

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

AUDIT REPORT
OF
EAST CHICAGO URBAN ENTERPRISE ACADEMY
LAKE COUNTY, INDIANA
July 1, 2008 to June 30, 2010



FILED
03/21/2011

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Vito Bianco	07-01-08 to 06-30-11
Director of the School	Charlotte Jackson	07-01-08 to 06-30-11
President of the School Board	Rita Gillis Erika Rodriguez	07-01-08 to 06-30-10 07-01-10 to 06-30-11



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

TO: THE OFFICIALS OF THE EAST CHICAGO URBAN
ENTERPRISE ACADEMY, LAKE COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Chicago Urban Enterprise Academy (School Corporation), as of and for the years ended June 30, 2009 and 2010, 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.

Except as discussed in the following paragraph, 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.

The School Corporation did not provide for audit various documents. These included various major federal program financial reports, supporting documents and explanations of adjustments to the federal funds; grant files and supporting documents for fund transfers for the nonmajor federal programs, Charter School Grant and Title V Education Technology; and supporting documents for all transfers between funds and temporary loans between funds. Also, School Corporation officials did not prepare a Schedule of Expenditures of Federal Awards as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

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, except as discussed in the third paragraph, 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, 2009 and 2010, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

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

In accordance with Government Auditing Standards, we have also issued a report dated February 16, 2011, 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 integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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 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.

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

STATE BOARD OF ACCOUNTS

February 16, 2011



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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 EAST CHICAGO URBAN
ENTERPRISE ACADEMY, LAKE COUNTY, INDIANA

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the East Chicago Urban Enterprise Academy (School Corporation), as of and for the years ended June 30, 2009 and 2010, which collectively comprise the School Corporation's basic financial statements and have issued our report thereon dated February 16, 2011. The opinions to the financial statements were qualified due to the School Corporation not providing for audit various documents. 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 Finding 2010-1 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, of the significant deficiencies described above, we consider item Finding 2010-1 to be 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. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as item Finding 2010-1.

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

February 16, 2011

EAST CHICAGO URBAN ENTERPRISE ACADEMY
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2009

<u>Functions/Programs</u>	<u>Disbursements</u>	Program Receipts		<u>Totals</u>	Net (Disbursement) Receipts and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions		
Governmental activities:					
Instruction	\$ 1,754,103	\$ -	\$ 61,456	\$ (1,692,647)	
Support services	939,419	19,410	234,860	(685,149)	
Noninstructional services	168,957	-	-	(168,957)	
Facilities acquisition and construction	710,005	-	-	(710,005)	
Debt service	187,421	-	-	(187,421)	
Total governmental activities	\$ 3,759,905	\$ 19,410	\$ 296,316	(3,444,179)	
General receipts:					
Property taxes				821,181	
Other local sources				2,786	
State aid				1,840,501	
Bonds and loans				488,541	
Grants and contributions not restricted to specific programs				586,083	
Total general receipts				3,739,092	
Change in net assets				294,913	
Net assets - beginning				288,386	
Net assets - ending				\$ 583,299	
<u>Assets</u>					
Cash and investments				\$ 583,299	
<u>Net Assets</u>					
Unrestricted				\$ 583,299	

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

EAST CHICAGO URBAN ENTERPRISE ACADEMY
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2010

<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	\$ 1,997,224	\$ -	\$ 57,137	\$ (1,940,087)
Support services	988,537	14,328	264,767	(709,442)
Noninstructional services	208,951	-	-	(208,951)
Facilities acquisition and construction	226,148	-	-	(226,148)
Debt service	139,713	-	-	(139,713)
Total governmental activities	<u>\$ 3,560,573</u>	<u>\$ 14,328</u>	<u>\$ 321,904</u>	<u>(3,224,341)</u>
General receipts:				
Other local sources				16,836
State aid				2,844,343
Grants and contributions not restricted to specific programs				<u>562,616</u>
Total general receipts				<u>3,423,795</u>
Change in net assets				199,454
Net assets - beginning				<u>583,299</u>
Net assets - ending				<u>\$ 782,753</u>
<u>Assets</u>				
Cash and investments				<u>\$ 782,753</u>
<u>Net Assets</u>				
Unrestricted				<u>\$ 782,753</u>

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

EAST CHICAGO URBAN ENTERPRISE ACADEMY
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	Title I 08/09	Fiscal Stabilization	Other	Totals
Receipts:						
Local sources	\$ 823,068	\$ 18,267	\$ -	\$ -	\$ 2,042	\$ 843,377
State sources	1,901,957	-	-	-	56,322	1,958,279
Federal sources	21,920	178,538	232,154	235,535	96,474	764,621
Temporary loans	488,541	-	-	-	-	488,541
Total receipts	3,235,486	196,805	232,154	235,535	154,838	4,054,818
Disbursements:						
Current:						
Instruction	1,436,295	-	156,373	890	160,545	1,754,103
Support services	884,500	-	6,841	43,509	4,569	939,419
Noninstructional services	7,920	160,901	-	136	-	168,957
Facilities acquisition and construction	691,303	-	-	18,702	-	710,005
Debt services	187,421	-	-	-	-	187,421
Total disbursements	3,207,439	160,901	163,214	63,237	165,114	3,759,905
Excess (deficiency) of receipts over disbursements	28,047	35,904	68,940	172,298	(10,276)	294,913
Other financing sources (uses):						
Transfers in	-	-	1,471	-	-	1,471
Transfers out	-	-	-	-	(1,471)	(1,471)
Total other financing sources (uses)	-	-	1,471	-	(1,471)	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	28,047	35,904	70,411	172,298	(11,747)	294,913
Cash and investments - beginning	247,062	29,005	-	-	12,319	288,386
Cash and investments - ending	<u>\$ 275,109</u>	<u>\$ 64,909</u>	<u>\$ 70,411</u>	<u>\$ 172,298</u>	<u>\$ 572</u>	<u>\$ 583,299</u>
<u>Cash and Investment Assets - Ending</u>						
Cash and investments	<u>\$ 275,109</u>	<u>\$ 64,909</u>	<u>\$ 70,411</u>	<u>\$ 172,298</u>	<u>\$ 572</u>	<u>\$ 583,299</u>
<u>Cash and Investment Fund Balance - Ending</u>						
Unrestricted	<u>\$ 275,109</u>	<u>\$ 64,909</u>	<u>\$ 70,411</u>	<u>\$ 172,298</u>	<u>\$ 572</u>	<u>\$ 583,299</u>

