,371
Investment earnings				<u>604</u>
Total general receipts				<u>2,353,246</u>
Change in net assets				(279,202)
Net assets - beginning				<u>431,498</u>
Net assets - ending				<u>\$ 152,296</u>
 <u>Assets</u>				
Cash and investments				<u>\$ 152,296</u>
 <u>Net Assets</u>				
Unrestricted				<u>\$ 152,296</u>

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

KIPP INDIANAPOLIS COLLEGE PREPARATORY
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

	General	School Lunch	Cell Grant	Other	Totals
Receipts:					
Local sources	\$ 923,467	\$ 1,592	\$ 230,000	\$ 8,001	\$ 1,163,060
State sources	1,162,297	272	-	3,369	1,165,938
Federal sources	-	209,984	-	225,383	435,367
Temporary loans	<u>920,532</u>	-	-	-	<u>920,532</u>
Total receipts	<u>3,006,296</u>	<u>211,848</u>	<u>230,000</u>	<u>236,753</u>	<u>3,684,897</u>
Disbursements:					
Current:					
Instruction	1,042,818	-	1,033	153,875	1,197,726
Support services	1,088,980	215	36,189	152,980	1,278,364
Noninstructional services	33,034	151,210	-	450	184,694
Facilities acquisition and construction	91,667	-	-	12,089	103,756
Debt services	<u>492,705</u>	-	-	-	<u>492,705</u>
Total disbursements	<u>2,749,204</u>	<u>151,425</u>	<u>37,222</u>	<u>319,394</u>	<u>3,257,245</u>
Excess (deficiency) of receipts over disbursements	<u>257,092</u>	<u>60,423</u>	<u>192,778</u>	<u>(82,641)</u>	<u>427,652</u>
Other financing sources (uses):					
Transfers in	-	-	-	11,915	11,915
Transfers out	-	-	-	(11,915)	(11,915)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	257,092	60,423	192,778	(82,641)	427,652
Cash and investments - beginning	<u>(98,602)</u>	-	-	<u>102,448</u>	<u>3,846</u>
Cash and investments - ending	<u>\$ 158,490</u>	<u>\$ 60,423</u>	<u>\$ 192,778</u>	<u>\$ 19,807</u>	<u>\$ 431,498</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	<u>\$ 158,490</u>	<u>\$ 60,423</u>	<u>\$ 192,778</u>	<u>\$ 19,807</u>	<u>\$ 431,498</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Unrestricted	<u>\$ 158,490</u>	<u>\$ 60,423</u>	<u>\$ 192,778</u>	<u>\$ 19,807</u>	<u>\$ 431,498</u>

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

KIPP INDIANAPOLIS COLLEGE PREPARATORY
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2009

	General	School Lunch	KIPP Foundation Grant	Cell Grant	Title I FY 2008-09	Federal Programs	Other	Totals
Receipts:								
Local sources	\$ 406,757	\$ -	\$ 37,500	\$ -	\$ -	\$ -	\$ 11,497	\$ 455,754
State sources	1,403,887	324	-	-	-	-	-	1,404,211
Federal sources	-	134,967	-	-	262,692	20,342	162,337	580,338
Temporary loans	73,679	-	-	-	-	-	-	73,679
Total receipts	1,884,323	135,291	37,500	-	262,692	20,342	173,834	2,513,982
Disbursements:								
Current:								
Instruction	568,429	-	-	133,476	144,656	2,691	34,324	883,576
Support services	832,692	-	18,567	58,068	100,573	358	139,277	1,149,535
Noninstructional services	45,665	195,714	-	281	70	-	12,079	253,809
Facilities acquisition and construction	44,614	-	-	953	-	-	4,245	49,812
Debt services	456,452	-	-	-	-	-	-	456,452
Total disbursements	1,947,852	195,714	18,567	192,778	245,299	3,049	189,925	2,793,184
Excess (deficiency) of receipts over disbursements	(63,529)	(60,423)	18,933	(192,778)	17,393	17,293	(16,091)	(279,202)
Cash and investments - beginning	158,490	60,423	-	192,778	-	-	19,807	431,498
Cash and investments - ending	\$ 94,961	\$ -	\$ 18,933	\$ -	\$ 17,393	\$ 17,293	\$ 3,716	\$ 152,296
Cash and Investment Assets - Ending								
Cash and investments	\$ 94,961	\$ -	\$ 18,933	\$ -	\$ 17,393	\$ 17,293	\$ 3,716	\$ 152,296
Cash and Investment Fund Balance - Ending								
Unrestricted	\$ 94,961	\$ -	\$ 18,933	\$ -	\$ 17,393	\$ 17,293	\$ 3,716	\$ 152,296

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

KIPP INDIANAPOLIS COLLEGE PREPARATORY
STATEMENT OF CASH AND INVESTMENT BALANCES
FIDUCIARY FUND
For the Year Ended June 30, 2008

	<u>Agency Fund</u>
Cash and investment fund balance - ending	<u>\$ 8,628</u>

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

KIPP INDIANAPOLIS COLLEGE PREPARATORY
STATEMENT OF CASH AND INVESTMENT BALANCES
FIDUCIARY FUND
For the Year Ended June 30, 2009

	<u>Agency Fund</u>
Cash and investment fund balance - ending	<u>\$ 50</u>

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

KIPP INDIANAPOLIS COLLEGE PREPARATORY
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: KIPP Indianapolis College Preparatory

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

Joint Venture

During the audit period, the School Corporation was a participant with 21st Century Charter School, 21st Century Charter School at Fountain Square, 21st Century Charter School of Gary, Campagna Academy, Challenge Foundation Academy, Charles A. Tindley Accelerated School, Charter School of the Dunes, Christel House Academy, Community Montessori, East Chicago Urban Enterprise, Flanner House Elementary School, Galileo Charter School, Gary Lighthouse Charter School, Indianapolis Lighthouse Charter School #1, Indianapolis Metropolitan High School, Irvington Community School, Joshua Academy, KIPP Indianapolis College Preparatory, New Community School, Options Charter School of Carmel, Rural Community Academy, Signature School, Southeast Neighborhood School of Excellence, Thea Bowman Leadership Academy, Timothy L. Johnson Academy, and Veritas Academy in a joint venture to operate the Virtual Special Education Cooperative (Cooperative) which was created to provide needed special programs and services, supplies, materials and equipment, and facilities for identified students with disabilities. The School Corporation was obligated by contract to remit annually the federal allocation received for special education assistance to supplement the Cooperative. Complete financial statements for the Cooperative can be obtained from Ball State University, Muncie, Indiana.

