

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

AUDIT REPORT

OF

ANDREW J. BROWN ACADEMY

MARION COUNTY, INDIANA

July 1, 2008 to June 30, 2010



**FILED**

03/31/2011



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Joseph Davis Quianna Graham	07-01-08 to 05-18-10 05-18-10 to 06-30-11
President of the School Board	Dr. Thomas Brown	07-01-08 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 ANDREW J. BROWN ACADEMY, MARION COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Andrew J. Brown 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 follow 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 has entered into a management agreement with a private company in which there is very limited oversight by the School Corporation. The lack of oversight and internal controls over the activity of the private company by the school hindered us from performing procedures to ensure that the receipts and disbursements reported on the School Corporation's financial statements were complete. All monies received by the School Corporation were remitted to a private company for contracted services. The financial statements presented herein were compiled based on the bank activity of the school corporation. Instances were identified during the course of the audit where the School Corporation's deposits were actually deposited in the bank account of the private company. Financial statement receipts were adjusted to also included these deposits; however, without access to the private company's records, we could not apply adequate procedures to determine if any other deposits existed that were not reported in the financial statements and if so, to what extent. The management agreement indicated that all monies received were to be remitted to the private company for contracted services; because of this agreement our scope of testing over disbursements was also limited.

As discussed in Note I, the School Corporation prepared 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.

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

Since the School Corporation entered into a management agreement with a private entity, with very little oversight, and poor internal controls over receipts; we were unable to apply other auditing procedures to satisfy ourselves as to the completeness of the receipts and the disbursements reported, the scope of our work was not sufficient to express, and we do not express, an opinion on 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.

In accordance with Government Auditing Standards, we have also issued a report dated March 22, 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. Since the School Corporation has entered into a management agreement with a private entity, with very little oversight, and poor internal controls over deposits of federal funds, and we were not able to apply other auditing procedures to satisfy ourselves as to the completeness of the receipts and the disbursements reported, the scope of our work was not sufficient to express, and we do not express, an opinion on the Schedule of Expenditures of Federal Awards.

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

The School Corporation has not presented 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 and Schedule of Capital Assets 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 was not subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on it.

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

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

March 22, 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 ANDREW J. BROWN ACADEMY, MARION COUNTY, INDIANA

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Andrew J. Brown 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 March 22, 2011. The opinions to the financial statements were disclaimed due to lack of internal controls and oversight of a management agreement entered into by the School Corporation. Due to the lack of internal controls and oversight, we were unable to determine that receipts and disbursements as presented were complete. 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 2010-1 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

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

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.

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 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 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 pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

March 22, 2011

# **ANDREW J. BROWN ACADEMY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2010**

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The discussion and analysis of Andrew J. Brown's (the "School Corporation") financial performance provides an overall review of the School Corporation's financial activities through June 30, 2010. The intent of this discussion and analysis is to look at the School Corporation's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School Corporation's financial performance.

The Management's Discussion and Analysis ("MD&A") is an element of the reporting model adopted by the Governmental Accounting Standards Board ("GASB") in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June, 1999.

### **Financial Highlights**

For the fiscal years ended June 30, 2010 and 2009, total unrestricted net assets, representing cash and investments, were \$124,344 and \$122,556, respectively.

### **Using this Financial Report**

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Cash and Investments, a Statement of Activities and Net Assets, and a Statement of Receipts, Disbursements, and Cash and Investment Balances.

### **Reporting the Academy as a Whole**

One of the most important questions asked about the School Corporation is, "As a whole, what is the School Corporation's financial condition as a result of the year's activities?" The Statement of Cash and Investments and the Statement of Activities and Net Assets, which appear first in the School Corporation's financial statements, report information on the School Corporation as a whole and its activities in a way that helps you answer this question. We prepare these statements using the cash basis of accounting.

These two statements report the School Corporation's net assets – as one way to measure the School Corporation's financial health or financial position. Over time, increases or decreases in the School Corporation's cash and net assets – as reported in the Statement of Cash and Investments – are indicators of whether its financial health is improving or deteriorating. The relationship between receipts and disbursements is the School Corporation's operating results. However, the School Corporation's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the School Corporation.

The Statement of Cash and Investments and the Statement of Activities and Net Assets report the activities for the School Corporation, which encompass all the School Corporation’s services, including instruction, support services, community services, and food services. Unrestricted state aid and state and federal grants finance most of these activities.

The School Corporation has entered into a management agreement (the “agreement”) with National Heritage Academies, Inc. (“NHA”) which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the agreement, NHA also provides the facility in which the School Corporation operates. Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the School Corporation from all revenue sources.

The table below provides a summary of the School Corporation’s cash and investments for fiscal years ended June 30:

	<b>2010</b>	<b>2009</b>
Assets:		
Current assets	\$ <u>124,344</u>	\$ <u>122,556</u>
Total assets	124,344	122,556
Net assets:		
Unrestricted	<u>124,344</u>	<u>122,556</u>
Total net assets	<u>\$ 124,344</u>	<u>\$ 122,556</u>

The results of the current year operations for the School Corporation as a whole are reported in the Statement of Activities and Net Assets, which shows the change in net assets.

## Statement of Activities and Net Assets

The table below shows the changes in net assets as well as a listing of receipts and disbursements for the fiscal years ending June 30:

	2010	2009
Receipts:		
Property taxes	\$ 9,511	\$ 720,732
Other local sources	8,651	16,554
Operating grants and contributions	1,454,678	1,167,314
Charges for services	26,581	32,970
State aid	4,067,430	3,153,322
Grants and contributions not restricted to specific programs	<u>107,614</u>	<u>128,888</u>
Total Receipts	<u>5,674,465</u>	<u>5,219,780</u>
Disbursements:		
Contracted service fee	5,639,550	5,880,387
Support Services	<u>33,127</u>	<u>5,618</u>
Total Disbursements	<u>5,672,677</u>	<u>5,886,005</u>
Change in net assets	<u>\$ 1,788</u>	<u>\$ (666,225)</u>

As reported in the Statement of Activities and Net Assets, the cost of business activities for the years ended June 30, 2010 and 2009 was \$5,639,550 and \$5,880,387, respectively. These activities were primarily funded by the School Corporation's state aid (based on student count), property taxes and governments and organizations that subsidized certain programs with grants.

**Capital Assets**—At June 30, 2010, the School Corporation had \$17,000 invested in capital assets with purchases utilizing Board funds, primarily technology-related assets. The assets were accounted for as capital outlay disbursements upon acquisition. Capital assets are substantially provided as part of the agreement with NHA.

### ***General Economic Factors***

The School Corporation depends on legislative and governmental support to fund its operations. Based on information currently available, no significant changes are expected to occur in the nature of the funding or operations of the School Corporation in 2011.

### ***Contacting the School Corporation's Financial Management***

The financial report is designed to provide users of the report with a general overview of the School Corporation's finances and to demonstrate the School Corporation's accountability for the money it receives. If you have questions about this report, contact the Chief Financial Officer of National Heritage Academies, Inc., 3850 Broadmoor SE, Ste. 201, Grand Rapids, MI 49512.

ANDREW J. BROWN 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>	<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:				
Contract service fee	\$ 5,880,387	\$ 32,970	\$ 1,167,314	\$ (4,680,103)
Support services	<u>5,618</u>	<u>-</u>	<u>-</u>	<u>(5,618)</u>
Total governmental activities	<u>\$ 5,886,005</u>	<u>\$ 32,970</u>	<u>\$ 1,167,314</u>	<u>(4,685,721)</u>
General receipts:				
Property taxes				720,732
Other local sources				16,554
State aid				3,153,322
Grants and contributions not restricted to specific programs				<u>128,888</u>
Total general receipts				<u>4,019,496</u>
Change in net assets				(666,225)
Net assets - beginning				<u>788,781</u>
Net assets - ending				<u>\$ 122,556</u>
<u>Assets</u>				
Cash and investments				<u>\$ 122,556</u>
<u>Net Assets</u>				
Unrestricted				<u>\$ 122,556</u>

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

ANDREW J. BROWN 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:				
Contract service fee	\$ 5,639,550	\$ 26,581	\$ 1,454,678	\$ (4,158,291)
Support services	<u>33,127</u>	<u>-</u>	<u>-</u>	<u>(33,127)</u>
Total governmental activities	<u>\$ 5,672,677</u>	<u>\$ 26,581</u>	<u>\$ 1,454,678</u>	<u>(4,191,418)</u>
General receipts:				
Property taxes				9,511
Other local sources				8,651
State aid				4,067,430
Grants and contributions not restricted to specific programs				<u>107,614</u>
Total general receipts				<u>4,193,206</u>
Change in net assets				1,788
Net assets - beginning				<u>122,556</u>
Net assets - ending				<u>\$ 124,344</u>
<u>Assets</u>				
Cash and investments				<u>\$ 124,344</u>
<u>Net Assets</u>				
Unrestricted				<u>\$ 124,344</u>

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

ANDREW J. BROWN 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

	<u>General</u>	<u>Other</u>	<u>Totals</u>
Receipts:			
Local sources	\$ 737,286	\$ 32,970	\$ 770,256
State sources	3,282,210	44,128	3,326,338
Federal sources	<u>-</u>	<u>1,123,186</u>	<u>1,123,186</u>
 Total receipts	 <u>4,019,496</u>	 <u>1,200,284</u>	 <u>5,219,780</u>
Disbursements:			
Current:			
Contract service fee	4,630,593	1,249,794	5,880,387
Support services	<u>5,618</u>	<u>-</u>	<u>5,618</u>
 Total disbursements	 <u>4,636,211</u>	 <u>1,249,794</u>	 <u>5,886,005</u>
Deficiency of receipts over disbursements	 <u>(616,715)</u>	 <u>(49,510)</u>	 <u>(666,225)</u>
Other financing sources (uses):			
Transfers in	-	49,510	49,510
Transfers out	<u>(49,510)</u>	<u>-</u>	<u>(49,510)</u>
 Total other financing sources (uses)	 <u>(49,510)</u>	 <u>49,510</u>	 <u>-</u>
Deficiency of receipts and other financing sources over disbursements and other financing uses	 <u>(666,225)</u>	 <u>-</u>	 <u>(666,225)</u>
Cash and investments - beginning	 <u>788,781</u>	 <u>-</u>	 <u>788,781</u>
Cash and investments - ending	 <u>\$ 122,556</u>	 <u>\$ -</u>	 <u>\$ 122,556</u>
 <u>Cash and Investment Assets - Ending</u>			
Cash and investments	 <u>\$ 122,556</u>	 <u>\$ -</u>	 <u>\$ 122,556</u>
 <u>Cash and Investment Fund Balance - Ending</u>			
Unrestricted	 <u>\$ 122,556</u>	 <u>\$ -</u>	 <u>\$ 122,556</u>

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

ANDREW J. BROWN 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

	<u>General</u>	<u>Other</u>	<u>Totals</u>
Receipts:			
Local sources	\$ 18,162	\$ 26,581	\$ 44,743
State sources	4,175,044	8,459	4,183,503
Federal sources	<u>-</u>	<u>1,446,219</u>	<u>1,446,219</u>
Total receipts	<u>4,193,206</u>	<u>1,481,259</u>	<u>5,674,465</u>
Disbursements:			
Current:			
Contract service fee	4,121,108	1,518,442	5,639,550
Support services	<u>33,127</u>	<u>-</u>	<u>33,127</u>
Total disbursements	<u>4,154,235</u>	<u>1,518,442</u>	<u>5,672,677</u>
Excess (deficiency) of receipts over disbursements	<u>38,971</u>	<u>(37,183)</u>	<u>1,788</u>
Other financing sources (uses):			
Transfers in	-	37,183	37,183
Transfers out	<u>(37,183)</u>	<u>-</u>	<u>(37,183)</u>
Total other financing sources (uses)	<u>(37,183)</u>	<u>37,183</u>	<u>-</u>
Excess of receipts and other financing sources over disbursements and other financing uses	1,788	-	1,788
Cash and investments - beginning	<u>122,556</u>	<u>-</u>	<u>122,556</u>
Cash and investments - ending	<u>\$ 124,344</u>	<u>\$ -</u>	<u>\$ 124,344</u>
<u>Cash and Investment Assets - Ending</u>			
Cash and investments	<u>\$ 124,344</u>	<u>\$ -</u>	<u>\$ 124,344</u>
<u>Cash and Investment Fund Balance - Ending</u>			
Unrestricted	<u>\$ 124,344</u>	<u>\$ -</u>	<u>\$ 124,344</u>

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

ANDREW J. BROWN 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: Andrew J. Brown Academy

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

Nature of Operation

The charter for the School Corporation was granted on May 20, 2003. The Board of Directors entered into a Management Agreement (Agreement) with National Heritage Academies, Inc., (NHA) which requires NHA to provide management, operation, administration, accounting, strategic planning and all labor, materials, equipment and supervision necessary for the provision of educational services to students. Per the Agreement, NHA leases the facility in which the school operates to the School Corporation. NHA is subject to the oversight and authority of the School Corporation's Board of Directors.