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

EAST CHICAGO URBAN ENTERPRISE ACADEMY
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, 2010

	General	School Lunch	Title I 08/09	Fiscal Stabilization	Other	Totals
Receipts:						
Local sources	\$ 23,464	\$ 7,615	\$ -	\$ -	\$ 85	\$ 31,164
State sources	2,901,480	-	-	-	51,529	2,953,009
Federal sources	-	213,238	-	82,358	480,258	775,854
Total receipts	2,924,944	220,853	-	82,358	531,872	3,760,027
Disbursements:						
Current:						
Instruction	1,409,918	-	52,159	87,902	447,245	1,997,224
Support services	852,004	-	5,740	89,191	41,602	988,537
Noninstructional services	9,577	198,958	-	-	416	208,951
Facilities acquisition and construction	148,578	-	-	77,570	-	226,148
Debt services	139,713	-	-	-	-	139,713
Total disbursements	2,559,790	198,958	57,899	254,663	489,263	3,560,573
Excess (deficiency) of receipts over disbursements	365,154	21,895	(57,899)	(172,305)	42,609	199,454
Other financing sources (uses):						
Transfers in	1,480	-	-	7	12,512	13,999
Transfers out	(7)	-	(12,512)	-	(1,480)	(13,999)
Total other financing sources (uses)	1,473	-	(12,512)	7	11,032	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	366,627	21,895	(70,411)	(172,298)	53,641	199,454
Cash and investments - beginning	275,109	64,909	70,411	172,298	572	583,299
Cash and investments - ending	<u>\$ 641,736</u>	<u>\$ 86,804</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,213</u>	<u>\$ 782,753</u>
Cash and Investment Assets - Ending						
Cash and investments	<u>\$ 641,736</u>	<u>\$ 86,804</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,213</u>	<u>\$ 782,753</u>
Cash and Investment Fund Balance - Ending						
Unrestricted	<u>\$ 641,736</u>	<u>\$ 86,804</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,213</u>	<u>\$ 782,753</u>

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

EAST CHICAGO URBAN ENTERPRISE ACADEMY
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: East Chicago Urban Enterprise Academy

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

Joint Venture

The School Corporation is a participant in the Northwest Indiana Educational Services Center (Service Center), a joint school services program established May 30, 1985, for participating school corporations to cooperate and share programs such as curriculum development, instructional materials, needs assessment, computer utilization and in-service education. The School Corporation provides funding based on Average Daily Membership, determined annually. Complete financial statements for the Service Center can be obtained from the Service Center's administrative offices, 2939 41st Avenue, Highland, Indiana, 46322.

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. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

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. Major individual governmental funds are reported as separate columns in the fund financial statements.

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 of the school lunch program.

EAST CHICAGO URBAN ENTERPRISE ACADEMY
NOTES TO FINANCIAL STATEMENTS
(Continued)

The Title I 08/09 Fund is used to account for the financial activity pertaining to the grant award for Title I for 2008/09.

The Fiscal Stabilization Fund accounts for receipts and disbursements of cash received from the federal government (fiscal stabilization – education stimulus) to be used to supplement funding of local, state, and federal programs.

C. Measurement Focus and Basis of Accounting

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

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

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

D. Assets and Cash and Investment Balances

1. Restricted Assets

All restricted assets, as presented in the accompanying financial statements, are restricted due to enabling legislation.

2. 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.

3. Property Taxes

Normally, 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. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which may become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to June 30 of the year collected.

EAST CHICAGO URBAN ENTERPRISE ACADEMY
NOTES TO FINANCIAL STATEMENTS
(Continued)

4. Capital Assets

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

5. Long-Term Debt

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

6. Equity Classification

Government-Wide Statements

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

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

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. Receipts and Disbursements

Program Receipts

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

F. Internal and Interfund 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 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.

EAST CHICAGO URBAN ENTERPRISE ACADEMY
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.
4. Interfund loans – Flow of assets from one fund to another where repayment is expected is reported as interfund loans.

Government-Wide Financial Statements

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

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

G. Rounding Differences

The financial statements may contain immaterial differences due to rounding of amounts when the statements were compiled. These differences are considered trivial and do not affect the overall presentation of the financial statements.

II. Stewardship, Compliance and Accountability

Cash Balance Deficits

At June 30, 2009 and 2010, the following funds reported deficits in cash, which are violations of the Uniform Compliance Guidelines as authorized by state statute:

Fund	2009	2010
Title II	\$ 1,648	\$ -
Special Education, Part B	-	38,144
Special Education, Part B - ARRA	-	8,207

III. Detailed Notes on All Funds

A. Deposits

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. At June 30, 2010, the School Corporation had deposit balances in the amount of \$782,753.

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.

EAST CHICAGO URBAN ENTERPRISE ACADEMY
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2009 and 2010, were as follows:

Transfer From	Transfer To	2009	2010
General Fund	Fiscal Stabilization Fund	\$ -	\$ 7
Title I 08/09 Fund	Other Governmental Funds	-	12,512
Other Governmental Funds	Title I 08/09 Fund	1,471	-
Other Governmental Funds	General Fund	-	1,480
		<u>1,471</u>	<u>1,480</u>
Totals		<u>\$ 1,471</u>	<u>\$ 13,999</u>

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

IV. Other Information

Risk Management

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

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; and natural disasters are covered by commercial insurance from independent third parties.