At June 30, 2008, the School Corporation withdrew from the cooperative.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

KIPP INDIANAPOLIS COLLEGE PREPARATORY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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, 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 school lunch fund accounts for financial resources related to the operation of the school lunch and breakfast programs.

The KIPP Foundation Grant fund accounts for proceeds of the grant.

The cell grant fund accounts for proceeds of the grant.

The Title I 2008-09 fund accounts for financial resources received through the federal Title I program.

The federal programs fund accounts for financial resources related to federal grant awards.

Additionally, the School Corporation reports the following fund type:

Agency funds account for assets held by the School Corporation as an agent for individuals, private organizations, and other governments.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund, and fiduciary 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. Receipts are recorded when received and disbursements are recorded when paid.

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.

KIPP INDIANAPOLIS COLLEGE PREPARATORY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The School Corporation does not have any proprietary funds.

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).

3. Capital Assets

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

4. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary 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.

5. 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.

KIPP INDIANAPOLIS COLLEGE PREPARATORY
NOTES TO FINANCIAL STATEMENTS
(Continued)

- 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.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds and the similar discretely presented component unit result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, 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.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
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:

KIPP INDIANAPOLIS COLLEGE PREPARATORY
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis.

II. Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are prepared and approved at the local level, and are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America.

III. 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 School Corporation does not have a deposit policy for custodial credit risk. At June 30, 2009, the School Corporation had deposit balances in the amount of \$171,514. 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, 2008 and 2009, were as follows:

Transfer From	Transfer To	2008
Other governmental funds	Other governmental funds	\$ <u>11,915</u>

The School Corporation typically uses transfers for cash flow purposes as provided by various statutory provisions.

IV. Other Information

A. 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.

KIPP INDIANAPOLIS COLLEGE PREPARATORY
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 postemployment 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. Risk financing is not utilized for the other risks of loss.

B. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The School Corporation's annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the School Corporation and the Utilities is not available.

KIPP INDIANAPOLIS COLLEGE PREPARATORY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 15,843
Interest on net pension obligation	(90)
Adjustment to annual required contribution	102
Annual pension cost	15,855
Contributions made	16,486
Increase (decrease) in net pension obligation	(631)
Net pension obligation, beginning of year	(1,239)
Net pension obligation, end of year	\$ (1,870)

	PERF
Contribution rates:	
School Corporation	6.75%
Plan members	3%
Actuarial valuation date	07-01-08
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	30 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

<u>Actuarial Assumptions</u>	PERF
Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

KIPP INDIANAPOLIS COLLEGE PREPARATORY
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-06	\$ 3,199	128%	\$ (902)
	06-30-07	7,661	104%	(1,239)
	06-30-08	15,855	104%	(1,870)

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the TRF Board, most requirements of the system and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

TRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Teachers' Retirement Fund
 150 West Market Street
 Indianapolis, IN 46204
 Ph. (317) 232-3860

Funding Policy and Annual Pension Costs

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

KIPP INDIANAPOLIS COLLEGE PREPARATORY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-06	\$ 6,058	\$ 11,017	\$ (4,959)	55%	\$ 121,551	(4%)
07-01-07	13,237	22,632	(9,395)	58%	225,764	(4%)
07-01-08	32,755	42,933	(10,178)	76%	461,650	(2%)

KIPP INDIANAPOLIS COLLEGE PREPARATORY
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2008

	Textbook Rental	Lumina Foundation Grant	Student Shirt	Title I FY 2006-07	Title I FY 2007-08	Federal Programs	Totals
Receipts:							
Local sources	\$ -	\$ -	\$ 8,001	\$ -	\$ -	\$ -	\$ 8,001
State sources	3,369	-	-	-	-	-	3,369
Federal sources	-	-	-	11,479	213,904	-	225,383
Total receipts	3,369	-	8,001	11,479	213,904	-	236,753
Disbursements:							
Current:							
Instruction	3,369	-	7,935	26,747	110,120	5,704	153,875
Support services	-	23,927	66	36,624	92,193	170	152,980
Noninstructional services	-	-	-	450	-	-	450
Facilities acquisition and construction	-	-	-	2,800	3,699	5,590	12,089
Total disbursements	3,369	23,927	8,001	66,621	206,012	11,464	319,394
Excess (deficiency) of receipts over disbursements	-	(23,927)	-	(55,142)	7,892	(11,464)	(82,641)
Other financing sources (uses):							
Transfers in	-	-	-	-	11,915	-	11,915
Transfers out	-	-	-	(11,915)	-	-	(11,915)
Total other financing sources (uses)	-	-	-	(11,915)	11,915	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	(23,927)	-	(67,057)	19,807	(11,464)	(82,641)
Cash and investments - beginning	-	23,927	-	67,057	-	11,464	102,448
Cash and investments - ending	\$ -	\$ -	\$ -	\$ -	\$ 19,807	\$ -	\$ 19,807
Cash and Investment Assets - Ending							
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ 19,807	\$ -	\$ 19,807
Cash and Investment Fund Balance - Ending							
Unrestricted	\$ -	\$ -	\$ -	\$ -	\$ 19,807	\$ -	\$ 19,807

KIPP INDIANAPOLIS COLLEGE PREPARATORY
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2009