Under the terms of the Agreement, NHA receives all School Corporation revenue from all sources as their contracted service fee. NHA is entitled to any difference between the gross management fee and the operating costs of the school as compensation for management services rendered. The original Agreement was effective through June 15, 2010. The Agreement was re-signed June 15, 2010, and is effective through August 14, 2017, unless at least 90 days written notice of intent to terminate or renegotiate is given by either the School Corporation or NHA.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other no exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. However, at this time, the School Corporation has no business-type activities.

ANDREW J. BROWN ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Fund Financial Statements

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

The School Corporation reports the following major governmental funds:

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

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, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

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

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

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

ANDREW J. BROWN ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

D. Assets and Cash and Investment Balances

1. Cash and Investments

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

2. Property Taxes

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 December 31 of the year collected. The School Corporation received property tax distributions in 2008. However due to changes in state funding, did not receive property tax distributions after 2008.

3. Capital Assets

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

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

ANDREW J. BROWN ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

E. Receipts and Disbursements

Program Receipts

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

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.
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 except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. 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.

ANDREW J. BROWN ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

II. 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. IC 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The School Corporation does not have a deposit policy for custodial credit risk. At June 30, 2010, the School Corporation had deposit balances in the amount of \$124,344.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Interfund Transfers

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

Transfer From	Transfer To	2009	2010
General Fund	Other Governmental Funds	\$ 49,510	\$ 37,183
		\$ 49,510	\$ 37,183

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

III. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties.

Settled claims from risks covered by commercial insurance have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Contracted Service Fee

NHA received as remuneration for its services an amount equal to the total revenue received by the School Corporation from all revenue sources per the Agreement (see Note I A). During the 2008-2009 and 2009-2010 fiscal years, NHA received \$5,841,424 and \$5,657,270, respectively, as their contracted service fee.

ANDREW J. BROWN 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

	School Lunch	Textbook Rental	Title I	Title V	IDEA	Title IIA	State Stimulus - ARRA	Totals
<b>Receipts:</b>								
Local sources	\$ 29,093	\$ 3,877	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32,970
State sources	799	43,329	-	-	-	-	-	44,128
Federal sources	186,381	-	406,044	33,920	92,651	49,915	354,275	1,123,186
<b>Total receipts</b>	<b>216,273</b>	<b>47,206</b>	<b>406,044</b>	<b>33,920</b>	<b>92,651</b>	<b>49,915</b>	<b>354,275</b>	<b>1,200,284</b>
<b>Disbursements:</b>								
Current:								
Contract service fee	265,783	47,206	406,044	33,920	92,651	49,915	354,275	1,249,794
<b>Total disbursements</b>	<b>265,783</b>	<b>47,206</b>	<b>406,044</b>	<b>33,920</b>	<b>92,651</b>	<b>49,915</b>	<b>354,275</b>	<b>1,249,794</b>
Deficiency of receipts over disbursements	(49,510)	-	-	-	-	-	-	(49,510)
Other financing source - transfers in	49,510	-	-	-	-	-	-	49,510
Excess (deficiency) of receipts and other financing sources over disbursements	-	-	-	-	-	-	-	-
Cash and investments - beginning	-	-	-	-	-	-	-	-
Cash and investments - ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<u>Cash and Investment Assets - Ending</u>								
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<u>Cash and Investment Fund Balance - Ending</u>								
Unrestricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

ANDREW J. BROWN 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

	School Lunch	Textbook Rental	Title I	Title IIA	IDEA FT
Receipts:					
Local sources	\$ 24,013	\$ 2,568	\$ -	\$ -	\$ -
State sources	781	7,678	-	-	-
Federal sources	271,035	-	391,994	55,669	24,234
Total receipts	<u>295,829</u>	<u>10,246</u>	<u>391,994</u>	<u>55,669</u>	<u>24,234</u>
Disbursements:					
Current:					
Contract service fee	333,012	10,246	391,994	55,669	24,234
Total disbursements	<u>333,012</u>	<u>10,246</u>	<u>391,994</u>	<u>55,669</u>	<u>24,234</u>
Deficiency of receipts over disbursements	<u>(37,183)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources - transfers in	<u>37,183</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and investments - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Unrestricted	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

ANDREW J. BROWN 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  
 (Continued)

	State				Totals
	Stimulus - ARRA	Title I - ARRA	Title IID - ARRA	IDEA FT - ARRA	
Receipts:					
Local sources	\$ -	\$ -	\$ -	\$ -	\$ 26,581
State sources	-	-	-	-	8,459
Federal sources	131,024	433,110	90,505	48,648	1,446,219
Total receipts	<u>131,024</u>	<u>433,110</u>	<u>90,505</u>	<u>48,648</u>	<u>1,481,259</u>
Disbursements:					
Current:					
Contract service fee	131,024	433,110	90,505	48,648	1,518,442
Total disbursements	<u>131,024</u>	<u>433,110</u>	<u>90,505</u>	<u>48,648</u>	<u>1,518,442</u>
Deficiency of receipts over disbursements	-	-	-	-	(37,183)
Other financing sources - transfers in	-	-	-	-	37,183
Excess (deficiency) of receipts and other financing sources over disbursements	-	-	-	-	-
Cash and investments - beginning	-	-	-	-	-
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Unrestricted	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

ANDREW J. BROWN 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:	
Machinery and equipment	<u>\$ 17,000</u>
Total governmental activities, capital assets not being depreciated	<u><u>\$ 17,000</u></u>

ANDREW J. BROWN ACADEMY  
AUDIT RESULTS AND COMMENTS

CONCERNS OVER INTERNAL CONTROLS REGARDING  
FINANCIAL TRANSACTIONS AND REPORTING

We noted several weaknesses in the internal control system of the School Corporation related to financial transactions and reporting. The School Corporation did not have proper internal controls in place in order to provide reasonable assurance of the financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Additionally, proper internal controls were not in place to mitigate the risk of improper activities either due to error or fraud. Our concerns over the internal control structure were all due to a management agreement entered into by the School Corporation with National Heritage Academies (NHA) and the lack of oversight by the School Corporation on the activities of NHA for the operation of the School Corporation. Accordingly, as described below, we have the following concerns:

- Oversight of Management Contract Concerns
- Financial Reporting Concerns for Andrew J. Brown Academy
- General Ledger Concerns for Andrew J. Brown Academy (As Maintained by NHA)
- Cash Receipt Concerns for Andrew J. Brown Academy
- Disclaimer of an Opinion Over Receipts and Disbursements
- Federal Awards Concerns
- Disclaimer of an Opinion Over the Compliance of the Major Programs

Oversight of Management Contract Concerns

The School Corporation entered into a comprehensive management contract with National Heritage Academies, Inc. (NHA), a private entity, to provide educational, business administration and management services including all labor, materials, equipment and supervision. The original contract was for a seven year period beginning July 1, 2003. A new contract was signed on June 15, 2010, for a period beginning July 1, 2010 and continues from year to year without an expiration date. NHA is a for-profit Michigan corporation, and is not a division or a part of the School Corporation. According to the contract, NHA is responsible for all aspects of management, operation, administration, accounting and educational programs. NHA makes all decisions for the School Corporation regarding school policies, educational curriculum, technology, staffing, school lunch fees, textbook rental fees, budgeting, and purchasing. The contract indicates that for these services provided, NHA shall receive all revenues of the School Corporation as a gross management fee and shall pay such fees on the same frequency that the School Corporation receives revenues.

The School Corporation established two bank accounts that were maintained by NHA, a board account and a corporation account. The board bank account was established for the use of the School Board at their discretion. Deposits into the board bank account were comprised of periodic electronic transfers from NHA's bank account in an amount equal to 2% of revenues not to exceed \$35,000 per year. During both of our audit years the maximum of \$35,000 was received in the board account, so a total of \$70,000 was provided to the School Board to be used at their discretion, which is in agreement with the contract. Disbursements made from the bank account were based on School Board decisions as evidenced in the School Board minutes. We were able to adequately audit these disbursements; however, those disbursements made up only \$38,745, which was an immaterial amount in relation to the disbursements presented in the financial statements.

The corporation bank account was used to deposit daily collections and electronic funds transfers (EFT) for State and local distributions. Almost immediately after depositing funds, NHA would electronically withdraw the funds and deposit them into NHA's bank account as contract service fees.

ANDREW J. BROWN ACADEMY  
AUDIT RESULTS AND COMMENTS  
(Continued)

There was not an invoice provided by NHA to AJ Brown to document amount paid for services rendered. According to the contract agreement, all monies received are to be disbursed to NHA. NHA has access to the School Corporation's bank account; therefore, this money is electronically transferred from the AJ Brown bank accounts without any oversight of the School Corporation itself.

According to the contract, for the contract service fee provided, NHA is responsible to pay all costs related to the operation of the School Corporation and provide the School Board with monthly, quarterly and annual accounting reports. The School Board minutes indicated that quarterly reports were received from NHA and reviewed; however, there was no other indication of oversight of how NHA is disbursing School Corporation's funds paid to them in accordance with the contract. The quarterly reports presented were balance sheets and income statements based on NHA expenditures and were presented on an accrual basis. The reports did not provide detailed information regarding receipts and disbursements of funds made by NHA related to the operation of the School Corporation.

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)

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)

Financial Reporting Concerns for Andrew J. Brown Academy

According to the contract, NHA is responsible for complying with all laws and regulations in reporting for the State of Indiana which would include, but not be limited to, complying with the State Board of Accounts prescribed form of accounting as well as providing the Department of Education (DOE) with accurate financial information for the School Corporation. The School Corporation's financial records were maintained electronically by NHA on a modified accrual basis of accounting using the same computerized accounting system as NHA. NHA maintains a separate general ledger for each school managed.

According to an Indiana Department of Education (DOE) memorandum dated June 17, 2009, to School Corporation/Charter School Treasurers/Business Managers, "The Biannual Financial Report (Form 9) is the basis for information requested by local, state, and federal educators and others for use in planning the management of school finances. The information furnished must be accurate, complete, and reflect the detailed sources of revenue and type of expenditures in exact dollars and cents." The DOE requires all school corporations, including Charter Schools, to complete a biannual financial report as of June 30 and December 31 of each year.

The Form 9 submitted to the DOE was provided to us for audit and appeared to have the detail of operations by fund and disbursement classifications comparable to other school corporations. However we identified that the information had several issues when compared to the prior audited financial statements and the general ledger presented for audit. The beginning balances did not agree to the ending balances reported in the prior audit. Additionally, the classifications of disbursements on the financial information submitted to the DOE did not agree to the classifications presented in the prior audited financial information or the general ledger submitted for audit. Prior audited financial statements show that adjustments were made to the disbursement classifications submitted to DOE and resulted in reporting all disbursements under the classification of "contracted services." DOE was not made aware of the inaccurate classification of disbursements in prior years.

ANDREW J. BROWN ACADEMY  
AUDIT RESULTS AND COMMENTS  
(Continued)

We inquired to NHA about these differences and they prepared new financial statements. The new financial statements were compiled by NHA by abstracting the bank activity of the School Corporation and reporting total money received as total money disbursed to NHA. As indicated in the preceding section, all monies received by the School Corporation were disbursed to NHA according to the contract; therefore, reporting all disbursements as contracted services is the financial activity for the School Corporation per the contract and general ledger. Detailed information previously reported on Form 9 to the DOE in regards to disbursements for the actual operations of the School Corporation were based on the disbursement activity of NHA. The School Corporation could not provide us any additional information in regards to detailed disbursements for the operation of the School Corporation in order for us to determine or recommend necessary adjustments to accurately present the financial information comparable with other school corporations in the State of Indiana.

Additionally we requested detailed information regarding operational costs of the School Corporation from NHA; however, NHA, would not provide us access to their records in order to present the financial information for the operation of the School Corporation in the same fashion as other school corporations in the State of Indiana. The School Corporation did not have controls in place to ensure that NHA is complying with the management contract and complying with applicable laws and regulations. Additionally, the School Corporation did not have any documentation or procedures in place to ensure that detailed accounting information for the actual operation of the School Corporation could be provided that would allow for comparability with other school corporations in the State of Indiana. The Form 9 activity provided to DOE is the activity of NHA, a private company. The general ledger maintained for the School Corporation reported a small portion of disbursements as "supplies" and the remaining disbursements as "contracted services." No other source documents exist at the School Corporation that would provide the information necessary to report a comparable breakdown of disbursements by Instruction, Support Services, etc., which detailed information is only available through the financial records of NHA. NHA is a private entity, for which the State Board of Accounts does not have the authority to audit.

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

IC 20-39-1-1 states:

"All public school governing bodies shall adopt and fully and accurately implement a single, unified accounting system as prescribed by the state board and the state board of accounts."

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)

General Ledger Activity Concerns for Andrew J. Brown Academy (As Maintained by NHA)

NHA provided for audit the general ledger maintained for the School Corporation. The general ledger reported revenue transactions based on classifications and disbursements out for contracted services. We found that the general ledger information was not auditable, due to the lack of detail for individual transaction postings. The general ledger was not maintained by fund and contained numerous cash and accrual transactions commingled to the point that that we could not determine that the cash receipts and disbursements presented in the financial statements were an accurate reflection of the cash activity

ANDREW J. BROWN ACADEMY  
AUDIT RESULTS AND COMMENTS  
(Continued)

of the School Corporation. We noted in many cases, the transaction postings were not descriptive enough to determine cash from accrual entries and were commonly referred to as "summarized transaction".