EAST CHICAGO URBAN ENTERPRISE ACADEMY
 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

	Textbook Rental	Title I 07/08	Title V	Title II	Federal Planning	Special Education Part B - ARRA	Totals
Receipts:							
Local sources	\$ 2,042	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,042
State sources	56,322	-	-	-	-	-	56,322
Federal sources	-	16,500	-	26,416	-	53,558	96,474
Total receipts	58,364	16,500	-	26,416	-	53,558	154,838
Disbursements:							
Current:							
Instruction	57,624	25,868	-	28,064	-	48,989	160,545
Support services	-	-	-	-	-	4,569	4,569
Total disbursements	57,624	25,868	-	28,064	-	53,558	165,114
Excess (deficiency) of receipts over disbursements	740	(9,368)	-	(1,648)	-	-	(10,276)
Other financing sources (uses):							
Transfers out	-	(1,471)	-	-	-	-	(1,471)
Total other financing sources (uses)	-	(1,471)	-	-	-	-	(1,471)
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	740	(10,839)	-	(1,648)	-	-	(11,747)
Cash and investments - beginning	-	10,839	914	-	566	-	12,319
Cash and investments - ending	\$ 740	\$ -	\$ 914	\$ (1,648)	\$ 566	\$ -	\$ 572
Cash and Investment Assets - Ending							
Cash and investments	\$ 740	\$ -	\$ 914	\$ (1,648)	\$ 566	\$ -	\$ 572
Cash and Investment Fund Balance - Ending							
Unrestricted	\$ 740	\$ -	\$ 914	\$ (1,648)	\$ 566	\$ -	\$ 572

EAST CHICAGO URBAN ENTERPRISE ACADEMY
 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, 2010

	Textbook Rental	Title I 09/10	Title V	Title II	Federal Planning	Special Education, Part B	Title I - ARRA	Special Education, Part B - ARRA	Totals
Receipts:									
Local sources	\$ 85	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 85
State sources	51,529	-	-	-	-	-	-	-	51,529
Federal sources	-	242,083	-	57,703	-	53,558	121,266	5,648	480,258
Total receipts	51,614	242,083	-	57,703	-	53,558	121,266	5,648	531,872
Disbursements:									
Current:									
Instruction	42,352	194,005	-	40,281	-	87,133	76,050	7,424	447,245
Support services	-	7,575	-	6,880	-	4,569	16,147	6,431	41,602
Noninstructional services	-	-	-	-	-	-	416	-	416
Total disbursements	42,352	201,580	-	47,161	-	91,702	92,613	13,855	489,263
Excess (deficiency) of receipts over disbursements	9,262	40,503	-	10,542	-	(38,144)	28,653	(8,207)	42,609
Other financing sources (uses):									
Transfers in	-	12,512	-	-	-	-	-	-	12,512
Transfers out	-	-	(914)	-	(566)	-	-	-	(1,480)
Total other financing sources (uses)	-	12,512	(914)	-	(566)	-	-	-	11,032
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	9,262	53,015	(914)	10,542	(566)	(38,144)	28,653	(8,207)	53,641
Cash and investments - beginning	740	-	914	(1,648)	566	-	-	-	572
Cash and investments - ending	<u>\$ 10,002</u>	<u>\$ 53,015</u>	<u>\$ -</u>	<u>\$ 8,894</u>	<u>\$ -</u>	<u>\$ (38,144)</u>	<u>\$ 28,653</u>	<u>\$ (8,207)</u>	<u>\$ 54,213</u>
<u>Cash and Investment Assets - Ending</u>									
Cash and investments	<u>\$ 10,002</u>	<u>\$ 53,015</u>	<u>\$ -</u>	<u>\$ 8,894</u>	<u>\$ -</u>	<u>\$ (38,144)</u>	<u>\$ 28,653</u>	<u>\$ (8,207)</u>	<u>\$ 54,213</u>
<u>Cash and Investment Fund Balance - Ending</u>									
Unrestricted	<u>\$ 10,002</u>	<u>\$ 53,015</u>	<u>\$ -</u>	<u>\$ 8,894</u>	<u>\$ -</u>	<u>\$ (38,144)</u>	<u>\$ 28,653</u>	<u>\$ (8,207)</u>	<u>\$ 54,213</u>

EAST CHICAGO URBAN ENTERPRISE ACADEMY
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 June 30, 2010

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.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Improvements other than buildings	\$ 2,521,945
Machinery and equipment	132,049
Furniture and Fixtures	<u>287,803</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 2,941,797</u>

EAST CHICAGO URBAN ENTERPRISE ACADEMY
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 June 30, 2010

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:		
Indiana Common School Fund Loan	\$ 1,345,478	\$ -
Peoples Bank Leasehold Improvement Loan	1,389,951	125,703
East Chicago Urban Enterprise Association Line of Credit	<u>1,299,171</u>	<u>135,201</u>
Total governmental activities debt	<u>\$ 4,034,600</u>	<u>\$ 260,904</u>

EAST CHICAGO URBAN ENTERPRISE ACADEMY
AUDIT RESULTS AND COMMENTS

FINANCIAL REPORT OPINION MODIFICATIONS

The following items were requested for audit, but were not provided:

1. Grant files for the two major federal programs did not contain all financial reports required to be prepared as well as supporting documents to verify the accuracy of these reports. The Title I grant files were missing the final report for the 2008-2009 grant year and the third quarter report for the 2009-2010 grant year, along with the supporting documents. The ARRA grant files were missing the report that was required to be filed in May 2010, along with the supporting documents. Also, adjustments made to the cash activity of the two major programs were not explained.
2. Grant files for Title V Education Technology (Fund 4200) and explanation of the transfer from Fund 4200 to the General Fund.
3. Grant files for Charter School Grant (Federal Planning Fund 6890) and explanation of the transfer Fund 6890 to the General Fund.
4. Schedule of Federal Financial Assistance for the school years 2008-2009 and 2009-2010.
5. Other documents that we requested to be completed to be in compliance with generally accepted auditing standards.
6. School Board approval and supporting documents for all transfers between funds.
7. School Board approval and supporting documents for temporary loans between funds and their repayment.