	Student Shirt	Unrestricted Contributions	Title I FY 2007-08	Special Education	Fiscal Stabilization	Totals
Receipts:						
Local sources	\$ 11,457	\$ 40	\$ -	\$ -	\$ -	\$ 11,497
Federal sources	-	-	-	11,595	150,742	162,337
Total receipts	11,457	40	-	11,595	150,742	173,834
Disbursements:						
Current:						
Instruction	7,781	-	14,948	11,595	-	34,324
Support services	-	-	614	-	138,663	139,277
Noninstructional services	-	-	-	-	12,079	12,079
Facilities acquisition and construction	-	-	4,245	-	-	4,245
Total disbursements	7,781	-	19,807	11,595	150,742	189,925
Excess (deficiency) of receipts over disbursements	3,676	40	(19,807)	-	-	(16,091)
Cash and investments - beginning	-	-	19,807	-	-	19,807
Cash and investments - ending	<u>\$ 3,676</u>	<u>\$ 40</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,716</u>
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	<u>\$ 3,676</u>	<u>\$ 40</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,716</u>
<u>Cash and Investment Fund Balance - Ending</u>						
Unrestricted	<u>\$ 3,676</u>	<u>\$ 40</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,716</u>

KIPP INDIANAPOLIS COLLEGE PREPARATORY
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
At June 30, 2009

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Primary Government

Governmental activities:

Capital assets, not being depreciated:

Buildings	\$ 498,298
Machinery and equipment	<u>162,770</u>

Total governmental activities, capital assets not being depreciated	<u><u>\$ 661,068</u></u>
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KIPP INDIANAPOLIS COLLEGE PREPARATORY
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 June 30, 2009

The School Corporation has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:		
Notes and loans payable	\$ 1,592,978	\$ 205,094

KIPP INDIANAPOLIS COLLEGE PREPARATORY
AUDIT RESULTS AND COMMENTS

SUPPORTING DOCUMENTATION

Payments were observed for some Accounts Payable Vouchers which did not contain adequate supporting documentation.

An Accounts Payable Voucher, for example, made payable to National City Bank in the amount of \$35,134 had a description of "Money orders for airfare." The invoice date on the claim was May 9, 2008. The voucher was certified by the Operations Manager on July 7, 2008, and the Treasurer on July 21, 2008. There was no original supporting documentation attached to the claim.

Additionally, we noted instances where checks were written to vendors for an even amount of money. However, no original supporting documentation was presented for audit for these expenditures. A payment was made in one instance in the amount of \$100 to Walmart with a description "Snacks for movie day." However, there was no original supporting documentation attached to the claim.

A similar comment appeared in prior Report B32117.

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)

Disbursements, other than properly authorized petty cash disbursements, shall be by check or warrant, not by cash or other methods unless specifically authorized by statute, federal or state rule. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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

The information presented for audit indicates enrollment figures reported to the Indiana Department of Education for Average Daily Membership (ADM) for State Support, were incorrect for the school years ending June 30, 2008 and 2009.

The difference between the count reported on the ADM and the detail in the school's files as generated from the School Corporation software are shown below:

KIPP INDIANAPOLIS COLLEGE PREPARATORY
AUDIT RESULTS AND COMMENTS
(Continued)

School Year	Count as Reported to the Indiana Department of Education	School Corporation Detail of Enrollment Figures	Difference
2007-2008	262	288	(26)
2008-2009	246	263	(17)

The detailed lists presented for audit were not certified by the building level official as required.

A similar comment appeared in prior Report B32117

Officials should maintain records (enrollment cards, rosters, reporting forms, etc.) which substantiate the number of students claimed for ADM. The building level official (Principal, Assistant Principal, etc.) responsible for reporting ADM to the School Corporation Central Office, should provide a written certification of ADM to properly document responsibility. The certification should at a minimum include a statement detailing the names and location of the records used (these records must be retained for public inspection and audit) to substantiate ADM claimed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

OFFICIAL BOND

The official bond of the Treasurer was not filed in the Office of the County Recorder. Additionally, the bond term of the current Treasurer exceeds one year.

IC 5-4-1-5.1(b) states in part: "Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder . . ."

The treasurer of the school corporation, and the deputy treasurer if one is appointed, for each school year commencing July 1, shall each give a bond for the faithful performance of duty, written by an insurance company licensed to do business in the State of Indiana, in an amount determined by the governing body. The treasurer shall be responsible under the treasurer's bond for the acts of any deputy treasurer appointed as provided in IC 20-26-4-5. All bonds must be made payable to the State of Indiana, IC 5-4-1-10; and approved by the governing body of the school corporation. The State Board of Accounts is of the audit position bonds should be filed and recorded in the office of the county recorder.

The State Board of Accounts is of the audit position a new bond should be obtained each year and continuation certificates should not be used in lieu of obtaining a new bond. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

NATIONAL SCHOOL LUNCH PROGRAM - FEDERAL AND
STATE AGENCIES - COMPLIANCE REQUIREMENTS

The Indiana Department of Education conducted Coordinated and Program Reviews of the National School Lunch program on April 7 and 9, 2009. Several findings were noted.

KIPP INDIANAPOLIS COLLEGE PREPARATORY
AUDIT RESULTS AND COMMENTS
(Continued)

Findings related to certifying, counting and claiming were as follows:

1. Due to errors, incorrect eligibility status of students resulted in incorrect meals being recorded for these children. All of the applications on file at the school were reviewed to determine whether households provided required information and whether the School Food Authority (SFA) properly approved applications. School food authorities must correctly approve applications.
2. All lunch counts were not taken at the point of service. Each type of food service line is to provide accurate point of service meal counts, by type, and those lunch counts are to be correctly counted and recorded.
3. The State Agency consultant could not verify the free, reduced and paid snack and lunch meal counts for March 2009. When documenting snacks and lunches, they must be done in a way that is verifiable.
4. The claim review process (edit check) was not performed as required. Regulations require that internal controls exist by reviewing claims prior to submission of the month's Claim for Reimbursement (CND-1). The regulations also require that School Food Authorities maintain on file each month's claim and all data used in the claims review process.
5. Only free eligible students are claimed for PM snacks. Reduced-price and paid eligible children are also served PM snack. School officials thought only free snacks could be claimed. The PM snack count claimed for reimbursement, should include all free, reduced-price and paid eligible students who were served.