Separate "units" were maintained within the general ledger which were basically separate revenue categories. Units were maintained for the "Board" discretionary funds and each type of federal grant (Title I, Title V, etc). All other revenues were reported in the "AJB Academy" unit which included State distributions, county distributions, donations, and collections from students and/or parents such as school lunch, textbook rental, field trips, and other miscellaneous receipts. Disbursements were posted to the "Board" unit for the amounts spent out of the School Corporation's board bank account and the "AJB Academy" unit as a single line item for contracted services based on the amounts transferred to NHA. No disbursements were posted in the ledger against any federal grant units as these were simple revenue categories and not "Funds." The only unit that reported a cash balance was the "Board" unit which was the cash balance reported in the financial statements and agrees with the amount of cash in the board bank account.

Fund accounting on a cash basis is required in reporting to the Department of Education. Additionally, auditable financial records that would support the financial activity of the School Corporation submitted to DOE was required in order to for the State Board of Accounts to express an opinion on the accuracy of the financial information. The School Corporation did not have proper controls in place that would enable them to ensure that NHA was complying with all laws and regulations of the State of Indiana as required by their contract.

IC 20-39-1-1 states:

"All public school governing bodies shall adopt and fully and accurately implement a single, unified accounting system as prescribed by the state board and the state board of accounts."

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)

Cash Receipts Concerns for Andrew J. Brown Academy

Due to the manner in which the general ledger was maintained and receipts were not issued at the time of collection, we were unable to verify that all cash receipts posted to the general ledger were accurately reported in the financial statements. The receipts reported in the financial statements as presented were compiled by NHA based on the bank account activity of the School Corporation. Additionally NHA had to increase receipts for the School Corporation to reflect monies that were directly deposited into NHA's bank account instead of the School Corporation's bank account. Amounts physically collected at the school building for 2008-2009, including a county tax distribution issued by check, were deposited directly into NHA's bank account instead of the School Corporation's bank account. Cash receipts in 2008-2009, were increased by \$49,524 to reflect the amounts deposited directly to NHA's bank account. NHA also indicated that similar occurrences happened in 2009-2010 school year at a lesser amount and increased cash receipts in the amount of \$1,145. These receipts were included in the general ledger provided; however, based on the manner in which the general ledger was maintained, we were not able to determine if additional instances occurred that may not have been included in the cash receipts reported in the financial statements. Additionally, adequate source documents were not provided for audit in order to verify the validity of the amounts used to increase cash receipts. Finally, the fact that receipts were being deposited directly into an NHA bank account identified a major control risk over the financial

ANDREW J. BROWN ACADEMY  
AUDIT RESULTS AND COMMENTS  
(Continued)

reporting of cash receipts and provided a scope limitation. We considered the aforementioned to be a major control risk that receipts as reported may not be accurate based on the fact that we did not have access to the bank statements or financial accounting records of NHA.

During the course of the audit, we identified additional amounts deposited in NHA's bank account, which should have been deposited into the School Corporation's bank account and were not properly reported in the financial statements, even after the adjustments noted in the preceding paragraph. We discovered that county tax distributions totaling \$16,488 were not included in the receipts reported for 2008-2009. After informing NHA, the financial statements were adjusted and NHA investigated receipts further and found additional receipts in 2009-2010 of \$6,622 that also were not included in the adjusted financial statements. NHA again adjusted the financial statements. While reviewing the federal activity, another \$16,589 related to a federal grant passed through Ball State University was also determined to be excluded from the financial statements and schedule of federal expenditures. Adjustments were made to the financial statements again. Adjustments consisted of increasing receipts and disbursements, as disbursements were dependent on receipts, since all money received by the School Corporation were disbursed to NHA for contracted services.

Receipts were not issued for all monies collected, including monies received by EFT or any other means. During the course of our audit we identified that receipts were not issued for State, federal or county distributions received or any other deposits received by EFT. Generic, non-prescribed, receipt books purchased from a local store were used at the school building for various types of collections, but were not used for all collections. Three receipt books were presented that were in use during the audit period, at the same time, by at least two individuals and the receipts were not issued in chronological order. Receipt logs were also maintained by receipt category at the school building. However these logs did not indicate the type of collection (cash or check) for all receipts and when examining transactions recorded in the logs, some could not be verified to receipts issued or deposits.

The School Corporation did not have controls in place that would ensure all monies provided for the operation of the School Corporation were appropriately deposited and accounted for in the records of the School Corporation. The School Corporation relinquished their responsibilities of accounting for money and was paying a contracted service fee to NHA to perform those duties; however, controls were not in place at the school corporations level that ensured that NHA was accurately and appropriately accounting for their monies. The School Corporation did not have an adequate understanding of how, when, or where collections were made or who was responsible for collecting and reporting the amounts received or the type of monies received. The School Corporation also was not aware of the amounts being deposited, when they were deposited, or who was making the deposits. By delegating their duties to NHA, not having an adequate understanding of the procedures in place for receipts, and not monitoring the receipts activity, the School Corporation created an environment that allowed monies to be deposited into a bank account other than their own and failed to detect the errors.

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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)

ANDREW J. BROWN ACADEMY  
AUDIT RESULTS AND COMMENTS  
(Continued)

IC 5-13-6-1(c) states in part:

" . . . all local officers . . . who collect public funds of their respective political subdivisions shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objections, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

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

Disclaimer of an Opinion Over Receipts and Disbursements

The concerns noted in the preceding section resulted in a disclaimer of an opinion, due to a scope limitation, on the financial statements presented. During the course of the audit, identification was made either by us or by NHA that a total of \$90,368 was inaccurately deposited into an NHA bank account instead of the appropriate School Corporation account. Due to the fact that we were not provided access to NHA bank account documents and other accounting records, we were unable to perform other alternative procedures to ensure that the receipts, disbursements, and cash balances as presented were complete and accurate.

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 Awards Concerns

NHA applied for federal awards on behalf of the School Corporation and managed all aspects of those federal awards. The federal monies were electronically deposited into the School Corporation's bank account and almost immediately transferred to NHA's bank account through EFT as contracted service fees. NHA receipted the monies into the general ledger for the School Corporation as separate revenue categories, but separate cash balances were not maintained for each federal program as NHA did not use fund accounting. The general ledger of the School Corporation, maintained by NHA, included receipts for the federal monies in the appropriate revenue categories. However, the general ledger reported only one line item for disbursements described as contracted service fees in the "AJ Brown Academy" unit. NHA provided us reports from their records for the federal programs. Separate cost centers were maintained in the financial records of NHA, to track the expenditures of each federal award. The cost centers were based on accrual accounting and reflected the expenditures of NHA. Reports submitted to oversight agencies, as well as the original Schedule of Federal Expenditures (SEFA) submitted to us for audit was based on the activity included in NHA's records not the actual disbursements made by the School Corporation. The actual disbursements made by the School

ANDREW J. BROWN ACADEMY  
AUDIT RESULTS AND COMMENTS  
(Continued)

Corporation as reported in the financial statements presented, and the general ledger reported that all monies received were disbursed to NHA for contracted service fees. We were advised by the federal oversight agency that the federal disbursements reported on the SEFA cannot be outside the School Corporation's records. The disbursements presented on the SEFA should be disbursements of the School Corporation. Therefore, we requested that NHA provide a SEFA that would reflect the disbursements of the School Corporation, reporting all federal monies received as being disbursed for contracted services. The adjustments were made to the SEFA and provided to the SBA for audit.

The process for federal awards described above indicates several deficiencies in internal control for the School Corporation. First, the School Corporation had very little oversight of the federal monies applied for and received. Secondly the School Corporation provided all of the federal monies to a private vendor for contracted service fees and had little to no oversight on how the federal monies were spent. According to the contract, NHA was required to follow all federal requirements; however, there was nothing provided for audit that indicated that the School Corporation had procedures and controls in place that would have ensured that NHA was complying with applicable laws and regulations, including spending the money on appropriate activities, specifically, for their School Corporation.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objections, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

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

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)

Disclaimer of an Opinion Over the Compliance of the Major Programs

Based on the information presented above for federal awards and guidance from the federal oversight agency a disclaimer of opinion was given in regards to compliance over the major programs audited. The Indiana State Board of Accounts has the responsibility to audit the School Corporation for compliance with Federal regulations pertaining to federal funding received and expended by the School Corporation. Our audit responsibility does not extend to NHA, a private for-profit corporation based in the State of Michigan. As described above, all transactions relating to federal funding received in the name of the School Corporation was remitted to NHA and disbursed by NHA. We were unable to perform auditing procedures to determine if the School Corporation complied with federal compliance requirements. The Academy did not provide us with all necessary documentation to support compliance with federal laws and regulations pertaining to their federal awards. Therefore, we are unable to express an opinion as to whether or not the School Corporation complied in all material respects with federal guidelines as mandated. Accordingly, all federal expenditures reported on the Schedule of Federal Expenditures were considered to be questioned costs.

ANDREW J. BROWN ACADEMY  
AUDIT RESULTS AND COMMENTS  
(Continued)

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)

MANAGEMENT AGREEMENT – COMPLIANCE WITH INTERNAL REVENUE SERVICE GUIDELINES

The management agreement previously discussed also raises many concerns regarding compliance with Internal Revenue Service (IRS) guidelines, in particular when reviewing the IRS Manual 4.76.8.8.2 for examiners.

A. The information presented for audit indicates the management agreement entered into has delegated the School Board's duties to NHA. We were presented very little evidence of oversight by the School Board of the School Corporation's operations. All of these responsibilities have been delegated to NHA, with only limited oversight from the School Board.

The IRS Manual states in part:

". . . A charter school board of directors composed of parents, teachers and community leaders provides structural independence. A board appointed or dominated by a comprehensive management company raises questions as to whether the school will be operated for the benefit of the management company. The examiner should determine whether a structurally independent board is involved in active oversight of the school's operations or whether the board has delegated its duties and responsibilities to the management company."

B. Of the items mentioned in the manual we identified the following at AJ Brown:

1. The first contract entered into by the School Corporation was for a seven year period from July 1, 2003 to June 30, 2010. The current contract in place does not have an expiration date which could raise a concern about the School Board's ability to monitor and evaluate the management company's performance.

Per the IRS Manual: "Length of Contract -A contract's length can greatly influence the board's ability to monitor and evaluate the management's performance."

2. Based on the evidence presented for audit all activities concerning the operation and management of the School Corporation were contracted away to NHA. The School Board only has authority on how to spend the \$35,000 of revenues allocated back to them by NHA. NHA has authority of all expenditures related to the operations of the School Corporation without oversight or approval of the School Board. School Board minutes and inquiry to School Board Officials indicate very little oversight by the School Corporation on the actual operation and management of the Charter School.

Per the IRS Manual: "Board Policies -The general policies concerning the operation and management of a charter school should not be contracted away. These board policies help define the school's identity."

ANDREW J. BROWN ACADEMY  
AUDIT RESULTS AND COMMENTS  
(Continued)

3. The management contract entered into by the School Corporation with NHA indicates that the fee for services is the total income received by the School Corporation as previously explained above within the Oversight of Management Contract Concerns comment. However, we were not provided any information for audit which would allow us to determine if the management fee remitted was reasonable or commensurate with the services provided.

Per the IRS Manual: "Compensation - management fees must be reasonable and commensurate with the services provided. A management fee structure should not be based on total income (i.e., all fees, grants, contributions, and unusual receipts). Compensation should not be above the market rate generally charged for the service provided. This can be established through evidence of comparative shopping for services."

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

#### PRESCRIBED FORMS

The following prescribed or approved forms were not always in use:

- Accounts Payable Voucher - Form 523
- Check in Duplicate - Form 509
- Receipt in Duplicate - Form 517
- Official Receipt - Individual Textbook Rental list - Form TBR-2
- Fund Ledger and Ledger of receipts - Form 508
- Ticket Sales - Form SA-4

A similar comment appeared in prior reports, most recently Report B34506.

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)

#### ACCOUNTABLE ITEMS

Admissions were collected for basketball games; however, tickets were not sold which would provide accountability for the monies collected. Additionally, ticket sales reports were not prepared so amounts collected could not be verified.

According to School Corporation Officials, referees were compensated by cash payment from the admissions collected at each basketball game. No documentation was presented for audit for the amounts paid to referees.

Serially prenumbered tickets by the printing supplier should be used for all athletic and other extra-curricular activities and events for which admission is charged. Part of the prenumbered ticket should be given to the person paying for the ticket upon admission to the event. The other part of the

ANDREW J. BROWN ACADEMY  
AUDIT RESULTS AND COMMENTS  
(Continued)

ticket (which should also be prenumbered, referred to as the stub) should be retained. All tickets (unused tickets and stubs) should be retained for audit. Tickets for each price group should be different colors and/or different in their series number. Tickets for each price group should be different colors and/or different in their series number. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

Tickets, goods for sale, billings, and other collections are considered accountable items for which a corresponding deposit must be made in the bank accounts of the governmental unit.

The deposit ticket or attached documentation must provide a detailed listing of the deposit, which includes at a minimum, check numbers and corresponding names of the payers. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

IC 5-13-6-1(c) states in part:

". . . shall deposit funds not later than the business day following the receipt of funds . . . .  
Public funds deposited . . . shall be deposited in the same form in which they were received."