The following deficiencies were found regarding receipt and disbursement activities:

1. The fund and account number indicating to which fund the receipt should be posted was not always designated on the receipt.
2. Receipts were not always issued for collections of money.
3. Principal and interest payments on a loan were found incorrectly posted to the ledger.
4. There were several instances of "negative" disbursements reported in three funds.
5. A \$258,098 transaction for a temporary loan was not properly recorded in the ledger.
6. The funds listed on some claims were not consistent with the funds from which the claims were posted in the ledger as paid.

EAST CHICAGO URBAN ENTERPRISE ACADEMY
AUDIT RESULTS AND COMMENTS
(Continued)

Due to these deficiencies, we could not verify the validity or accuracy of some of the financial information presented for audit.

Therefore, the State Board of Accounts was unable to provide an unqualified opinion on the Independent Auditors' Report for the financial statements.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors' Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

FEDERAL AND STATE AGENCIES - COMPLIANCE REQUIREMENTS

Officials failed to provide a Schedule of Federal Financial Assistance for the school years 2008-2009 and 2009-2010. Officials did not have controls established to ensure compliance with reporting requirements.

The presented Schedule of Expenditures of Federal Awards was prepared with the approval of the School Corporation Officials based upon the records. The Schedule includes expenditures for the school years 2008-2009 and 2009-2010 of \$330,367 and \$707,394, respectively.

The Charter School Officials did not complete the following federal questionnaires:

1. Title I questionnaire
2. Other documents that we requested to be completed to be in compliance with generally accepted auditing standards.

OMB Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations, Subpart C states in part §____.300:

"Auditee Responsibilities. The auditee shall:

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

EAST CHICAGO URBAN ENTERPRISE ACADEMY
AUDIT RESULTS AND COMMENTS
(Continued)

§___.310 Financial statements . . .

(b) Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements . . ."

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)

BIANNUAL FINANCIAL REPORT TO A STATE AGENCY

A memorandum dated June 18, 2010, was sent from the Indiana Department of Education to all School Corporations concerning the Biannual Financial Report for the period January 1, 2010 to June 30, 2010. "The Biannual Financial Report is the basis for information requested by local, state, and federal educators and others for use in planning the management of school finances. Please be reminded that the Biannual Financial Report is due in our office on or before August 2, 2010." The report was filed on December 8, 2010, 128 days after the due date.

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)

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)

TRANSACTION RECORDING

Principal and interest payments on a loan from People's Bank were incorrectly posted to the ledger. The recorded principal payments were overstated by \$1,894.

A transaction for a temporary loan was not properly recorded in the ledger. The temporary loan was recorded as \$180,443, when \$438,541 was actually received and disbursed, a difference of \$258,098.

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)

EAST CHICAGO URBAN ENTERPRISE ACADEMY
AUDIT RESULTS AND COMMENTS
(Continued)

CONDITION OF RECORDS - NEGATIVE DISBURSEMENTS

The following deficiencies relating to the recordkeeping and controls over recording for the financial activities were noted:

There were several instances of "negative" disbursements reported in three funds.

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)

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)

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

OVERDRAWN CASH BALANCES

The cash balance of the Title II Fund (6840) was overdrawn \$1,648 at June 30, 2009. The cash balances of the Special Education, Part B Fund (7010) and Special Education, Part B - ARRA Fund (7953) were overdrawn \$38,144 and \$8,207, respectively, at June 30, 2010. These three federal grants were not reimbursement grants.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

TRANSFERS BETWEEN FUNDS

The East Chicago Urban Enterprise Academy School Board did not approve the transfers between funds. There were transfers between funds of \$1,471 during 2008-2009 and \$13,999 during 2009-2010.

Payments or transfers which are not authorized by statute, ordinance, resolution, or court order must be reimbursed or transferred to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

EAST CHICAGO URBAN ENTERPRISE ACADEMY
 AUDIT RESULTS AND COMMENTS
 (Continued)

Examples of school business decisions and transactions which should be recorded in the minutes are:

- 18. Record of Loans between funds. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

OFFICIAL BONDS

The following official bonds were not filed in the Office of the County Recorder:

Treasurer for the period September 1, 2008 to September 1, 2009

Employee Dishonesty Coverage for the period July 1, 2008 to July 1, 2009

Employee Dishonesty Coverage for the period July 1, 2009 to July 1, 2010, and for the period July 1, 2010 to July 1, 2011, were not presented for audit.

A similar comment appeared in the prior report.

The State Board of Accounts is of the audit position bonds should be filed and recorded in the office of the county recorder and a new bond shall be issued and filed each year. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

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 year ending June 30, 2009.

The enrollment count date for 2008-2009 was September 26, 2008. The difference between the count reported on the ADM and the verified figures is shown below:

<u>School Year</u>	<u>Grade</u>	<u>Count as Reported to the Indiana Department of Education</u>	<u>Actual Enrollment Figures</u>	<u>Difference</u>
2008-2009	1 Through 12	335	336	(1)

The detailed class lists were not signed by the principal for either school year.

A similar comment appeared in the prior report.

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

EAST CHICAGO URBAN ENTERPRISE ACADEMY
AUDIT RESULTS AND COMMENTS
(Continued)

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. (The School Administrator and Uniform Compliance Guidelines, Volume 163, Page 5, September 2003)

RECEIPTS

1. Receipts were not always issued for collections of money. Numerous amounts posted to the ledgers were for collections not identified by a receipt number.
2. Receipts were not always issued in chronological order.
3. The receipt books used at the local school building were not presented for audit which includes receipts issued for textbook rental.
4. Receipts are issued by the financial management company, whose offices are located in Chicago, or they can be issued at the local school building. The financial management company generally issues the receipts for electronic transfers of funds based upon notification from the bank that the funds have been deposited. The following deficiencies were found on the receipts issued at the corporate location in Chicago:
 - a. The "received from" area usually indicated what the receipt was for, not from whom the money was received.
 - b. The fund and account number to indicate to which fund the receipt should be posted was missing.
 - c. The composition of the collections was not indicated (i.e. cash, check, or money order).
 - d. Receipts written prior to May 14, 2009, were not presented for audit.
 - e. Some of the receipts were completed in pencil.