Verification related findings were noted as follows:

1. A tax return was inappropriately used for verification purposes. Tax returns are only acceptable as verification documentation for households with irregular income.
2. The verification process was not completed on time, nor was an extension requested. The verification procedure must be conducted and completed by November 15 of each year.
3. Verification process was not completed using the proper procedures. Verification should be handled by someone other than the person who approved the application.
4. The proper number of applications was verified; however, verification information was insufficient. All income reported on the initial application must be confirmed. If the household does not comply, necessary procedures should be taken utilizing the proper termination of benefits.
5. Documentation of the verification efforts was not centralized. Copies of applications chosen for verification should be sent to the person responsible for verification to enable this person to maintain a verification file. This may facilitate the process and prevent information from being lost or misplaced.

KIPP INDIANAPOLIS COLLEGE PREPARATORY
AUDIT RESULTS AND COMMENTS
(Continued)

6. Direct Certification was not completed for the School Corporation. All School Corporations are now required to complete the Direct Certification process.

Another finding noted in the review was:

1. The U.S. Department of Agriculture (USDA) "And Justice For All" poster or other approved poster illustrating the National School Lunch Program's nondiscrimination policy, is not displayed. The sponsor is required to display in a prominent location (in the eating area) the nondiscrimination poster developed by the USDA.

As a result of the findings noted above, during the 2008-2009 fiscal year, the Indiana Department of Education (IDOE) noted where \$6,436.76 was over claimed. The IDOE amended claims filed for October 2008 through April 2009. As a result, \$716 is being deducted from each subsequent claim until the total amount of the unearned reimbursement has been repaid. Interest, at a rate of 3%, will be billed separately on the unpaid balance.

School Corporation Officials responded on August 20, 2009, to the Indiana Department of Education's findings in writing outlining corrective measures to be taken. The Indiana Department of Education replied on August 28, 2009, stating that all corrective actions outlined were acceptable and should correct the findings noted during the review.

Free and reduced-price meal Verification Summary Reports and related supporting documentation, were not presented to us for audit. A similar comment appeared in prior Report B32117.

Additionally, we noted where claims were not filed on a timely basis. A similar comment appeared in prior Report B32117.

Applications for Free or Reduced Price Meals and Other Benefits forms (Prescribed Form 521) were not presented for the 2008-2009 school year. Officials stated the completed applications were inadvertently discarded.

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)

IC 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)

KIPP INDIANAPOLIS COLLEGE PREPARATORY
AUDIT RESULTS AND COMMENTS
(Continued)

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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)

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)

CREDIT CARDS

Payments were made in numerous instances from statements and charge slips only, or lacked adequate supporting documentation for individual charges.

A payment was made in the amount of \$3,585.85, for example, to National City Bank for the month of August 2008. A printout of account activity generated from an online banking source was attached to the Accounts Payable Voucher. The printout did not have a total and did not add up to the voucher total. The printout was not a statement. Only two disbursements on the account activity printout had supporting documentation attached to the voucher. Some of the other charges on the printout, such as Panera Bread \$64.81, Fazolis \$86.00, Walmart \$1,183.76, Cort Furniture Rental \$699.96, Hyatt Grand of San Antonio \$697.11 and Starbucks \$26.16, were unsubstantiated.

A similar comment appeared in prior Report B32117.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.

KIPP INDIANAPOLIS COLLEGE PREPARATORY
AUDIT RESULTS AND COMMENTS
(Continued)

6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
8. If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

TEXTBOOK ASSISTANCE CLAIM

The School Corporation filed a Financial Assistance For Students Textbook Reimbursement 2007-2008 School Year claim form and received a distribution in the amount \$3,368.52 from the State. A copy of the claim form and the related supporting documentation was not presented for audit.

IC 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)

TITLE I - FEDERAL AND STATE AGENCIES - COMPLIANCE REQUIREMENTS

The Indiana Department of Education's (IDOE) monitoring team commenced an on-site monitoring review of the School Corporation's administration of the Federal Title I program on September 16, 2008. The following areas of noncompliance with program requirements were noted.

KIPP INDIANAPOLIS COLLEGE PREPARATORY
AUDIT RESULTS AND COMMENTS
(Continued)

1. IDOE conducted a random sampling of five core academic teachers to determine whether they were of highly qualified status as defined by program requirements. Two core academic teachers in the sampling were not highly qualified.
2. School officials could not provide evidence that Title I instructional paraprofessionals were highly qualified.
3. The School Corporation did not reserve five percent of its allocation to support assisting teachers in reaching the professional qualification requirements to become highly qualified.
4. School officials could not provide evidence that letters had been sent home to all parents of students attending the charter school informing the parents of their right to know about the qualifications of the student's classroom teacher, and where relevant, paraprofessionals.
5. The School Corporation did not have evidence that parents were notified that their child was assigned to or taught for four or more consecutive weeks by a teacher in a core academic subject who was not highly qualified in 2007-2008 and is not highly qualified for the current school year.
6. The School Corporation funded a Teaching Recruitment Fellowship from Title I funds. This was not an approved expenditure in the 2007-2008 application nor is this appropriate use of Title I funds.
7. School officials could not provide evidence that the Title I funds were supplemental to non-federal resources. The School Corporation funded Saturday School including teacher stipends and student transportation which is not supplementary to the KIPP model.
8. School officials could not provide documentation that the following expenditures were reasonable, allocable or necessary for the Title I program: (a) \$7,327.34 for a professional development retreat that included spa services; (b) \$780 for gift cards for holiday appreciation; and (c) a grocery store receipt in the amount of \$638.95 for a professional development retreat.
9. School officials were unable to demonstrate sufficient compliance with the requirements that time and effort logs be maintained for split-funded positions. Additionally, Semi-Annual Certifications were not maintained for personnel who were funded 100% out of Title I Funds.