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

#### TEXTBOOK RENTAL FEES

Textbook rental fees charged for the school years 2008-2009 and 2009-2010 were not properly calculated or approved. The fees were calculated by NHA by determining the total costs by grade then dividing by the number of students to determine the fee per grade. All of the fees for each grade were averaged and the same amount was charged to all students. The total costs by grade included consumables, textbooks, and classroom sets incurred by NHA. The calculation was performed for the school year 2008-2009 and then the same amount was used for 2009-2010 and 2010-2011. There was no evidence that School Board approved the textbook rental charges calculated by NHA.

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

#### TEXTBOOK REIMBURSEMENT FROM STATE

Textbook Reimbursement claims submitted to the Indiana Department of Education (DOE) for the school years 2008-2009 and 2009-2010 were not accurate. The claim for the school year 2008-2009 included \$44,415 as "consumables" which included reusable textbooks, classroom sets, and consumable workbooks and was reimbursed by DOE at 100%. The claim for school year 2009-2010 included the same \$44,415 as "textbooks" and was reimbursed by DOE at 20%. The information presented to support the costs claimed was not adequate to determine the amount of over or under payment received by the School Corporation as a result of the erroneous calculations.

ANDREW J. BROWN ACADEMY  
AUDIT RESULTS AND COMMENTS  
(Continued)

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)

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)

AVERAGE DAILY MEMBERSHIP (ADM) - LACK OF RECORDS

Adequate records, such as enrollment cards, class rosters, or printouts naming each student enrolled on the count date, were not maintained at the building level to support the ADM claimed by the School Corporation for the September 2009 count date. Electronic documentation was presented to support the ADM count. The documentation included student names, STN numbers, and grades, but was generated when the ADM documentation was requested by using a "query" for enrollment on the count date. A similar comment appeared in prior Report B34506.

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."

Officials should maintain records (enrollment cards, rosters, reporting forms, etc.) which substantiate the number of students claimed for ADM. The building level official (Principal, Assistant Principal, etc.) responsible for reporting ADM to the School Corporation Central Office, should provide a written certification of ADM to properly document responsibility. The certification should at a minimum include a statement detailing the names and location of the records used (these records must be retained for public inspection and audit) to substantiate ADM claimed. (The School Administrator and Uniform Compliance Guidelines, Volume 163, September 2003)

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE ANDREW J. BROWN ACADEMY, MARION COUNTY, INDIANA

Compliance

We have audited the compliance of the Andrew J. Brown 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 from the Academy supporting the compliance of the Academy with the Title I Part A Cluster and the State Fiscal Stabilization Fund Cluster regarding all applicable compliance requirements. In addition, we found that the Academy's oversight responsibility of the management company was insufficient to satisfy ourselves as to the compliance with those requirements by other audit procedures as described in item 2010-2.

Since the Academy did not properly monitor the management company as described in the preceding paragraph, and we were unable to apply alternative auditing procedures, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on the Academy's compliance with the requirements of the Title I Part A Cluster, and the State Fiscal Stabilization Fund Cluster.

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

Internal Control Over Compliance

The management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over compliance.

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

A control deficiency in a School Corporation's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in item 2010-2 of the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency.

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 2010-2, 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, the school board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

March 22, 2011

ANDREW J. BROWN 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 AGRICULTURE</u>				
Pass-Through Indiana Department of Education Child Nutrition Cluster School Breakfast Program	10.553		\$ 165	\$ -
		FY 2007-08	22,909	2,998
		FY 2008-09	-	31,970
		FY 2009-10	-	-
Total for program			<u>23,074</u>	<u>34,968</u>
National School Lunch Program	10.555			
		FY 2007-08	1,305	-
		FY 2008-09	162,002	21,993
		FY 2009-10	-	214,074
Total for program			<u>163,307</u>	<u>236,067</u>
Total for cluster			<u>186,381</u>	<u>271,035</u>
Total for federal grantor agency			<u>186,381</u>	<u>271,035</u>
<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			
		08-9615	40,000	-
		09-9615	366,044	54,000
		10-9615	-	337,994
Total for program			<u>406,044</u>	<u>391,994</u>
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389			
		FY 2009-10	-	433,110
Total for cluster			<u>406,044</u>	<u>825,104</u>
Pass-Through Ball State University Special Education Cluster Special Education Grants to States	84.027		16,589	-
Pass-Through Indiana Department of Education Special Education - Grants to States	84.027			
		14209-214-PN01	76,062	24,234
ARRA - Special Education - Grants to States, Recovery Act	84.391			
		33310-214-SN01	-	48,648
Total for cluster			<u>92,651</u>	<u>72,882</u>
State Fiscal Stabilization Fund Cluster ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394			
		FY 2008-09	354,275	-
		FY 2009-10	-	131,024
Total for cluster			<u>354,275</u>	<u>131,024</u>
State Grants for Innovative Programs	84.298			
		06-9615	23,919	-
		07-9615	10,001	-
Total for program			<u>33,920</u>	-
Improving Teacher Quality State Grants	84.367			
		FY 2007-08	49,915	-
		FY 2008-09	-	42,710
		FY 2009-10	-	12,959
Total for program			<u>49,915</u>	<u>55,669</u>
Education Technology State Grants Cluster ARRA - Education Technology State Grants, Recovery Act	84.386			
		FY 2009-10	-	90,505
Total for federal grantor agency			<u>936,805</u>	<u>1,175,184</u>
Total federal awards expended			<u>\$ 1,123,186</u>	<u>\$ 1,446,219</u>

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

ANDREW J. BROWN 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 Andrew J. Brown 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.

ANDREW J. BROWN ACADEMY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Disclaimer

Internal control over financial reporting:

Material weaknesses identified?	Yes
Significant deficiencies identified that are not considered to be material weaknesses?	none reported

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?	No

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

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

Identification of Major Programs:

Name of Federal Program or Cluster

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? yes

Section II – Financial Statement Findings

FINDING 2010-1, INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING/FINANCIAL REPORT MODIFICATIONS

We noted several weaknesses in the internal control system of the School Corporation related to financial transactions and reporting. The School Corporation did not have proper internal controls in place in order to provide reasonable assurance of the financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Additionally, proper internal controls were not in place to mitigate the risk of improper activities either due to error or fraud. Our concerns over the internal control structure were all due to a management agreement entered into by the School Corporation with National Heritage Academies (NHA) and the lack of oversight by the School Corporation on the activities of NHA for the operation of the School Corporation. Accordingly, as described below, we have the following concerns:

ANDREW J. BROWN ACADEMY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

- Oversight of Management Contract Concerns
- Financial Reporting Concerns for Andrew J. Brown Academy
- General Ledger Concerns for Andrew J. Brown Academy (As Maintained by NHA)
- Cash Receipt Concerns for Andrew J. Brown Academy
- Disclaimer of an Opinion Over Receipts and Disbursements
- Federal Awards Concerns
- Disclaimer of an Opinion Over the Compliance of the Major Programs

Oversight of Management Contract Concerns

The School Corporation entered into a comprehensive management contract with National Heritage Academies, Inc. (NHA), a private entity, to provide educational, business administration and management services including all labor, materials, equipment and supervision. The original contract was for a seven year period beginning July 1, 2003. A new contract was signed on June 15, 2010, for a period beginning July 1, 2010 and continues from year to year without an expiration date. NHA is a for-profit Michigan corporation, and is not a division or a part of the School Corporation. According to the contract, NHA is responsible for all aspects of management, operation, administration, accounting and educational programs. NHA makes all decisions for the School Corporation regarding school policies, educational curriculum, technology, staffing, school lunch fees, textbook rental fees, budgeting, and purchasing. The contract indicates that for these services provided, NHA shall receive all revenues of the School Corporation as a gross management fee and shall pay such fees on the same frequency that the School Corporation receives revenues.

The School Corporation established two bank accounts that were maintained by NHA, a board account and a corporation account. The board bank account was established for the use of the School Board at their discretion. Deposits into the board bank account were comprised of periodic electronic transfers from NHA's bank account in an amount equal to 2% of revenues not to exceed \$35,000 per year. During both of our audit years the maximum of \$35,000 was received in the board account, so a total of \$70,000 was provided to the School Board to be used at their discretion, which is in agreement with the contract. Disbursements made from the bank account were based on School Board decisions as evidenced in the School Board minutes. We were able to adequately audit these disbursements; however, those disbursements made up only \$38,745, which was an immaterial amount in relation to the disbursements presented in the financial statements.

The corporation bank account was used to deposit daily collections and electronic funds transfers (EFT) for State and local distributions. Almost immediately after depositing funds, NHA would electronically withdraw the funds and deposit them into NHA's bank account as contract service fees. There was not an invoice provided by NHA to AJ Brown to document amount paid for services rendered. According to the contract agreement, all monies received are to be disbursed to NHA. NHA has access to the School Corporation's bank account; therefore, this money is electronically transferred from the AJ Brown bank accounts without any oversight of the School Corporation itself.

According to the contract, for the contract service fee provided, NHA is responsible to pay all costs related to the operation of the School Corporation and provide the School Board with monthly, quarterly and annual accounting reports. The School Board minutes indicated that quarterly reports were received from NHA and reviewed; however, there was no other indication of oversight of how NHA is disbursing School Corporation's funds paid to them in accordance with the contract. The quarterly reports presented were balance sheets and income statements based on NHA expenditures and were presented on an accrual basis. The reports did not provide detailed information regarding receipts and disbursements of funds made by NHA related to the operation of the School Corporation.

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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)

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)

Financial Reporting Concerns for Andrew J. Brown Academy

According to the contract, NHA is responsible for complying with all laws and regulations in reporting for the State of Indiana which would include, but not be limited to, complying with the State Board of Accounts prescribed form of accounting as well as providing the Department of Education (DOE) with accurate financial information for the School Corporation. The School Corporation's financial records were maintained electronically by NHA on a modified accrual basis of accounting using the same computerized accounting system as NHA. NHA maintains a separate general ledger for each school managed.

According to an Indiana Department of Education (DOE) memorandum dated June 17, 2009, to School Corporation/Charter School Treasurers/Business Managers, "The Biannual Financial Report (Form 9) is the basis for information requested by local, state, and federal educators and others for use in planning the management of school finances. The information furnished must be accurate, complete, and reflect the detailed sources of revenue and type of expenditures in exact dollars and cents." The DOE requires all school corporations, including Charter Schools, to complete a biannual financial report as of June 30 and December 31 of each year.

The Form 9 submitted to the DOE was provided to us for audit and appeared to have the detail of operations by fund and disbursement classifications comparable to other school corporations. However we identified that the information had several issues when compared to the prior audited financial statements and the general ledger presented for audit. The beginning balances did not agree to the ending balances reported in the prior audit. Additionally, the classifications of disbursements on the financial information submitted to the DOE did not agree to the classifications presented in the prior audited financial information or the general ledger submitted for audit. Prior audited financial statements show that adjustments were made to the disbursement classifications submitted to DOE and resulted in reporting all disbursements under the classification of "contracted services." DOE was not made aware of the inaccurate classification of disbursements in prior years.

We inquired to NHA about these differences and they prepared new financial statements. The new financial statements were compiled by NHA by abstracting the bank activity of the School Corporation and reporting total money received as total money disbursed to NHA. As indicated in the preceding section, all monies received by the School Corporation were disbursed to NHA according to the contract; therefore, reporting all disbursements as contracted services is the financial activity for the School Corporation per the contract and general ledger. Detailed information previously reported on Form 9 to the DOE in regards to disbursements for the actual operations of the School Corporation were based on the disbursement activity of NHA. The School Corporation could not provide us any additional information in regards to detailed disbursements for the operation of the School Corporation in order for us to determine or recommend necessary adjustments to accurately present the financial information comparable with other school corporations in the State of Indiana.

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(Continued)

Additionally we requested detailed information regarding operational costs of the School Corporation from NHA; however, NHA, would not provide us access to their records in order to present the financial information for the operation of the School Corporation in the same fashion as other school corporations in the State of Indiana. The School Corporation did not have controls in place to ensure that NHA is complying with the management contract and complying with applicable laws and regulations. Additionally, the School Corporation did not have any documentation or procedures in place to ensure that detailed accounting information for the actual operation of the School Corporation could be provided that would allow for comparability with other school corporations in the State of Indiana. The Form 9 activity provided to DOE is the activity of NHA, a private company. The general ledger maintained for the School Corporation reported a small portion of disbursements as "supplies" and the remaining disbursements as "contracted services." No other source documents exist at the School Corporation that would provide the information necessary to report a comparable breakdown of disbursements by Instruction, Support Services, etc., which detailed information is only available through the financial records of NHA. NHA is a private entity, for which the State Board of Accounts does not have the authority to audit.

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

IC 20-39-1-1 states:

"All public school governing bodies shall adopt and fully and accurately implement a single, unified accounting system as prescribed by the state board and the state board of accounts."

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)

General Ledger Activity Concerns for Andrew J. Brown Academy (As Maintained by NHA)

NHA provided for audit the general ledger maintained for the School Corporation. The general ledger reported revenue transactions based on classifications and disbursements out for contracted services. We found that the general ledger information was not auditable, due to the lack of detail for individual transaction postings. The general ledger was not maintained by fund and contained numerous cash and accrual transactions commingled to the point that that we could not determine that the cash receipts and disbursements presented in the financial statements were an accurate reflection of the cash activity of the School Corporation. We noted in many cases, the transaction postings were not descriptive enough to determine cash from accrual entries and were commonly referred to as "summarized transaction."