A similar comment appeared in the prior report.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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

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)

EAST CHICAGO URBAN ENTERPRISE ACADEMY
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)

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."

CLAIMS

The following deficiencies were noted concerning claims:

1. Claims were paid and checks issued prior to School Board approval.
2. Some claims were not presented for audit.
3. The funds listed on three claims were not consistent with the funds from which the claims were posted as paid.
4. Some claims were not paid timely.
5. One claim did not have all the required documentation attached.
6. One claim was improperly paid from the Student Activity Fund.

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."

EAST CHICAGO URBAN ENTERPRISE ACADEMY
AUDIT RESULTS AND COMMENTS
(Continued)

EMPLOYEE SERVICE RECORDS

The School Corporation has a sick leave policy that eligible employees earn one-half day of sick leave for each full calendar month worked up to six full days of sick leave per year. However, per the Employee's Service Record (General Payroll Form 99A), all six sick days are accrued at the beginning of the school year.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

CERTIFIED REPORT OF NAMES, ADDRESSES, DUTIES AND COMPENSATION
OF PUBLIC EMPLOYEES, GENERAL FORM 100R

The Certified Report of Names, Addresses, Duties and Compensation of Public Employees, General Form 100R, 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."

IC 5-11-13-1 concerning the personnel report, states in part:

"Every . . . school official . . . shall during the month of January of each year prepare, make, and sign a written or printed certified report, correctly and completely showing the names and business addresses of each and all officers, employees, and agents in their respective . . . institutions, and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts."

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)

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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 EAST CHICAGO URBAN
ENTERPRISE ACADEMY, LAKE COUNTY, INDIANA

Compliance

We have audited the compliance of the East Chicago Urban Enterprise Academy (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, 2009 and 2010. 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.

Except as discussed in the following paragraph, 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.

We were unable to obtain sufficient documentation supporting the compliance of the School Corporation with Title I Grants to Local Educational Agencies and ARRA State Fiscal Stabilization Fund (SFSF) – Education State Grants regarding Reporting and Special Tests and Provisions, nor were we able to satisfy ourselves as to the School Corporation's compliance with those requirements by other auditing procedures as described in items Finding 2010-4 and Finding 2010-5.

As described in item Finding 2010-3 in the accompanying Schedule of Findings and Questioned Costs, the School Corporation did not comply with requirements regarding Cash Management that are applicable to its Title I Grants to Local Educational Agencies. Compliance with such requirements is necessary, in our opinion, for the School Corporation to comply with requirements applicable to that program.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the School Corporation's compliance with the requirements of Title I Grants to Local Educational Agencies and ARRA State Fiscal Stabilization Fund (SFSF) – Education State Grants regarding Reporting and Special Tests and Provisions and,

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)

except for the noncompliance described in the preceding paragraph, the School Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the years ended June 30, 2009 and 2010. The results of our auditing procedures also disclosed other 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 item Finding 2010-2.

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 Finding 2010-3 and Finding 2010-4 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. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider item Finding 2010-3 to be a material weakness.

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

February 16, 2011

EAST CHICAGO URBAN ENTERPRISE ACADEMY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2009 and 2010

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 06-30-09	Total Federal Awards Expended 06-30-10
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Title I, Part A Cluster				
Title I Grants to Local Educational Agencies	84.010	08-9555	\$ 21,868	\$ -
		09-9555	163,214	57,898
		10-9555	-	201,580
Total for program			<u>185,082</u>	<u>259,478</u>
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	10-9555	-	92,613
Total for cluster			<u>185,082</u>	<u>352,091</u>
Special Education Cluster				
Special Education - Grants to States	84.027	14209-210-PN01	53,984	-
		14210-210-PN01	-	38,144
Total for program			<u>53,984</u>	<u>38,144</u>
ARRA - Special Education - Grants to States, Recovery Act	84.391	33310-210-SN01	-	13,855
Total for cluster			<u>53,984</u>	<u>51,999</u>
State Fiscal Stabilization Cluster				
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	10-9555	63,237	254,663
Charter Schools	84.282		-	566
State Grants for Innovative Programs	84.298		-	914
Improving Teacher Quality State Grants	84.367	09-9555	28,064	-
		10-9555	-	47,161
Total for program			<u>28,064</u>	<u>47,161</u>
Total federal awards expended			<u>\$ 330,367</u>	<u>\$ 707,394</u>

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

EAST CHICAGO URBAN ENTERPRISE ACADEMY
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 East Chicago Urban Enterprise Academy (School Corporation) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statements. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

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.

EAST CHICAGO URBAN ENTERPRISE ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Qualified

Internal control over financial reporting:

Material weaknesses identified?	yes
Significant deficiencies identified that are not considered to be material weaknesses?	no

Noncompliance material to financial statements noted? yes

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	yes
Significant deficiencies identified that are not considered to be material weaknesses?	yes

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

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:

<u>Name of Federal Program or Cluster</u>	
Title I, Part A Cluster	
State Fiscal Stabilization Fund 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 Findings

FINDING 2010-1, SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

Officials failed to provide a Schedule of Federal Financial Assistance for the school years 2008-2009 and 2009-2010. Officials did not have controls established to ensure compliance with reporting requirements.

The presented Schedule of Expenditures of Federal Awards was prepared with the approval of the Charter School Officials based upon the records. The Schedule includes expenditures for the school years 2008-2009 and 2009-2010 of \$330,367 and \$707,394, respectively.