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)

KIPP INDIANAPOLIS COLLEGE PREPARATORY
AUDIT RESULTS AND COMMENTS
(Continued)

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)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

ERRORS ON CLAIMS - GOVERNING BOARD APPROVAL

All claims did not have evidence of board approval. School Board did not give written evidence supporting the approval of claims. The Board did not sign either the Accounts Payable Voucher form (School Form 523) or a properly prepared Accounts Payable Voucher Register.

IC 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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 KIPP INDIANAPOLIS COLLEGE
PREPARATORY, MARION COUNTY, INDIANA

Compliance

We have audited the compliance of the Kipp Indianapolis College Preparatory (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, 2008 and 2009. 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 of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance 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, 2008 and 2009. 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 2009-2 and 2009-4.

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)

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in a School Corporation's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in items 2009-2 and 2009-4 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

The School Corporation's response to the findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. We did not audit the School Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the School Corporation's management, School Board, 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

March 2, 2010

KIPP INDIANAPOLIS COLLEGE PREPARATORY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2008 and 2009

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 06-30-08	Total Federal Awards Expended 06-30-09
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	FY2007-2008 FY2008-2009	\$ 50,891 -	\$ - 45,174
Total for program			<u>50,891</u>	<u>45,174</u>
National School Lunch Program	10.555	FY 2007-2008 FY 2008-2009	140,735 -	- 72,522
Total for program			<u>140,735</u>	<u>72,522</u>
Supplemental Nutrition Assistance Program - Outreach/Participation Program	10.580	FY2007-2008 FY2008-2009	18,359 -	- 17,271
Total for program			<u>18,359</u>	<u>17,271</u>
Total for cluster			<u>209,985</u>	<u>134,967</u>
Total for federal grantor agency			<u>209,985</u>	<u>134,967</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Title I Cluster				
Title I Grants to Local Educational Agencies	84.010	08-9645 09-9645	284,548 -	- 246,008
Total for cluster			<u>284,548</u>	<u>246,008</u>
Special Education Cluster				
Special Education Grants to States	84.027	09-9645	-	11,595
Total for cluster			<u>-</u>	<u>11,595</u>
State Fiscal Stabilization Fund Cluster				
ARRA - State Fiscal Stabilization Fund (SFSF) Education State Grants	84.394	09-9645	-	150,742
Total for cluster			<u>-</u>	<u>150,742</u>
Public Charter School Title X (Planning and Implementation)	84.282	08-9645	11,464	-
Total for program			<u>11,464</u>	<u>-</u>
Improving Teacher Quality State Grants (Title II)	84.367	09-9645	-	3,049
Total for program			<u>-</u>	<u>3,049</u>
Total for federal grantor agency			<u>296,012</u>	<u>411,394</u>
Total federal awards expended			<u>\$ 505,997</u>	<u>\$ 546,361</u>

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

KIPP INDIANAPOLIS COLLEGE PREPARATORY
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the KIPP Indianapolis College Preparatory (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.

KIPP INDIANAPOLIS COLLEGE PREPARATORY
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
Significant deficiencies 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
Significant deficiencies 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:

Name of Federal Program or Cluster

Child Nutrition Cluster
Title I Cluster

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 Finding

FINDING 2009-1, INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the School Corporation related to financial transactions and reporting. We believe the following deficiencies constitute significant deficiencies:

Monitoring of Controls: Effective internal control over financial reporting requires the School Board to monitor and assess the quality of the School Corporation's system of internal control. The School Board has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the School Corporation at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner.

KIPP INDIANAPOLIS COLLEGE PREPARATORY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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 objections, 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.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Section III – Federal Award Findings and Questioned Costs

FINDING 2009-2, CHILD NUTRITION CLUSTER OVERCLAIMING REIMBURSEMENT

Federal Agency: United States Department of Agriculture
Federal Program: National School Lunch, School Breakfast and
Supplemental Nutrition Assistance Programs
CFDA Numbers: 10.555, 10.553 and 10.580
Federal Award Number: FY 2008 and FY 2009
Pass-through Entity: Indiana Department of Education

The Sponsor Claims filed by the School Corporation with the Indiana Department of Education (IDOE) for the reimbursement of eligible meals served under the National School Lunch, School Breakfast and Supplemental Nutrition Assistance Programs have included incorrect meals resulting in incorrect amounts being claimed. The incorrect eligibility status and/or incorrect counting of students resulted in incorrect meals being recorded for students.

All lunch counts were not taken at the point of service. The April 7, 2009, lunch count sheets totaled 169 total lunches served. A food service staff member counts lunches at the point of service. The food service staff member's count was 160 on the day of review. One teacher stated that she documents the lunch counts from attendance records. Some of the meal and snack count sheets in March 2009 had more than one documented lunch count for the same day.

The free, reduced and paid snack and lunch meal counts could not be verified for March 2009.

We also noted that the claim review process (edit check) was not performed as required.

As a result of the findings noted above, \$6,436.76 was over claimed. We consider the finding to be a questioned cost of \$6,436.76. The finding also indicates an internal control significant deficiency.

Regulations require that internal controls exist by reviewing claims prior to the submission of the month's Claim. 7CFR Part 210.8(a)(2) states in part: ". . . each School Food Authority shall review the lunch count data for each school under its jurisdiction to ensure accuracy for the monthly Claim for Reimbursement."

7CFR 210.18(g)(C)(2) states: "Each type of food service line provides accurate point of service lunch counts, by type, and those lunch counts are correctly counted and recorded."