Separate "units" were maintained within the general ledger which were basically separate revenue categories. Units were maintained for the "Board" discretionary funds and each type of federal grant (Title I, Title V, etc). All other revenues were reported in the "AJB Academy" unit which included state distributions, county distributions, donations, and collections from students and/or parents such as school lunch, textbook rental, field trips, and other miscellaneous receipts. Disbursements were posted to the "Board" unit for the amounts spent out of the School Corporation's board bank account and the "AJB Academy" unit as a single line item for contracted services based on the amounts transferred to NHA. No disbursements were posted in the ledger against any federal grant units as these were simple revenue

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categories and not "Funds." The only unit that reported a cash balance was the "Board" unit which was the cash balance reported in the financial statements and agrees with the amount of cash in the board bank account.

Fund accounting on a cash basis is required in reporting to the Department of Education. Additionally, auditable financial records that would support the financial activity of the School Corporation submitted to DOE was required in order to for the State Board of Accounts to express an opinion on the accuracy of the financial information. The School Corporation did not have proper controls in place that would enable them to ensure that NHA was complying with all laws and regulations of the State of Indiana as required by their contract.

IC 20-39-1-1 states:

"All public school governing bodies shall adopt and fully and accurately implement a single, unified accounting system as prescribed by the state board and the state board of accounts."

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)

Cash Receipts Concerns for Andrew J. Brown Academy

Due to the manner in which the general ledger was maintained and receipts were not issued at the time of collection, we were unable to verify that all cash receipts posted to the general ledger were accurately reported in the financial statements. The receipts reported in the financial statements as presented were compiled by NHA based on the bank account activity of the School Corporation. Additionally NHA had to increase receipts for the School Corporation to reflect monies that were directly deposited into NHA's bank account instead of the School Corporation's bank account. Amounts physically collected at the school building for 2008-2009, including a county tax distribution issued by check, were deposited directly into NHA's bank account instead of the School Corporation's bank account. In 2008-2009 cash receipts were increased by \$49,524 to reflect the amounts deposited directly to NHA's bank account. NHA also indicated that similar occurrences happened in 2009-2010 school year at a lesser amount and increased cash receipts in the amount of \$1,145. These receipts were included in the general ledger provided; however, based on the manner in which the general ledger was maintained, we were not able to determine if additional instances occurred that may not have been included in the cash receipts reported in the financial statements. Additionally, adequate source documents were not provided for audit in order to verify the validity of the amounts used to increase cash receipts. Finally, the fact that receipts were being deposited directly into an NHA bank account identified a major control risk over the financial reporting of cash receipts and provided a scope limitation. We considered the aforementioned to be a major control risk that receipts as reported may not be accurate based on the fact that we did not have access to the bank statements or financial accounting records of NHA.

During the course of the audit, we identified additional amounts deposited in NHA's bank account, which should have been deposited into the School Corporation's bank account and were not properly reported in the financial statements, even after the adjustments noted in the preceding paragraph. We discovered that county tax distributions totaling \$16,488 were not included in the receipts reported for 2008-2009. After informing NHA, the financial statements were adjusted and NHA investigated receipts further and found additional receipts in 2009-2010 of \$6,622 that also were not included in the adjusted financial statements. NHA again adjusted the financial statements. While reviewing the federal activity, another \$16,589 related to a federal grant passed through Ball State University was also determined to

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be excluded from the financial statements and schedule of federal expenditures. Adjustments were made to the financial statements again. Adjustments consisted of increasing receipts and disbursements, as disbursements were dependent on receipts, since all money received by the School Corporation were disbursed to NHA for contracted services.

Receipts were not issued for all monies collected, including monies received by EFT or any other means. During the course of our audit we identified that receipts were not issued for State, federal or county distributions received or any other deposits received by EFT. Generic, non-prescribed, receipt books purchased from a local store were used at the school building for various types of collections, but were not used for all collections. Three receipt books were presented that were in use during the audit period, at the same time, by at least two individuals and the receipts were not issued in chronological order. Receipt logs were also maintained by receipt category at the school building. However these logs did not indicate the type of collection (cash or check) for all receipts and when examining transactions recorded in the logs, some could not be verified to receipts issued or deposits.

The School Corporation did not have controls in place that would ensure all monies provided for the operation of the School Corporation were appropriately deposited and accounted for in the records of the School Corporation. The School Corporation relinquished their responsibilities of accounting for money and was paying a contracted service fee to NHA to perform those duties; however, controls were not in place at the school corporations level that ensured that NHA was accurately and appropriately accounting for their monies. The School Corporation did not have an adequate understanding of how, when, or where collections were made or who was responsible for collecting and reporting the amounts received or the type of monies received. The School Corporation also was not aware of the amounts being deposited, when they were deposited, or who was making the deposits. By delegating their duties to NHA, not having an adequate understanding of the procedures in place for receipts, and not monitoring the receipts activity, the School Corporation created an environment that allowed monies to be deposited into a bank account other than their own and failed to detect the errors.

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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)

IC 5-13-6-1(c) states in part:

". . . all local officers . . . who collect public funds of their respective political subdivisions shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objections, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

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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)

Disclaimer of an Opinion Over Receipts and Disbursements

The concerns noted in the preceding section resulted in a disclaimer of an opinion, due to a scope limitation, on the financial statements presented. During the course of the audit, identification was made either by us or by NHA that a total of \$90,368 was inaccurately deposited into an NHA bank account instead of the appropriate School Corporation account. Due to the fact that we were not provided access to NHA bank account documents and other accounting records, we were unable to perform other alternative procedures to ensure that the receipts, disbursements, and cash balances as presented were complete and accurate.

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 Awards Concerns

NHA applied for federal awards on behalf of the School Corporation and managed all aspects of those federal awards. The federal monies were electronically deposited into the School Corporation's bank account and almost immediately transferred to NHA's bank account through EFT as contracted service fees. NHA receipted the monies into the general ledger for the School Corporation as separate revenue categories, but separate cash balances were not maintained for each federal program as NHA did not use fund accounting. The general ledger of the School Corporation, maintained by NHA, included receipts for the federal monies in the appropriate revenue categories. However, the general ledger reported only one line item for disbursements described as contracted service fees in the "AJ Brown Academy" unit. NHA provided us reports from their records for the federal programs.

Separate cost centers were maintained in the financial records of NHA, to track the expenditures of each federal award. The cost centers were based on accrual accounting and reflected the expenditures of NHA. Reports submitted to oversight agencies, as well as the original Schedule of Federal Expenditures (SEFA) submitted to us for audit was based on the activity included in NHA's records not the actual disbursements made by the School Corporation. The actual disbursements made by the School Corporation as reported in the financial statements presented, and the general ledger reported that all monies received were disbursed to NHA for contracted service fees. We were advised by the federal oversight agency that the federal disbursements reported on the SEFA cannot be outside the School Corporation's records. The disbursements presented on the SEFA should be disbursements of the School Corporation. Therefore, we requested that NHA provide a SEFA that would reflect the disbursements of the School Corporation, reporting all federal monies received as being disbursed for contracted services. The adjustments were made to the SEFA and provided to the SBA for audit.

The process for federal awards described above indicates several deficiencies in internal control for the School Corporation. First, the School Corporation had very little oversight of the federal monies applied for and received. Secondly the School Corporation provided all of the federal monies to a private vendor for contracted service fees and had little to no oversight on how the federal monies were spent. According to the contract, NHA was required to follow all federal requirements; however, there was

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nothing provided for audit that indicated that the School Corporation had procedures and controls in place that would have ensured that NHA was complying with applicable laws and regulations, including spending the money on appropriate activities, specifically, for their School Corporation.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objections, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

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

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)

Section III – Federal Award Findings and Questioned Costs

FINDING 2010-2, LACK OF GRANTEE OVERSIGHT OF FEDERAL AWARDS/MODIFICATION OF OPINION OVER COMPLIANCE

Federal Agency: U.S. Department of Education  
Federal Program: Title I, Part A Cluster (ARRA), State Fiscal Stabilization Fund Cluster (ARRA)  
CFDA Number: 84.010, 84.394  
Pass-Through Entity: Indiana Department of Education

Federal Awards Concerns

NHA applied for federal awards on behalf of the School Corporation and managed all aspects of those federal awards. The federal monies were electronically deposited into the School Corporation's bank account and almost immediately transferred to NHA's bank account through EFT as contracted service fees. NHA receipted the monies into the general ledger for the School Corporation as separate revenue categories, but separate cash balances were not maintained for each federal program as NHA did not use fund accounting. The general ledger of the School Corporation, maintained by NHA, included receipts for the federal monies in the appropriate revenue categories; however, the general ledger reported only one line item for disbursements described as contracted service fees in the "AJ Brown Academy" unit. NHA provided us reports from their records for the federal programs. Separate cost centers were maintained in the financial records of NHA, to track the expenditures of each federal award. The cost centers were based on accrual accounting and reflected the expenditures of NHA. Reports submitted to oversight agencies, as well as the original Schedule of Federal Expenditures (SEFA) submitted to us for audit was based on the activity included in NHA's records not the actual disbursements made by the School Corporation. The actual disbursements made by the School Corporation as reported in the financial statements presented, and the general ledger reported that all monies received were disbursed to NHA for contracted service fees. We were advised by the federal oversight agency that the federal disbursements reported on the SEFA cannot be outside the School

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Corporation's records. The disbursements presented on the SEFA should be disbursements of the School Corporation. Therefore, we requested that NHA provide a SEFA that would reflect the disbursements of the School Corporation, reporting all federal monies received as being disbursed for contracted services. The adjustments were made to the SEFA and provided to the SBA for audit.

The process for federal awards described above indicates several deficiencies in internal control for the School Corporation. First, the School Corporation had very little oversight of the federal monies applied for and received. Secondly the School Corporation provided all of the federal monies to a private vendor for contracted service fees and had little to no oversight on how the federal monies were spent. According to the contract, NHA was required to follow all federal requirements; however, there was nothing provided for audit that indicated that the School Corporation had procedures and controls in place that would have ensured that NHA was complying with applicable laws and regulations, including spending the money on appropriate activities, specifically, for their School Corporation.

Disclaimer of an Opinion Over the Compliance of the Major Programs

Based on the information presented above for federal awards and guidance from the federal oversight agency a disclaimer of opinion was given in regards to compliance over the major programs audited. The Indiana State Board of Accounts has the responsibility to audit the School Corporation for compliance with Federal regulations pertaining to federal funding received and expended by the School Corporation. Our audit responsibility does not extend to NHA, a private for-profit corporation based in the State of Michigan. As described above, all transactions relating to federal funding received in the name of the School Corporation was remitted to NHA and disbursed by NHA. We were unable to perform auditing procedures to determine if the School Corporation complied with federal compliance requirements. The Academy did not provide us with all necessary documentation to support compliance with federal laws and regulations pertaining to their federal awards. Therefore, we are unable to express an opinion as to whether or not the School Corporation complied in all material respects with federal guidelines as mandated. Accordingly, all federal expenditures reported on the Schedule of Federal Expenditures were considered to be questioned costs.

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)

EDGAR §80.20: Standards for financial management systems 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.

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- (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.
  - (4) *Budget control.* Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.
  - (5) *Allowable cost.* Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.
  - (6) *Source documentation.* Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.
  - (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.
- (c) An awarding agency may review the adequacy of the financial management system of any applicant for financial assistance as part of a preaward review or at any time subsequent to award."

Failure to comply with federal program requirements and requirements of the State pass-through agency could cause the School Corporation to forfeit the federal funds already received and could jeopardize the approval of future funding under federal assistance programs.

We recommended the School Corporation design and implement internal control procedures that will ensure that federal awards comply with the grant requirements and reported as separate funds in the financial records which would provide assurance that the receipts, disbursements, and cash balances were properly reported and that adequate documentation is available to support the financial transactions pertaining to the School Corporation.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.



Andrew J. Brown Academy

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Corrective Action Plan

Audit Period 07-01-08 to 06-30-10

**FINDING NO. 2010-1 INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING/FINANCIAL REPORT MODIFICATIONS**

**CONCERNS OVER INTERNAL CONTROLS REGARDING FINANCIAL TRANSACTIONS AND REPORTING**

The Indiana State Board of Accounts (“SBA”) does not appear to recognize the legitimacy of the services agreement between Andrew J Brown Academy (“AJB” or “School”) and National Heritage Academies, Inc. (“NHA”). The Board of AJB performed its due diligence and research on NHA practices at the time of entering into the agreement. The services agreement was reviewed and approved by both parties to the agreement, their attorneys, the State of Indiana, the Mayor of Indianapolis’s office (“Authorizer”), the Federal Government in the review of the School’s 501c3 application, the SBA in the prior two audits, and other oversight agencies. These various parties all deemed the agreement to be acceptable and in compliance with state law. None of the concerns over internal control mentioned in this audit report have been raised by any of the aforementioned parties.