EAST CHICAGO URBAN ENTERPRISE ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

OMB Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations, Subpart C states in part §___.300:

"Auditee Responsibilities. The auditee shall:

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

§___.310 Financial statements . . .

- (b) Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements . . ."

We recommended that School Corporation Officials implement procedures to adequately identify and accurately report all Federal award programs.

Section III – Federal Award Findings and Questioned Costs

FINDING 2010-2, ARRA FISCAL STABILIZATION ACTIVITIES ALLOWED OR UNALLOWED

Federal Agency: U.S. Department of Education

Federal Program: ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act
CFDA Number: 84.394

Pass-through Entity: Indiana Department of Education

Federal Award Number: 10-9555

The School Corporation used State Fiscal Stabilization funds in August 2009 to pay \$11,700 for painting services for the school which improved the facility. We consider the \$11,700 to be questioned costs.

EDGAR § 80.20 Standards for financial management systems states, in part (b): ". . . program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs."

Failure to follow the guidelines for expenditures indicates noncompliance with requirements for activities allowed or unallowed established by federal agencies.

EAST CHICAGO URBAN ENTERPRISE ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

EDGAR § 80.22 states in part:

"Allowable costs . . .

(b) For each kind of organization, there is a set of Federal principles for determining allowable costs. For the costs of a State, local, or Indian tribal government, the Secretary applies the cost principles in OMB Circular A-87, as amended on June 9, 1987."

OMB Circular A-87 Attachment B states in part:

"15. Equipment and other capital expenditures.

a. For the purposes of this subsection 15, the following definitions apply:

(1) 'Capital Expenditures' means expenditures for the acquisition cost of capital assets (equipment, buildings, land), or expenditures to make improvements to capital assets that materially increase their value or useful life. Acquisition cost means the cost of the asset including the cost to put it in place. Acquisition cost for equipment, for example, means the net invoice price of the equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Ancillary charges, such as taxes, duty, protective in transit insurance, freight, and installation may be included in, or excluded from the acquisition cost in accordance with the governmental unit's regular accounting practices."

"b. The following rules of allowability shall apply to equipment and other capital expenditures:

(1) Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the awarding agency. . . .

(3) Capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are unallowable as a direct cost except with the prior approval of the awarding agency.

(4) When approved as a direct charge pursuant to Attachment B, section 15.b (1), (2), and (3) above, capital expenditures will be charged in the period in which the expenditure is incurred, or as otherwise determined appropriate and negotiated with the awarding agency. In addition, Federal awarding agencies are authorized at their option to waive or delegate the prior approval requirement."

The American Recovery and Reinvestment Act of 2009, Sec. 14003 states in part: "USES OF FUNDS BY LOCAL EDUCATION AGENCIES . . . (b) PROHIBITION. - A local educational agency may not use funds received under this title for - (1) payment of maintenance costs; . . ."

We recommended the School Corporation establish procedures to review federal compliance requirements to ensure expenditures are compliant with the grant agreement.

EAST CHICAGO URBAN ENTERPRISE ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2010-3, TITLE I CASH MANAGEMENT

Federal Agency: U.S. Department of Education
Federal Programs: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Award Numbers: 09-9555, 10-9555
Pass-Through Entity: Indiana Department of Education

The East Chicago Urban Enterprise Academy receives Title I Grants to Local Educational Agencies federal grant money of approximately \$230,000 each year. As part of the application for Title I funds, school corporations are required to assess needs and develop a drawdown request of Title I funds to cover cash needs for the entire grant period. The drawdown amounts are listed by month, and must total the grant award.

The Indiana Department of Education requires School Corporations to prepare quarterly reports. The quarterly reports show grant receipts, disbursements, and cash balances and allows the School Corporation to modify subsequent drawdowns. For each of the two Title I grant programs, no attempt was made by the School Corporation to reduce a subsequent drawdown.

Controls established by the Charter School were not sufficient for Officials to determine the necessary cash balances required to operate. Controls were not in place to monitor the cash balance carried from one month to the next and amend the cash drawdown request form which we consider to be a material weakness in internal controls over cash management.

Because controls were not effective, the Charter School had excessive cash balances in eight of fifteen months (53%) spanning the period of grant award number 09-9555. Excess cash balances ranged from \$29,257.95 to \$68,939.75. The Charter School had excessive cash balances in five of fifteen months (33%) spanning the period of grant award number 10-9555. Excess cash balances ranged from \$34,360.83 to \$53,205.59. Excess balances were based on 1.5 times the average monthly expenditures for each grant award. Cash balances for each month should be zero or as close to zero as possible to receive the next month's distribution.

Governmental units should have internal controls in effect which provide reasonable assurance the cash balance of federal funds is being monitored and is in compliance with laws and regulations.

Failure to minimize the cash on hand balances indicates noncompliance with cash management requirements established by federal agencies. Failure to implement adequate and effective internal control procedures could result in the School Corporation to be deemed ineligible to receive Federal awards in the future.

EDGAR § 80.20 states in part (b):

"The financial management systems of other grantees and subgrantees must meet the following standards: . . . (7) Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

EAST CHICAGO URBAN ENTERPRISE ACADEMY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 (Continued)

Effective July 1, 2010, the Indiana Department of Education modified the grant process for their subrecipients. School Corporations will no longer be requesting grant advances; instead, School Corporations will be required to spend the funds necessitating reimbursements on funds already spent.

We recommended School Corporation Officials follow the new guidelines established by the Indiana Department of Education, requiring Title I funds to be reimbursed after the funds have been properly spent. Furthermore, School Corporation Officials should establish and implement effective internal control procedures over the monitoring of cash balances of federal funds on hand.