KIPP INDIANAPOLIS COLLEGE PREPARATORY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Federal and State compliance requirements include the following requirements regarding certification, counting and claiming. 7CFR 210.18(g)(l) states in part: ". . . all free, reduced-price, and paid lunches claimed for reimbursement are served only to children eligible for free, reduced price, and paid lunches, respectively; and are counted, recorded, consolidated and reported through a system which consistently yields correct claims.

The Indiana Department of Education (IDOE) has amended the School Corporation's claims for October 2008 through April 2009. IDOE in response to a request from School Officials has agreed to deduct \$716 from each subsequent claim until the total amount of the unearned reimbursement has been repaid.

We recommended proper internal controls be maintained over the certification, counting and claiming process to ensure the accuracy of the data.

FINDING 2009-3, CHILD NUTRITION CLUSTER ELIGIBILITY STATUS VERIFICATION

Federal Agency: United States Department of Agriculture
Federal Program: National School Lunch, School Breakfast and
Supplemental Nutrition Assistance Programs
CFDA Numbers: 10.555, 10.553 and 10.580
Federal Award Number: FY 2008 and FY 2009
Pass-through Entity: Indiana Department of Education

The following deficiencies were found with the School Corporation's verification process during a coordinated program review of the National School Lunch Program:

1. A tax return was inappropriately used for verification purposes;
2. The verification process was not completed on time, nor was an extension requested;
3. Verification process was not completed using the proper procedures;
4. The proper number of applications was verified; however, verification information was insufficient;
5. Documentation of the verification efforts was not centralized; and
6. Direct Certification was not completed for the School Corporation.

7 CFR Part 245.6(a) states in part:

"State agencies shall ensure that by December 15 of each School Year, local educational agencies have selected and verified a sample of their approved free and reduced price applications in accordance with the conditions and procedures described in this section. Verification activity may begin at the start of the school year but the final required sample size shall be based on the number of approved applications on file as of October 31."

7 CFR 245.6a(a) states in part:

"Local educational agencies may choose to verify up to 100 percent of all applications to improve program integrity."

KIPP INDIANAPOLIS COLLEGE PREPARATORY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

7 CFR 245.6a states in part:

"(e) Adverse action. If verification activities fail to confirm eligibility for free or reduced price benefits or should the household fail to cooperate with verification efforts, the school or local educational agency shall reduce or terminate benefits, as applicable, as follows: Ten days advance notification shall be provided to households that are to receive a reduction or termination of benefits, prior to the actual reduction or termination. The first Day of the 10 day advance notice period shall be the day the notice is sent. The notice shall advise the household of (1) The change; (2) The reasons for the change; (3) Notification of the right to appeal and when the appeal must be filed to ensure continued benefits while awaiting a hearing and decision; (4) Instructions on how to appeal; and (5) The right to reapply at any time during the school year. The reasons for ineligibility shall be properly documented and retained on file at the local educational agency."

7 CFR 245.6(c) states in part:

"The local educational agency must determine household eligibility, for free or reduced price meals, either through direct certification or the application process at or about the beginning of the school year."

We recommended School Corporation Officials properly complete and document the verification of student eligibility status and maintain adequate, auditable files.

FINDING 2009-4, TITLE I CLUSTER ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency: United States Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Number: FY 2008 and FY 2009
Pass-through Entity: Indiana Department of Education

An on-site monitoring review conducted by the Indiana Department of Education (IDOE) of the administration of the School Corporation's Title I program revealed that School Corporation Officials could not provide evidence that certain Title I expenditures were reasonable, allocable, or necessary to the Title I program. The following expenditures were charged to Title I funds:

The School Corporation charged \$7,327.34 for a professional development retreat that included spa services. No agendas for the retreat were provided and staff could not provide an explanation regarding the professional development that took place at the retreat.

School Corporation Officials charged \$780.00 to Title I for gift cards for holiday appreciation. No information was presented for audit to substantiate the gift cards were reasonable or necessary to benefit the Title I program. No documentation was provided to show who received these cards other than the receipts for the purchase of the cards.

School Corporation Officials could not provide backup documentation on a grocery store receipt spent during a professional development retreat in the amount of \$638.95. There was no evidence of any professional development and the grocery receipt could not be explained by School Corporation Officials.

KIPP INDIANAPOLIS COLLEGE PREPARATORY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

We consider the finding to be a questioned cost in the total amount of \$8,746.29. The finding also indicates an internal control deficiency.

Checks and balances should be in place to verify purchases are reasonable, allocable or necessary for the Title I program. School Corporation Officials should have sufficient knowledge of allowable cost principles and the governing board should provide adequate oversight in approving disbursements.

We recommended that School Corporation Officials chargeback any expenditures to the Title I program that did not benefit the program. Additionally, processes must be put in place to ensure proper expenses going from the budget process, to ordering and procurement, and to the accurate documentation of expenditures for Title I.

Basic Guidelines for Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87) are outlined in 2CFR Part 225, Appendix A, Section C which, states in part: "(1) Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: (a) Be necessary and reasonable for proper and efficient performance and administration of Federal awards; (b) Be allocable to Federal awards . . ."

FINDING 2009-5, TITLE I CLUSTER SUPPLEMENT NOT SUPPLANT

Federal Agency: United States Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Number: FY 2008 and FY 2009
Pass-through Entity: Indiana Department of Education

School Corporation Officials could not provide evidence during an onsite review of the Title I program that the Title I funds were supplemental to non-federal resources. The School Corporation funded Saturday School, including teacher stipends and transportation, which is not supplementary to the KIPP model. Additionally, School Corporation Officials used Title I funds to pay a portion of teacher's salaries. School Corporation Officials are not consolidating school-wide program funds.

34CFR 200.79 states in part:

"(b) A program meets the intent and purposes of Title I if the program . . . (2) (ii) Provides supplementary services designed to meet the special educational needs of the students who are participating in the program to support their achievement toward meeting the State's student academic achievement standards . . ."