Administration of AJB by NHA – including administration of a financial management system of accountability for AJB – pursuant to the services agreement between them is clearly consistent with federal law. Indeed, federal law expressly contemplates the possibility that a public school may be administered by a management company (Section 1116(b)(8)(B) of the Elementary and Secondary Education Act, 20 U.S.C 6316(b)(8)(B); 75 Fed. Reg. 66366 (October 28, 2010)).

In addition to its initial due diligence, the Board does regular review and approval of school budgets and spending against budgets. Further, AJB has received two prior unqualified audit reports from the SBA in 2006 and 2008.

NHA, as contractor to AJB, maintains a financial management system specifically for AJB in compliance with state and federal law as a service to AJB. That system has robust internal control practices. NHA receives annual audits from Deloitte & Touche (“D&T”) and engages to perform annual audits on each of its 57 schools located outside of Ohio. Ohio, like Indiana, performs its own audits through their Auditor of State. To date, all public charter schools partnering with NHA have been successfully audited without receiving a qualified opinion on any of these 67 schools, across 8 different states – including Indiana.

NHA offered to the AJB Board and to SBA to engage D&T to undertake additional testing of internal controls that would meet the needs of SBA. NHA also offered to provide its internal control report as well as have D&T provide written assurance that the controls in place for NHA overall were applied to AJB. This is the approach that is used successfully at all other schools partnering with NHA. All offers to provide additional assurance were declined by SBA.

### Oversight of Management Contract

We respectfully disagree with this finding. The Board reviews and approves an annual budget and quarterly reports of performance against budget. There is an NHA representative available at Board meetings to answer questions and undertake research on any question that the Board has regarding disbursements. The Board Treasurer is sent the financial statements and reviews the statements ahead of the meeting to allow a detailed review with NHA personnel if necessary. These oversight activities satisfy general state and federal requirements for oversight. SBA cites to no state or federal laws that prescribe specific elements or thresholds for oversight that have not been met for AJB. Moreover, this method of financial reporting is: a) consistent with AJB's charter, b) met authorizer approval and, c) received no federal findings in two prior audits conducted by SBA. While the minutes could be stronger, this does not diminish the fact that AJB is governed by a highly-competent board of community leaders. We take our charge seriously, and this has been recognized by our Authorizer, which granted the school the maximum-allowed 7-year charter renewal based on the school's organizational, financial, and academic viability.

#### *Action Plan:*

Nevertheless, the Board wishes to resolve this finding on a constructive basis by providing for a greater level of review of financial information. The Board Treasurer has discussed this requirement with NHA and the two parties have come to agreement that in addition to the controls already in place, the following will be done in the future:

- 1) The Board will review more detailed quarterly income statements and invoices to support the amounts paid by the Board to NHA. The income statements will include detail of revenue by source and additional detail behind each expense category (i.e., the amount of salaries and benefits, curriculum, etc. expensed for Instruction). The invoices will support the expenditures recorded in the School's general ledger and the amounts reported on the Form 9.
- 2) The Board Treasurer will review copies of the School's Bank Statements (both the Board Fund account and the General Checking Account) in the Board Package.
- 3) For the years ended June 30, 2011 and after, AJB has requested that NHA engage its auditor, D&T, to provide an Agreed Upon Procedures report to the Board to attest to the classification of the contracted services fee.

To address the finding for the period under audit, the Board has requested that NHA provide the information noted in bullet points 1 & 2 above to the Board at the May 2011 meeting for review.

### Financial Reporting

We respectfully disagree with the finding based on additional information we have received from NHA. The SBA notes that the financial information reported to the DOE during the audit period did not agree to the ending balances from the prior audited financial statements. As noted in the prior audited financial statements, the information submitted to IDOE for the year ended June 30, 2008 and prior was submitted on an accrual basis (which is GAAP and consistent with Government Accounting Standards Board Statement No. 34, "*Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*".) However, Indiana Code 5-11-1-2(a) prescribes the cash basis of accounting. After the prior audit was issued, the reporting on the Form 9 was corrected to the cash basis. NHA, on behalf

of AJB, contacted IDOE to request instruction on how to correct the Form 9 reporting and was told to adjust the cash receipts and disbursements in the current year (then fiscal year 2009) to correct to the cash basis. IDOE told NHA that adjustments to the beginning balances could not be made. NHA followed the direction of IDOE, and this is the reason the beginning Form 9 balances (which were originally reported on an accrual basis) do not align with the ending balances per the prior audited financial statements (which were prepared on the cash basis). This was discussed with the SBA during the audit.

It should be noted that the information reported to IDOE on the fiscal 2010 Form 9's was materially correct. The 2010 audited financial statements have immaterial differences from what was originally reported to IDOE<sup>1</sup>. The financial statements presented to the SBA for audit were supported by the underlying books and records, including cash activity of the School Corporation and a reconciliation of the cash activity to the accrual basis general ledger.

The SBA requested detailed information regarding the operational costs of the school to audit the classifications reported on Form 9. The individual expenditures to operate the school are NHA's (a private company) according to the services agreement. While NHA declined to allow SBA to audit its records, the service provider offered to SBA to pay for D&T to audit records and to provide the SBA a report on the classification of the School's expenditures. NHA, on behalf of AJB, also offered to have D&T perform substantive testing of operational expenditures on the SBA's behalf. AU Section 543 provides guidance on how an auditor may rely on another auditor's work. We understand this approach has been used successfully in Ohio where the NHA schools are audited by the Auditor of State. The SBA chose not to apply AU Section 543 to this audit and chose not to request testing from D&T as a basis to form their opinion. We understand the SBA's position on this audit is inconsistent with the SBA position taken in the Purdue University audit report (B38542), which references reliance on another auditor's work.

The SBA states that NHA would not provide access to records to audit the detailed information regarding operational disbursements. We understand this is partially correct, based on our discussions with NHA. NHA, as a private entity, is not subject to an audit by the SBA. For federal disbursements, NHA, on AJB's behalf, provided 100% of the detail of operational disbursements for federal awards and 100% of the supporting documentation for the federal award disbursements. NHA granted access to individual federal disbursement records so that SBA could perform the necessary work for the A133. For non-federal disbursements, NHA offered to the Board and to SBA to have D&T, provide an Agreed Upon Procedures report, which the SBA could rely on as a basis for their audit opinion in accordance with auditing standards (reference AU 543). NHA offered to allow SBA design the tests and design of the Agreed Upon Procedures Report so that it would meet their needs. SBA declined this offer.

*Action Plan:*

The Form 9 will continue to be prepared on a cash basis as required by the State; as such, the beginning and ending balances will align with audited financial statements in the future.

The financial statements will be reviewed prior to presenting them to the SBA for audit.

The Board of AJB will also resolve this finding by providing for a greater level of Board review of financial information. The Board Treasurer has discussed this requirement with NHA and the two parties have come to agreement that in addition to the controls already in place, the following will be done in the future:

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<sup>1</sup> Revenues were adjusted a total of \$33,186, and the net difference in the change in net assets from the Form 9 to the audited financial statements was \$46.

- 1) The Board will review more detailed quarterly income statements and invoices to support the amounts paid by the Board to NHA. The income statements will include detail of revenue by source and additional detail behind each expense category (i.e., the amount of salaries and benefits, curriculum, etc. expensed for Instruction). The invoices will support the expenditures recorded in the School's general ledger and the amounts reported on the Form 9.
- 2) The Board Treasurer will review copies of the School's Bank Statements (both the Board Fund account and the General Checking Account).
- 3) For the years ended June 30, 2011 and after, the Board has requested that NHA engage its auditor, D&T, to provide an Agreed Upon Procedures report to the Board to attest to the classification of the contracted services fee.

### General Ledger Activity

We respectfully disagree with the finding based on additional information we have received from NHA. The SBA states that they were unable to audit the general ledger due to the lack of detail for individual transaction postings. We have discussed the condition of the general ledger with NHA, and NHA has informed us that the "Summarized Transaction" reported in the general ledger represents a posting from a subsidiary ledger. This is typical of most mid to large sized accounting systems. NHA has informed us that it was unaware of a request for additional information of the subsidiary ledger postings, and if such a request had been known, it would have been fulfilled.

The SBA states that the general ledger was not maintained by fund and contained numerous cash and accrual transactions commingled to the point that that the SBA could not determine that the cash receipts and disbursements presented in the financial statements were an accurate reflection of the cash activity of the School Corporation. In accordance with the services agreement, NHA maintains the financial records of the School using unique account codes which act as a proxy for fund accounting and result in the same financial tracking and reporting as fund accounting. The financial records of the School are maintained on an accrual basis as this provides the Board a more meaningful measurement of economic activity and comparison against Board approved expenditures. As a result, the general ledger detail provided to the SBA was on an accrual basis, and was adjusted (through an accrual to cash adjustment) to the cash basis as required by the State of Indiana. Accurate financial statements were prepared using the books and records.

#### *Action Plan:*

Reporting to the State of Indiana and the SBA will be done on a cash basis, by fund, in accordance with Indiana law.

Accounting units for expenditures will be created in the School's general ledger to segregate grant expenditures from the general fund expenditures to comply with the fund accounting requirement.

Expenditures will be recorded in the School's general ledger based on the invoices from NHA that will include a classification of expenditures.

### Cash Receipts

The SBA states that due to the manner in which the general ledger was maintained, cash receipts reported in the financial statements could not be verified. This is inaccurate, as we understand that NHA,

on AJB's behalf, reconciled the cash basis financial statements to the accrual basis general ledger. The reconciling items were due to the timing of receipts and disbursements and were auditable by the SBA. The cash receipts and all reconciling items can be supported by independent documentation.

The SBA notes that amounts physically collected at the school building were deposited to NHA's bank account. The SBA will note that this was a comment from the previous audit, and after that audit was issued the school building deposited nearly all receipts into the school bank account (the amount deposited to NHA's account decreased from \$82,601 (= \$49,524 + \$16,488 + \$16,589) in 2008-09 to \$7,767 (= \$1,145 + \$6,622) in 2009-10). The receipts collected at the school in the future will be deposited to the school's bank account. Although there has been significant improvement made since the last audit report, the Board recognizes that this is an area that still requires some attention. It should be noted that these errors were in depositing the funds directly to the NHA account specifically designated for the School rather than into the School account before transferring over to the NHA account. There was no improper guardianship of funds or misuse of funds.

The SBA states that the supporting documentation was not provided for the receipts deposited to NHA's bank account. We understand that in an e-mail dated January 14, 2011, on behalf of AJB, NHA asked the SBA if they would like any of the supporting documentation to support the deposits, and none was requested. The documentation (i.e., deposit slips, etc.) would have been provided had it been requested. This should not be noted as an exception.

The SBA states that changes were made to the receipts and disbursements reported in the financial statements during the audit due to receipts deposited into the NHA general account. This is correct. We have discussed this with NHA, and we understand that the cash receipts were properly recorded in the general ledger, but in the preparation of the financial statements, the receipts were erroneously excluded from the initial financial statements presented to the SBA. Supporting documentation was provided to the SBA to support the adjustments. It should be noted that the adjustments made to the financial statements were immaterial. (The total adjustments to the financial statements during the audit were \$39,699; in the SBA's Audit Results and Comments, the SBA clearly states that \$38,745 (the amount of Board Fund Expenditures) is immaterial to the financial statements.) In the future, the Board will ensure that the financial statements will be reviewed to ensure completeness prior to the audit.

*Action Plan:*

The SBA states that receipts should be issued for all monies collected, and that all receipts be documented in a prescribed receipt book. In the future, receipts collected at the school building will be chronologically recorded in a receipt book.

Receipts collected in the future will be deposited into the School's bank account, not NHA's.

Based on the finding, the Board will perform additional review of receipt activity. The Board Treasurer has discussed this requirement with NHA and the two parties have come to agreement that in addition to the controls already in place, the following will be done in the future:

- 1) The Board will review more detailed quarterly income statements and invoices to support the amounts paid by the Board to NHA. The income statements will include detail of revenue by source and additional detail behind each expense category (i.e., the amount of salaries and benefits, curriculum, etc. expensed for Instruction). The invoices will support the expenditures recorded in the School's general ledger and the amounts reported on the Form 9.

- 2) The Board Treasurer will review copies of the School's Bank Statements (both the Board Fund account and the General Checking Account).

The combination of this information will allow the Board to ensure all revenue of the School is deposited into the school's bank account.

#### Federal Awards

We respectfully disagree with the finding. The Board provides oversight of the federal grant programs, which are transacted by NHA in a similar fashion to non-grant activities, through approval of budgets and monitoring of expenditures against budget. In addition to Board oversight, there is significant federal oversight of these programs and AJB, through NHA services, is compliant with all federal requirements around federal receipts and expenditures.

Oversight from the Federal Awarding Agencies includes approval of grant applications, approval of the budgets which detail how the funds will be spent, reporting requirements, and monitoring visits to review compliance. AJB and NHA have been found to be compliant with federal requirements based on this oversight.

The School's process for approving, disbursing and reporting on federal funds has not changed since the opening of the School. There has been no issue raised by the SBA in the previous two audits. The School received clean audit reports in the past, including unqualified opinions on internal controls over compliance, and no changes in operations were made between the last audit and the current audit. The School has received no explanation as to why the audit approach has changed so dramatically this year and why the change was effected without any prior notice to the School.