FINDING 2010-4, REPORTING

Federal Agency: U.S. Department of Education
 Federal Programs: Title I Grants to Local Educational Agencies, ARRA - State Fiscal Stabilization Fund (SFSF)
 CFDA Numbers: 84.010, 84.394
 Award Numbers: 09-9555, 10-9555; 10-9555
 Pass-Through Entity: Indiana Department of Education

As a part of the reporting requirements, the Indiana Department of Education requires School Corporations to prepare quarterly reports. The quarterly reports report grant receipts, disbursements, and cash balances. The School Corporation is also to submit a final report at the end of the grant period, which would be September 30 of the respective year.

These quarterly reports and final reports are designed to assist officials with monitoring their cash draws and disbursements of funds. At all times, these reports should match what is posted in the ledger.

The final report submitted for Title I expenditures for the grant period of July 1, 2009 to September 30, 2010, did not agree to what was posted to the ledger. In total, the report showed \$107 more than what was posted to the ledger during that same time period. The individual categories on the final report did not agree to the ledger. The following table shows the differences between the final report and the ledger:

	Certified Salary	Noncertified Salary	Benefits	Professional Service	General Supplies	Property	Total
Final Report	\$ 35,000.00	\$ 159,115.00	\$ 46,000.00	\$ 5,022.00	\$ 8,173.62	\$ -	\$ 253,310.62
Ledger	27,870.00	166,245.00	46,000.00	5,005.00	7,953.62	130.00	253,203.62
Difference	7,130.00	(7,130.00)	-	17.00	220.00	(130.00)	107.00

Furthermore, the following Title I reports were not presented for audit:

The final report for the 2008-2009 grant year

The third quarter report for the 2009-2010 grant year

For the ARRA – State Fiscal Stabilization Fund (SFSF) grant, monthly reports of expenditures are required to be filed with the Indiana Department of Education. The monthly report that was required to be filed for the May, 2010, was not presented for audit.

Failure to submit these reports timely and accurately indicates noncompliance with reporting requirements established by federal agencies.

EAST CHICAGO URBAN ENTERPRISE ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The controls established by the Charter School were not effective for officials to prepare, review, and maintain copies of all the required federal reports with supporting documents which is considered to be a significant deficiency in internal controls over reporting.

EDGAR § 80.20 states in part (b):

"The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
- (3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes."

Failure to adhere to reporting requirements may cause the School Corporation to be determined to be ineligible for future federal funding.

We recommended that the School Corporation Officials implement controls and procedures to ensure that all required monitoring reports are prepared accurately. Controls and procedures should be established to ensure that these reports are reviewed for accuracy and timeliness of submission. Copies of the reports and financial information supporting the disclosures made should be retained for audit.

FINDING 2010-5, TITLE I SPECIAL TESTS AND PROVISIONS

Federal Agency: U.S. Department of Education
Federal Programs: Title I Grants to Local Educational Agencies
CFDA Number: 84.010
Award Number: 09-9555, 10-9555
Pass-Through Entity: Indiana Department of Education

When a school receives Title I federal grant money, certain special tests and provisions must be satisfied. One of these special tests and provisions is that the teachers employed to teach core academic subjects such as math and reading be highly qualified. Documentation supporting teacher qualifications was not presented for audit.

EDGAR § 80.42 states in part (e):

"Access to records — (1) Records of grantees and subgrantees. The awarding agency and the Comptroller General of the United States, or any of their authorized representatives, shall have the right of access to any pertinent books, documents, papers, or other records of grantees and subgrantees which are pertinent to the grant, in order to make audits, examinations, excerpts, and transcripts . . ."

EAST CHICAGO URBAN ENTERPRISE ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Failure to adhere to special tests and provisions requirements may cause the School Corporation to be determined to be ineligible for future federal funding.

We recommended that the School Corporation Officials implement procedures to ensure that documentation to support the qualifications of teachers and support staff be retained and provided for audit as required by federal guidelines.

EAST CHICAGO URBAN ENTERPRISE ACADEMY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.



East Chicago Urban Enterprise Academy

1402 East Chicago Avenue, East Chicago Indiana 46312 PH (219) 392-36580 Fax (219) 392-3652



Indiana State Board of Accounts
Room E418
302 West Washington Street
Indianapolis, IN 46204-2765

February 28, 2011

To Whom It May Concern:

Below please find the Corrective Action Plan to the audit findings as of 6-30-10:

CORRECTIVE ACTION PLAN

FINDING 2010-1, SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

Based on these new Federal Audit Requirements, officials will be sure to prepare the Schedule of Federal Financial Assistance and Schedule of Expenditures of Federal Awards at the close of each school year so it is available for the Federal Audit upon request.

FINDING 2010-2, ARRA FISCAL STABILIZATION ACTIVITIES ALLOWED OR UNALLOWED

As stated in the audit comment, Indiana Department of Education did not provide specific requirements regarding what Fiscal Stabilization Stimulus funds should be spent on. When we inquired, were told it could be spent on anything that would normally occur in the General Fund, with no additional guidance or indication to review other instructions from U.S. Department of Education. Since the funds were received in lieu of our normal tuition support payment, there was no formal "grant agreement" provided to the school.

The school is waiting on for further instructions from State and Federal governments on how to handle this situation. If repayment of the \$11,700 of questioned funds is allowed or required, the repayment would need to be made from general local funds.

For all future funding of this nature, we will request written documentation of expenditure restrictions and/or a formal grant agreement from the Indiana Department of Education.

FINDING 2010-3, TITLE I CASH MANAGEMENT

While Title I activity was monitored and tracked monthly, the original drawdown requests submitted by the school director were not reduced during the reporting cycle.

Effective immediately, all cash fund ledgers will be printed as supporting documents and reconciled to all required monthly, quarterly and annual Federal reporting. Individual files are maintained for all Federal funding sources containing approved programs and any required reporting and supporting documents.

Effective July 1, 2010, all Federal program funding is requested on a reimbursement basis only, therefore, there should be no excess cash balances for these funds in the future.

FINDING 2010-4, REPORTING

A subsequent correction was made in the general ledger for the expenditure posted to the incorrect fund. The Title I Final Annual Expenditure Report as filed was accurate.