The School Corporation must submit to the Indiana Department of Education (IDOE) written guidance for the School Corporation on the supplement, not supplant rule by December 1 as outlined in attachment D of the approved Application for Grant. We recommended that School Corporation Officials develop policies and procedures to monitor the supplement, not supplant rule to ensure compliance.

KIPP INDIANAPOLIS COLLEGE PREPARATORY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2009-6, TITLE I CLUSTER - SPECIAL TESTS AND PROVISIONS

Federal Agency: United States Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Number: FY 2008 and FY 2009
Pass-through Entity: Indiana Department of Education

The Indiana Department of Education (IDOE) conducted a random sampling of five core academic teachers to determine highly qualified status during an onsite review. Two core academic teachers in the sampling were determined to not be highly qualified.

34CFR 200.56 states in part:

"A teacher described in Sec. 200.55(a) and (b)(1) is a 'highly qualified teacher' if . . . (3) A teacher teaching in a public charter school in a State must meet the certification and licensure requirements, if any, contained in the State's charter school law."

IC 20-24-6-5 states in part:

"(a) An individual who teaches in a charter school must either:

- (1) hold a license to teach in a public school in Indiana under IC 20-28-5; or
- (2) be in the process of obtaining a license to teach in a public school in Indiana under the transition to teaching program established by IC 20-28-4-2.

(b) An individual described in subsection (a) (2) must complete the transition to teaching program not later than three (3) years after beginning to teach at a charter school.

(c) An individual who provides to students in a charter school a service:

- (1) that is not teaching; and
- (2) for which a license is required under Indiana law; must have the appropriate license to provide the service in Indiana."

We recommended that School Corporation Officials develop policies and procedures to ensure that all core academic teachers are highly qualified. Additionally, a plan should be developed to help those that need to become highly qualified meet those requirements.

KIPP INDIANAPOLIS COLLEGE PREPARATORY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.



**CORRECTIVE ACTION PLAN
INTERNAL REPORTABLE CONDITIONS
03.02.2010**

Section II - Internal Control Reportable Condition: Internal Controls Over Financial Transactions and Reporting/Supporting Documentation

Corrective Action Plan

Processes will be put in place, internally, to improve financial controls. This will include better communication between the Operations Manager and bookkeeper, more thorough document collection and retention, and more consistency in monitoring and tracking spending.

Also, the KIPP Indy Board will be more active in overseeing controls and expenditures, and will review these items in-depth at each Finance Committee and Board meeting.

Finding 2009-2 – Internal Control Reportable Condition: Child Nutrition Cluster Overclaiming Reimbursement

Federal Agency: United States Department of Agriculture
Federal Program: National School Lunch, School Breakfast and Supplemental Nutrition Assistance Programs
CFDA Numbers: 10.555, 10.553 and 10.580
Federal Award Number: FY 2008 and FY 2009
Pass-through Entity: Indiana Department of Education

Corrective Action

A corrective action plan was submitted to the DOE immediately following our most recent nutrition audit, which included the following improvements:

1. Digital count systems to more accurately track student meals
2. Improved free/reduced lunch application collection and retention
3. Maintaining students' lunch eligibility digitally, in our school's software system, for better access and improved accuracy in meal counts
4. More thoroughness in completing and filing claims for reimbursement (which would include completing the "edit checks" recommended by the DOE)

This corrective action plan was approved by the DOE, and these improvements have since been put in place. In addition, KIPP worked out a payment arrangement with the DOE to pay off the balance that the DOE said had been overclaimed.

Finding 2009-3 – Internal Control Reportable Condition: Child Nutrition Cluster Eligibility Status Verification

Federal Agency: United States Department of Agriculture
Federal Program: National School Lunch, School Breakfast and Supplemental Nutrition Assistance Programs
CFDA Numbers: 10.555, 10.553 and 10.580
Federal Award Number: FY 2008 and FY 2009
Pass-through Entity: Indiana Department of Education

Corrective Action

KIPP submitted a corrective action plan to the DOE immediately following our last nutrition audit, which laid out improvements in the verification process. These included:

1. Beginning the verification process earlier to ensure timely submission of the report
2. More thorough screening of documents submitted by parents for verification
3. Better communication and follow-up with parents regarding the verification
4. Closer adherence to the guidelines established by the DOE

These steps were approved by the DOE, and will continue to be implemented. Also, Direct Certification has been employed by the school since the beginning of the 2009-2010 school year.

Finding 2009-4 – Internal Control Reportable Condition: Title I Cluster Allowable Costs/Cost Principles

Federal Agency: United States Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Number: FY 2008 and FY 2009
Pass-through Entity: Indiana Department of Education

Corrective Action

KIPP submitted a corrective action plan to the DOE immediately following our 2007-2008 Title I audit, which laid out steps to correct our Title I issues. These included:

1. Scaling back the use of Title I to comply with the “supplement, not supplant” rule
2. Better tracking and oversight of Title I-related expenditures
3. Cutting all Title I costs that were considered questionable or “borderline”
4. Restricting Title I dollars being used to pay any portion of employees’ salaries

These steps were approved by the DOE, and will continue to be implemented.

Finding 2009-5 – Internal Control Reportable Condition: Title I Cluster Supplement Not Supplant

Federal Agency: United States Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Number: FY 2008 and FY 2009
Pass-through Entity: Indiana Department of Education

Corrective Action

KIPP submitted a corrective action plan to the DOE immediately following our 2007-2008 Title I audit, which laid out steps to correct our Title I issues. These included:

1. Scaling back the use of Title I to comply with the “supplement, not supplant” rule
2. Better tracking and oversight of Title I-related expenditures
3. Cutting all Title I costs that were considered questionable or “borderline”
4. Restricting Title I dollars being used to pay any portion of employees’ salaries

These steps were approved by the DOE, and will continue to be implemented.