The SBA makes note of the disparity between the expenditures of the School (which are payments to NHA) and the federal grant expenditures. After discussion with NHA, the Board's understanding is that this disparity is due to a timing difference only. The School pays the federal grants received to NHA for pre-approved expenditures made by NHA on the School's behalf. Going forward, the State of Indiana is changing its practices and all federal grants will be on a reimbursement basis. As such, the School will no longer receive grants from the State without first incurring the expenditures which will eliminate timing differences in the future. The Board has requested that NHA incur all federal grant expenditures on the School's behalf, and the funds received by the School be used to reimburse NHA for those expenditures.

The SBA states that nothing was provided for audit that indicated the School Corporation has procedures and controls in place that would ensure NHA complied with applicable laws and regulations, including spending the money on appropriate activities for the School. This is not accurate. The Board reviews and approves a budget annually, which includes the amount received for federal grants. The Board reviews similarly presented financial statements. From the financial information presented, the Board can ensure that 100% of the revenues (including federal revenues) are spent on expenditures of the School. Furthermore, we understand that NHA, on AJB's behalf, provided the SBA 100% of supporting documentation for federal grant expenditures. The SBA had the opportunity to review the procedures and controls in place, and the opportunity to review the federal grant expenditures for compliance with laws and regulations. The SBA elected not to audit those records, which is inconsistent with the audit procedures applied in prior audits.

The SBA has disclaimed an opinion on compliance over major programs. The SBA chose not to audit the information provided by NHA, which was sufficient to provide an opinion. The School pays NHA based on receipts from the State (in accordance with the services agreement). These payments were

reconciled to the actual cash disbursements of federal funds (i.e., payroll, supplies and equipment purchases, etc.). The reconciliation was required due to a timing difference between when NHA made the expenditures on the School's behalf and when the State remitted the grant funds to the School. The reconciliation was auditable by the SBA. 100% of the supporting documentation and detail was provided to the SBA of the federal grant expenditures (i.e., payroll, supplies and equipment, etc.). The SBA chose not to audit the information.

*Action Plan:*

Based on the finding, the Board will perform a greater level of Board review of federal awards. The Board Treasurer has discussed this requirement with NHA and the two parties have come to agreement that in addition to the controls already in place, the following will be done in the future:

- 1) The Board will review more detailed quarterly income statements and invoices to support the amounts paid by the Board to NHA. The income statements will include detail of revenue by source and additional detail behind each expense category (i.e., the amount of salaries and benefits, curriculum, etc. expensed for Instruction). The invoices will support the expenditures recorded in the School's general ledger and the amounts reported on the Form 9.
- 2) The Board Treasurer will review copies of the School's Bank Statements (both the Board Fund account and the General Checking Account).
- 3) The Board will review the federal grant budgets at a Board Meeting.
- 4) Federal grants passed through IDOE are now on a reimbursement basis. NHA will pay for the federal expenditures on the school's behalf prior to the filing of the reimbursement request. After the reimbursement request is processed, the School will transfer the funds to NHA in accordance with the services agreement and the Board will review the original reimbursement request and transaction level detail to ensure the fee paid by the School to NHA complies with federal compliance requirements.

To address the finding for the period under audit, the Board has requested that NHA provide transaction level detail of the federal expenditures at the May 2011 board meeting.

Invoices and supporting documentation for the federal expenditures are available for audit by the Cognizant Agency upon request.

In addition to the actions already proposed in this response, the Board is prepared to take an additional action. If the Cognizant Agency and the School mutually agree that another A-133 audit should be performed by an independent accountant for the period 07-01-08 through 06-30-10, the Board and NHA will fully support and facilitate an audit. Any invoices and supporting documentation required to support federal expenditures will be made available to the accountant.

Signed:

March 28, 2011



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Dr. Thomas Brown  
Board President  
Andrew J. Brown Academy



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Ms. Quiana Graham  
Board Treasurer  
Andrew J. Brown Academy



Andrew J. Brown Academy

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Corrective Action Plan

Audit Period 07-01-08 to 06-30-10

**FINDING NO. 2010-2 LACK OF GRANTEE OVERSIGHT OF FEDERAL AWARDS/MODIFICATION OF OPINION OVER COMPLIANCE**

**FEDERAL AWARDS**

We respectfully disagree with the finding. The Board provides oversight of the federal grant programs, which are transacted by NHA in a similar fashion to non-grant activities, through approval of budgets and monitoring of expenditures against budget. In addition to Board oversight, there is significant federal oversight of these programs and AJB, through NHA services, is compliant with all federal requirements around federal receipts and expenditures.

Oversight from the Federal Awarding Agencies includes approval of grant applications, approval of the budgets which detail how the funds will be spent, reporting requirements, and monitoring visits to review compliance. AJB and NHA have been found to be compliant with federal requirements based on this oversight.

The School's process for approving, dispersing and reporting on federal funds has not changed since the opening of the School. There has been no issue raised by the SBA in the previous two audits. The School received clean audit reports in the past, including unqualified opinions on internal controls over compliance, and no changes in operations were made between the last audit and the current audit. The School has received no explanation as to why the audit approach has changed so dramatically this year and why the change was effected without any prior notice to the School.

The SBA makes note of the disparity between the expenditures of the School (which are payments to NHA) and the federal grant expenditures. After discussion with NHA, the Board's understanding is that this disparity is due to a timing difference only. The School pays the federal grants received to NHA for pre-approved expenditures made by NHA on the School's behalf. Going forward, the State of Indiana is changing its practices and all federal grants will be on a reimbursement basis. As such, the School will no longer receive grants from the State without first incurring the expenditures which will eliminate timing differences in the future. The Board has requested that NHA incur all federal grant expenditures on the School's behalf, and the funds received by the School be used to reimburse NHA for those expenditures.

The SBA states that nothing was provided for audit that indicated the School Corporation has procedures and controls in place that would ensure NHA complied with applicable laws and regulations, including spending the money on appropriate activities for the School. This is not accurate. The Board reviews and approves a budget annually, which includes the amount received for federal grants. The Board reviews similarly presented financial statements. From the financial information presented, the Board can ensure that 100% of the revenues (including federal revenues) are spent on expenditures of the School. Furthermore, we understand that NHA, on AJB's behalf, provided the SBA 100% of supporting documentation for federal grant expenditures. The SBA had the opportunity to review the procedures and controls in place, and the opportunity to review the federal grant expenditures for compliance with laws and regulations. The SBA elected not to audit those records, which is inconsistent with the audit procedures applied in prior audits.

The SBA has disclaimed an opinion on compliance over major programs. The SBA chose not to audit the information provided by NHA, which was sufficient to provide an opinion. The School pays NHA based on receipts from the State (in accordance with the services agreement). These payments were reconciled to the actual cash disbursements of federal funds (i.e., payroll, supplies and equipment purchases, etc.). The reconciliation was required due to a timing difference between when NHA made the expenditures on the School's behalf and when the State remitted the grant funds to the School. The reconciliation was auditable by the SBA. 100% of the supporting documentation and detail was provided to the SBA of the federal grant expenditures (i.e., payroll, supplies and equipment, etc.). The SBA chose not to audit the information.

*Action Plan:*

Based on the finding, the Board will perform a greater level of review of federal awards. The Board Treasurer has discussed this requirement with NHA and the two parties have come to agreement that in addition to the controls already in place, the following will be done in the future:

- 1) The Board will review more detailed quarterly income statements and invoices to support the amounts paid by the Board to NHA. The income statements will include detail of revenue by source and additional detail behind each expense category (i.e., the amount of salaries and benefits, curriculum, etc. expensed for Instruction). The invoices will support the expenditures recorded in the School's general ledger and the amounts reported on the Form 9.
- 2) The Board Treasurer will review copies of the School's Bank Statements (both the Board Fund account and the General Checking Account).
- 3) The Board will review the federal grant budgets at a Board Meeting.
- 4) Federal grants passed through IDOE are now on a reimbursement basis. NHA will pay for the federal expenditures on the school's behalf prior to the filing of the reimbursement request. After the reimbursement request is processed, the School will transfer the funds to NHA in accordance with the services agreement and the Board will review the original reimbursement request and transaction level detail to ensure the fee paid by the School to NHA complies with federal compliance requirements.

To address the finding for the period under audit, the Board has requested that NHA provide transaction level detail of the federal expenditures at the May 2011 board meeting.

Invoices and supporting documentation for the federal expenditures are available for audit by the Cognizant Agency upon request.

In addition to the actions already proposed in this response, the Board is prepared to take an additional action. If the Cognizant Agency and the School mutually agree that another A-133 audit should be performed by an independent accountant for the period 07-01-08 through 06-30-10, the Board and NHA will fully support and facilitate an audit. Any invoices and supporting documentation required to support federal expenditures will be made available to the accountant.

Signed:  
March 28, 2011



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Dr. Thomas Brown  
Board President  
Andrew J. Brown Academy



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Ms. Quiana Graham  
Board Treasurer  
Andrew J. Brown Academy

ANDREW J. BROWN ACADEMY  
EXIT CONFERENCE

The contents of this report were discussed on March 22, 2011, with Dr. Thomas Brown, President of the School Board, and Quianna Graham, Treasurer. Also in attendance at the meeting were NHA employees Thelma L. Wyatt, Kathy Schmidt, Laura Kaleefy, and Cheryl Edwards-Cannon. The official response has been made a part of this report and may be found on pages 62 through 70.



Andrew J. Brown Academy

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March 28, 2011

Mr. Bruce Hartman, State Examiner  
State Board of Accounts  
302 W. Washington Street, Room E418  
Indianapolis, IN 46204

Response to Audit Results & Comments

CONCERNS OVER INTERNAL CONTROLS REGARDING FINANCIAL TRANSACTIONS AND REPORTING

The Indiana State Board of Accounts (“SBA”) does not appear to recognize the legitimacy of the services agreement between Andrew J Brown Academy (“AJB” or “School”) and National Heritage Academies, Inc. (“NHA”). The Board of AJB performed its due diligence and research on NHA practices at the time of entering into the agreement. The services agreement was reviewed and approved by both parties to the agreement, their attorneys, the State of Indiana, the Mayor of Indianapolis’s office (“Authorizer”), the Federal Government in the review of the School’s 501c3 application, the SBA in the prior two audits, and other oversight agencies. These various parties all deemed the agreement to be acceptable and in compliance with state law. None of the concerns over internal control mentioned in this audit report have been raised by any of the aforementioned parties.

Administration of AJB by NHA – including administration of a financial management system of accountability for AJB – pursuant to the services agreement between them is clearly consistent with federal law. Indeed, federal law expressly contemplates the possibility that a public school may be administered by a management company (Section 1116(b)(8)(B) of the Elementary and Secondary Education Act, 20 U.S.C 6316(b)(8)(B); 75 Fed. Reg. 66366 (October 28, 2010)).

In addition to its initial due diligence, the Board does regular review and approval of school budgets and spending against budgets. Further, AJB has received two prior unqualified audit reports from the SBA in 2006 and 2008.

NHA, as contractor to AJB, maintains a financial management system specifically for AJB in compliance with state and federal law as a service to AJB. That system has robust internal control practices. NHA receives annual audits from Deloitte & Touche (“D&T”) and engages D&T to perform annual audits on each of its 57 schools located outside of Ohio. Ohio, like Indiana, performs its own audits through their Auditor of State. To date, all public charter schools partnering with NHA have been successfully audited without receiving a qualified opinion on any of these 67 schools, across 8 different states – including Indiana.

NHA offered to the AJB Board and to SBA to engage D&T to undertake additional testing of internal controls that would meet the needs of SBA. NHA also offered to provide its internal control report as well as have D&T provide written assurance that the controls in place for NHA overall were applied to AJB. This is the approach that is used successfully at all other schools partnering with NHA. All offers to provide additional assurance were declined by SBA.

### Oversight of Management Contract

We respectfully disagree with this finding. The Board reviews and approves an annual budget and quarterly reports of performance against budget. There is an NHA representative available at Board meetings to answer questions and undertake research on any question that the Board has regarding disbursements. The Board Treasurer is sent the financial statements and reviews the statements ahead of the meeting to allow a detailed review with NHA personnel if necessary. These oversight activities satisfy general state and federal requirements for oversight. SBA cites to no state or federal laws that prescribe specific elements or thresholds for oversight that have not been met for AJB. Moreover, this method of financial reporting is: a) consistent with AJB's charter, b) met authorizer approval and, c) received no federal findings in two prior audits conducted by SBA. While the minutes could be stronger, this does not diminish the fact that AJB is governed by a highly-competent board of community leaders. We take our charge seriously, and this has been recognized by our Authorizer, which granted the school the maximum-allowed 7-year charter renewal based on the school's organizational, financial, and academic viability.

#### *Action Plan as Reported in the A-133:*

Nevertheless, the Board wishes to resolve this finding on a constructive basis by providing for a greater level of review of financial information. The Board Treasurer has discussed this requirement with NHA and the two parties have come to agreement that in addition to the controls already in place, the following will be done in the future:

- 1) The Board will review more detailed quarterly income statements and invoices to support the amounts paid by the Board to NHA. The income statements will include detail of revenue by source and additional detail behind each expense category (i.e., the amount of salaries and benefits, curriculum, etc. expensed for Instruction). The invoices will support the expenditures recorded in the School's general ledger and the amounts reported on the Form 9.
- 2) The Board Treasurer will review copies of the School's Bank Statements (both the Board Fund account and the General Checking Account).
- 3) For the years ended June 30, 2011 and after, AJB has requested that NHA engage its auditor, D&T, to provide an Agreed Upon Procedures report to the Board to attest to the classification of the contracted services fee.