All the reports not presented for audit were filed as required with the Indiana Department of Education. However, after reviewing the returned files from the auditor, it was determined that the Title I Final Expenditure report for 2008-2009 was missing from the file, the report and supporting data were reprinted to maintain complete and accurate files. It was also determined that the actual Title I third Quarter report for 2009-2010 was not printed and attached to the support documents that were included in the original file provided. The report has been reprinted from the website and attached to the supporting documents that were originally in the file. We were unable to locate the May 2010 ARRA report as filed and are requesting a copy of the report as filed with Indiana Department of Education.

Internal control procedures regarding fund reporting and file maintenance have been modified to monitor that all reporting documents have been printed and supporting document general ledger categories are accurate. Also, if there are any actual staff classifications from certified or un-certified that may be different for original budgeted classification for the Title I program an amendment will be filed with the Indiana Department of Education.

FINDING 2010-5, TITLE I SPECIAL TESTS AND PROVISIONS

The school did comply with all Highly Qualified Teacher federal guidelines and compliance requirements. Unfortunately when responding to the auditor inquiry, the school only provided the auditor with the information and parent letter compliance related to those teachers that were considered non highly qualified working on emergency permits, instead of the documentation on the highly qualified teachers.

For all future audit requests the school will provide both highly qualified and non highly qualified teacher information and compliance documentation.



Vito C. Bianco

February 28, 2011

EAST CHICAGO URBAN ENTERPRISE ACADEMY
EXIT CONFERENCE

The contents of this report were discussed on February 16, 2011, with Vito Bianco, Treasurer; Charlotte Jackson, Director of the School; and Kathleen Kansfield, Accounting Controller. The official response has been made a part of this report and may be found on pages 45 through 47.



East Chicago Urban Enterprise Academy

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Indiana State Board of Accounts
Room E418
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February 28, 2011

East Chicago Urban Enterprise Academy Management Response to Examination Results and Comments

Financial Report Opinion Modifications

School officials will be sure to have the required supplemental schedules and documentation prepared each year during the financial closing process so they can be made available timely during the audit process.

The management company has had discussion with State Auditors, expressing concerns over the timing and volume of audit data required in a very short period. The discussion led to several suggestions to ensure much of the data and supplemental schedules can be prepared in advance of the audit.

Federal and State Agencies – Compliance Requirements

Based on these new Federal Audit Requirements, officials will be sure to prepare the Schedule of Federal Financial Assistance and Schedule of Expenditures of Federal Awards at the close of each school year so it is available for the Federal Audit upon request.

Biannual Financial Report to a State Agency

School officials will be sure to file accurate and timely reports as required by federal and state agencies.

Transaction Reporting

School officials will be sure to closely review loan activity for accuracy to avoid any such transposition or missed transaction errors as identified in the audit comment. While such errors were identified and correctly reported on the State Form 9 financial report, corrections were unable to be made to the closed general ledger system.

Conditions of Records-Negative Disbursements

The school officials do maintain internal controls to reasonably assure accuracy and reliability of financial information. However, a disbursement may be required to be voided outside of the financial reporting period creating a negative disbursement due to timing differences. Such instances are considered to be reasonable and normal in course of the schools operations.

As a result of incorrect information and communication with Indiana Department of Education regarding proper presentation of SPED B pass through verses SPED B ARRA funding on the June 30, 2009 Form 9 financial report, the school officials were instructed to reverse the reporting, in detail from the incorrect fund code and report in detail under the correct fund code by the Indiana Department of Education. This resulted in multiple negative disbursements within the fund.

Overdrawn Cash Balances

The school officials maintain internal controls which do monitor fund cash balances. The specific overdrawn cash balances identified in the audit are addressed below. The 6-30-09 overdrawn Title II fund (6840) was funded on 7-3-09. The ARRA Special Education Fund (7953) funding was adjusted during the year to avoid excess cash balances, the funding for June expenses was requested and funded on 7-28-10. The Special Education Fund (7010) was funded on a reimbursement request dated 8/31/10.

Transfers Between Funds

The school board will be presented for approval all proposed transfers between funds based on school business decisions and transactions.

Official Bonds

The official bond and employee dishonesty insurance coverage for the fiscal year 2008/2009 were effective for the audit period.

The employee dishonesty insurance coverage is combined in part of the overall school insurance package and not a separate policy document.

The management company has ensured that all treasurer bonds have been filed with the Office of County Recorder for fiscal year 2009/2010 and current fiscal year 2010/2011.

Average Daily Membership (ADM) – Incorrect Reporting to the State

The school and management company will ensure that the actual enrollment and count reported on Form Number 30A are verified and accurate and the school principal will sign the detailed class lists.

Receipts

The management company has discussed the deficiencies in the receipts generated in their offices with the State Auditors. The management company has changed procedures to ensure the receipts and fully completed and recorded in the ledgers properly.

The receipt books from the school building and the management company receipt book prior to May 14, 2009 (used in prior State Audit) were unfortunately not identified as when gathering the audit data prior to fieldwork or requested by the State Auditor as missing items. If they had they would have been provided for audit review.

Claims

The management company has reviewed the listing of deficiencies with the State Auditors. The management company is developing new claims approval procedures based on additional recommendations by the State Auditor.

Based on prior State Auditor recommendations, beginning in early 2009 the school board reviews and approves all open (unpaid) claims as of the date of the monthly board reports issuance. The school board has approved the fiscal officer to have jurisdiction over allowance of payment of the claim.

The details on specific claims that were not presented, did not contain fund corrections on vouchers or that had missing documentation were not provided to the management company to be able to review and respond to these items.

Employee Service Record

The school will correct the employee handbook for the change in the sick leave policy to full accrual at beginning of the school year.

Certified Report of Names, Addresses, Duties and Compensation of Public Employees, General Form 100R

The management company will ensure that this report is available for audit and filed with the State Board of Accounts as required annually.