Finding 2009-6 – Internal Control Reportable Condition: Title I Cluster Highly Qualified Teachers

Federal Agency: United States Department of Education
Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Federal Award Number: FY 2008 and FY 2009
Pass-through Entity: Indiana Department of Education

Corrective Action

KIPP has since addressed the problem of highly qualified teachers by either removing or licensing all non-licensed teachers. Currently all of our teachers are licensed properly for their positions, and a more comprehensive screening and follow-up process has been put in place that will ensure proper licensing procedures in the future. We will also undertake periodic audits of our licenses to make sure that they remain current and in compliance with DOE requirements.

Estee Kelly, School Leader

KIPP Board Representative

KIPP INDIANAPOLIS COLLEGE PREPARATORY
EXIT CONFERENCE

The contents of this report were discussed on March 2, 2010, with Troy Tyson, former Operations Manager; Sam Florance, Director of Finance and Operations; Will Pritchard, Board member; Emily R. Pelino, Treasurer; David Mann, President of the School Board; and Estee Kelly, School Leader. The official response has been made a part of this report and may be found on pages 51 through 53.



Igniting the fire within; illuminating the path of knowledge
Respect · Dignity · Teamwork · Excellence · Perseverance · Courage

KIPP INDIANAPOLIS SBOA AUDIT RESPONSE

- 1. Supporting documentation** – KIPP management has been working closely with the school’s accounting company, Bookkeeping Plus, to better coordinate collection of documents and eliminate inefficiencies. Vouchers are now created – with supporting documentation - on a weekly basis, and supporting documents are immediately sent over along with vouchers. If there are documents missing, the Operations Manager is notified by Bookkeeping Plus. Running through this whole process on a weekly basis narrows down the time frame for potential lost documents, and makes it easier to find lost or missing information.
- 2. ADM/Incorrect reporting to the State** – The State Board Auditor explained to us the likely reason for the inconsistencies between in-school counts (generated by the school’s software), and those submitted to the State. Going forward, KIPP will ensure that the numbers between both formats are reconciled, so that one accurate number is produced and used in all reporting.
- 3. Official Bond** – KIPP is working with our insurance agency to make sure that our Treasurer’s bond meets the requirements of the SBOA, namely:
 - a. Filing the bond with the Office of the County Recorder.
 - b. Restricting the term of the bond to one year.
- 4. National School Lunch Program** – Many of the findings in the SBOA report have already been addressed and corrected by KIPP management:
 - a. All school breakfast and lunch counts are now taken at the point of service. KIPP now uses a digital count/student number system which accurately tallies all breakfast and lunch servings for each day.
 - b. All meals are now broken down into free/reduced/paid designations by the school’s nutrition software, and these numbers (which are generated at the point of service, as mentioned above) are used to file monthly reimbursement claims with the DOE. All numbers from any day are also available for review by outside agencies.
 - c. Edit checks are now completed for each monthly reimbursement claim, as required by the DOE.
 - d. Snack counts are now in compliance with DOE requirements. Each student is offered a daily snack, and each serving is documented. All daily count information is readily available for review by any outside agency.
 - e. Verification of applications was completed properly and thoroughly for the 2009-2010 school year, with no responding complaints from the DOE.

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- f. Direct Certification was completed for the school for the 2009-2010 school year. Although this process did not uncover all of the free eligible students in the school (rather, only about 30%), KIPP nonetheless used the process as required. All students not found using D.C. were given hard applications to fill out.
 - g. The USDA “And Justice For All” poster has been hanging in the KIPP cafeteria, as required, since May of 2009.
 - h. KIPP worked out a repayment plan with the DOE, to pay back the \$6,436.76 that the DOE found to be overclaimed. KIPP has maintained the repayment schedule that was set up, and the school will have the balance paid off by the end of the 2009-2010 school year.
 - i. All reimbursement claims filed with the DOE are now accurate. Additionally, these claims are now filed within ten days of the month’s end (as opposed to the 60-day deadline offered by the DOE).
- 5. Credit cards –**
- a. Credit card spending has been significantly suppressed. Additionally, each credit card purchase is adequately documented, and coded appropriately to the SBOA’s chart of accounts.
 - b. There are only two signers on the card: The KIPP School Leader and Assistant School Leader.
 - c. For each purchase made with a credit card, a form (which is kept by the Operations Manager) is now filled out by the user, indicating date of use, purchase amounts, business purpose, attendees, and other relevant information. This sheet is then signed by the credit card user, and all pertinent receipts are attached. These credit card forms are referenced when paying monthly credit card bills, and the completed forms/documentation are kept with the school’s accountants.
 - d. The KIPP Board of Directors has the opportunity to review all credit card purchases at each monthly meeting.
- 6. Title I –**
- a. Title I spending is now more tightly controlled and monitored. All spending is in compliance with the DOE’s “supplement not supplant” principle, and the funds are allocated within the parameters of KIPP’s DOE-approved 2009-2010 Title I application. Bookkeeping Plus produces a variety of monthly reports which track every dollar of Title I spending, and the KIPP Board of Directors is able to review this information at each monthly meeting. In addition, each Title I expenditure typically goes through 2-3 levels of review (which would include the School Leader, Director of Finance and Operations, and Bookkeeping Plus) and approval before it is actually carried out.
 - b. KIPP Indy has put forth all efforts to ensure that all core academic teachers are considered highly qualified. In the instance that a teacher is not considered highly qualified, KIPP Indy has structures in place to ensure that said teacher is considered highly qualified within 90 days, as is mandated by No Child Left Behind.

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- c. KIPP Indy does not currently employ a Title I instructional paraprofessional. In the instance that we do, we will ensure that he/she is highly qualified.
- d. KIPP Indy has reserved five percent of its Title I allocation to support assisting teaching in reaching professional requirements to become Highly Qualified.
- e. KIPP Indy has mailed home letters of a parent's right to know about the qualifications of the student's classroom teacher. It is on our master schedule to ensure that parents are informed of this right each year.
- f. KIPP Indy has a filing structure in place that will facilitate the seamless location of Title I related letter sent home.

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