To address the finding for the period under audit, the Board has requested that NHA provide the information noted in bullet points 1 & 2 above to the Board at the May 2011 meeting for review.

### Financial Reporting

We respectfully disagree with the finding based on additional information we have received from NHA. The SBA notes that the financial information reported to the DOE during the audit period did not agree to the ending balances from the prior audited financial statements. As noted in the prior audited financial statements, the information submitted to IDOE for the year ended June 30, 2008, and prior was submitted on an accrual basis (which is GAAP and consistent with Government Accounting Standards Board Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments".) However, Indiana Code 5-11-1-2(a) prescribes the cash basis of accounting. After the prior audit was issued, the reporting on the Form 9 was corrected to the cash basis. NHA, on behalf of AJB, contacted IDOE to request instruction on how to correct the Form 9 reporting and was told to adjust the cash receipts and disbursements in the current year (then fiscal year 2009) to correct to the

cash basis. IDOE told NHA that adjustments to the beginning balances could not be made. NHA followed the direction of IDOE, and this is the reason the beginning Form 9 balances (which were originally reported on an accrual basis) do not align with the ending balances per the prior audited financial statements (which were prepared on the cash basis). This was discussed with the SBA during the audit.

It should be noted that the information reported to IDOE on the fiscal 2010 Form 9 was materially correct. The 2010 audited financial statements have immaterial differences from what was originally reported to IDOE<sup>1</sup>. The financial statements presented to the SBA for audit were supported by the underlying books and records, including cash activity of the School Corporation and a reconciliation of the cash activity to the accrual basis general ledger.

The SBA requested detailed information regarding the operational costs of the school to audit the classifications reported on Form 9. The individual expenditures to operate the school are NHA's (a private company) according to the services agreement. While NHA declined to allow SBA to audit its records, the service provider offered to SBA to pay for D&T to audit records and to provide the SBA a report on the classification of the School's expenditures. NHA, on behalf of AJB, offered to have D&T perform substantive testing of operational expenditures on the SBA's behalf. AU Section 543 provides guidance on how an auditor may rely on another auditor's work. We understand this approach has been used successfully in Ohio where the NHA schools are audited by the Auditor of State. The SBA chose not to apply AU Section 543 to this audit and chose not to request testing from Deloitte as a basis to form their opinion. We understand the SBA's position on this audit is inconsistent with the SBA position taken in the Purdue University audit report (B38542), which references reliance on another auditor's work.

The SBA states that NHA would not provide access to records to audit the detailed information regarding operational disbursements. We understand this is partially correct, based on our discussions with NHA. NHA, as a private entity, is not subject to an audit by the SBA. For federal disbursements, NHA, on AJB's behalf, provided 100% of the detail of operational disbursements for federal awards and 100% of the supporting documentation for the federal award disbursements. NHA granted access to individual federal disbursement records so that SBA could perform the necessary work for the A133. For non-federal disbursements, NHA offered to the Board and to SBA have D&T provide an Agreed Upon Procedures report, which the SBA could rely on as a basis for their audit opinion in accordance with auditing standards (reference AU 543). NHA offered to allow SBA design the tests and design of the Agreed Upon Procedures Report so that it would meet their needs. SBA declined this offer.

*Action Plan as Reported in the A-133:*

The Form 9 will continue to be prepared on a cash basis as required by the State; as such, the beginning and ending balances will align with audited financial statements in the future.

The financial statements will be reviewed prior to presenting them to the SBA for audit.

The Board of AJB will also resolve this finding by providing for a greater level of Board review of financial information. The Board Treasurer has discussed this requirement with NHA and the two parties have come to agreement that in addition to the controls already in place, the following will be done in the future:

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<sup>1</sup> Revenues were adjusted a total of \$33,186, and the net difference in the change in net assets from the Form 9 to the audited financial statements was \$46.

- 1) The Board will review more detailed quarterly income statements and invoices to support the amounts paid by the Board to NHA. The income statements will include detail of revenue by source and additional detail behind each expense category (i.e., the amount of salaries and benefits, curriculum, etc. expensed for Instruction). The invoices will support the expenditures recorded in the School's general ledger and the amounts reported on the Form 9.
- 2) The Board Treasurer will review copies of the School's Bank Statements (both the Board Fund account and the General Checking Account).
- 3) For the years ended June 30, 2011 and after, the Board has requested that NHA engage its auditor, D&T, to provide an Agreed Upon Procedures report to the Board to attest to the classification of the contracted services fee.

### General Ledger Activity

We respectfully disagree with the finding based on additional information we have received from NHA. The SBA states that they were unable to audit the general ledger due to the lack of detail for individual transaction postings. We have discussed the condition of the general ledger with NHA, and NHA has informed us that the "Summarized Transaction" reported in the general ledger represents a posting from a subsidiary ledger. This is typical of most mid to large sized accounting systems. NHA has informed us that it was unaware of a request for additional information of the subsidiary ledger postings, and if such a request had been known, it would have been fulfilled.

The SBA states that the general ledger was not maintained by fund and contained numerous cash and accrual transactions commingled to the point that that the SBA could not determine that the cash receipts and disbursements presented in the financial statements were an accurate reflection of the cash activity of the School Corporation. In accordance with the services agreement, NHA maintains the financial records of the School using unique account codes which act as a proxy for fund accounting and result in the same financial tracking and reporting as fund accounting. The financial records of the School are maintained on an accrual basis as this provides the Board a more meaningful measurement of economic activity and comparison against Board approved expenditures. As a result, the general ledger detail provided to the SBA was on an accrual basis, and was adjusted (through an accrual to cash adjustment) to the cash basis as required by the State of Indiana. Accurate financial statements were prepared using the books and records.

#### *Action Plan as Reported in the A-133:*

Reporting to the State of Indiana and the SBA will be done on a cash basis, by fund, in accordance with Indiana law.

Accounting units for expenditures will be created in the School's general ledger to segregate grant expenditures from the general fund expenditures to comply with the fund accounting requirement.

Expenditures will be recorded in the School's general ledger based on the invoices from NHA that will include a classification of expenditures.

### Cash Receipts

The SBA states that due to the manner in which the general ledger was maintained, cash receipts reported in the financial statements could not be verified. This is inaccurate, as we understand that NHA, on AJB's behalf, reconciled the cash basis financial statements to the accrual basis general ledger. The

reconciling items were due to the timing of receipts and disbursements and were auditable by the SBA. The cash receipts and all reconciling items can be supported by independent documentation.

The SBA notes that amounts physically collected at the school building were deposited to NHA's bank account. The SBA will note that this was a comment from the previous audit, and after that audit was issued the school building deposited nearly all receipts into the school bank account (the amount deposited to NHA's account decreased from \$82,601 (= \$49,524 + \$16,488 + \$16,589) in 2008-09 to \$7,767 (= \$1,145 + \$6,622) in 2009-10). The receipts collected at the school in the future will be deposited to the school's bank account. Although there has been significant improvement made since the last audit report, the Board recognizes that this is an area that still requires some attention. It should be noted that these errors were in depositing the funds directly to the NHA account specifically designated for the School rather than into the School account before transferring over to the NHA account. There was no improper guardianship of funds or misuse of funds.

The SBA states that the supporting documentation was not provided for the receipts deposited to NHA's bank account. We understand that in an e-mail dated January 14, 2011, on behalf of AJB, NHA asked the SBA if they would like any of the supporting documentation to support the deposits, and none was requested. The documentation (i.e., deposit slips, etc.) would have been provided had it been requested. This should not be noted as an exception.

The SBA states that changes were made to the receipts and disbursements reported in the financial statements during the audit due to receipts deposited into the NHA general account. This is correct. We have discussed this with NHA, and we understand that the cash receipts were properly recorded in the general ledger, but in the preparation of the financial statements, the receipts were erroneously excluded from the initial financial statements presented to the SBA. Supporting documentation was provided to the SBA to support the adjustments. It should be noted that the adjustments made to the financial statements were immaterial. (The total adjustments to the financial statements during the audit were \$39,699; in the SBA's Audit Results and Comments, the SBA clearly states that \$38,745 (the amount of Board Fund Expenditures) is immaterial to the financial statements.) In the future, the Board will ensure that the financial statements are reviewed to ensure completeness prior to the audit.

*Action Plan as Reported in the A-133:*

The SBA states that receipts should be issued for all monies collected, and that all receipts be documented in a prescribed receipt book. In the future, receipts collected at the school building will be chronologically recorded in a receipt book.

Receipts collected in the future will be deposited into the School's bank account, not NHA's.

Based on the finding, the Board will perform additional review of receipt activity. The Board Treasurer has discussed this requirement with NHA and the two parties have come to agreement that in addition to the controls already in place, the following will be done in the future:

- 1) The Board will review more detailed quarterly income statements and invoices to support the amounts paid by the Board to NHA. The income statements will include detail of revenue by source and additional detail behind each expense category (i.e., the amount of salaries and benefits, curriculum, etc. expensed for Instruction). The invoices will support the expenditures recorded in the School's general ledger and the amounts reported on the Form 9.
- 2) The Board Treasurer will review copies of the School's Bank Statements (both the Board Fund account and the General Checking Account).

The combination of this information will allow the Board to ensure all revenue of the School is deposited into the school's bank account.

### Federal Awards

We respectfully disagree with the finding. The Board provides oversight of the federal grant programs, which are transacted by NHA in a similar fashion to non-grant activities, through approval of budgets and monitoring of expenditures against budget. In addition to Board oversight, there is significant federal oversight of these programs and AJB, through NHA services, is compliant with all federal requirements around federal receipts and expenditures.

Oversight from the Federal Awarding Agencies includes approval of grant applications, approval of the budgets which detail how the funds will be spent, reporting requirements, and monitoring visits to review compliance. AJB and NHA have been found to be compliant with federal requirements based on this oversight.

The School's process for approving, disbursing and reporting on federal funds has not changed since the opening of the School. There has been no issue raised by the SBA in the previous two audits. The School received clean audit reports in the past, including unqualified opinions on internal controls over compliance, and no changes in operations were made between the last audit and the current audit. The School has received no explanation as to why the audit approach has changed so dramatically this year and why the change was effected without any prior notice to the School.

The SBA makes note of the disparity between the expenditures of the School (which are payments to NHA) and the federal grant expenditures. After discussion with NHA, the Board's understanding is that this disparity is due to a timing difference only. The School pays the federal grants received to NHA for pre-approved expenditures made by NHA on the School's behalf. Going forward, the State of Indiana is changing its practices and all federal grants will be on a reimbursement basis. As such, the School will no longer receive grants from the State without first incurring the expenditures which will eliminate timing differences in the future. The Board has requested that NHA incur all federal grant expenditures on the School's behalf, and the funds received by the School be used to reimburse NHA for those expenditures.

The SBA states that nothing was provided for audit that indicated the School Corporation has procedures and controls in place that would ensure NHA complied with applicable laws and regulations, including spending the money on appropriate activities for the School. This is not accurate. The Board reviews and approves a budget annually, which includes the amount received for federal grants. The Board reviews similarly presented financial statements. From the financial information presented, the Board can ensure that 100% of the revenues (including federal revenues) are spent on expenditures of the School. Furthermore, we understand that NHA, on AJB's behalf, provided the SBA 100% of supporting documentation for federal grant expenditures. The SBA had the opportunity to review the procedures and controls in place, and the opportunity to review the federal grant expenditures for compliance with laws and regulations. The SBA elected not to audit those records, which is inconsistent with the audit procedures applied in prior audits.

The SBA has disclaimed an opinion on compliance over major programs. The SBA chose not to audit the information provided by NHA, which was sufficient to provide an opinion. The School pays NHA based on receipts from the State (in accordance with the services agreement). These payments were reconciled to the actual cash disbursements of federal funds (i.e., payroll, supplies and equipment purchases, etc.). The reconciliation was required due to a timing difference between when NHA made the expenditures on the School's behalf and when the State remitted the grant funds to the School. The

reconciliation was auditable by the SBA. 100% of the supporting documentation and detail was provided to the SBA of the federal grant expenditures (i.e., payroll, supplies and equipment, etc.). The SBA chose not to audit the information.

*Action Plan as Reported in the A-133:*

Based on the finding, the Board will perform a greater level of review of federal awards. The Board Treasurer has discussed this requirement with NHA and the two parties have come to agreement that in addition to the controls already in place, the following will be done in the future:

- 1) The Board will review more detailed quarterly income statements and invoices to support the amounts paid by the Board to NHA. The income statements will include detail of revenue by source and additional detail behind each expense category (i.e., the amount of salaries and benefits, curriculum, etc. expensed for Instruction). The invoices will support the expenditures recorded in the School's general ledger and the amounts reported on the Form 9.
- 2) The Board Treasurer will review copies of the School's Bank Statements (both the Board Fund account and the General Checking Account).
- 3) The Board will review the federal grant budgets at a Board Meeting.
- 4) Federal grants passed through IDOE are now on a reimbursement basis. NHA will pay for the federal expenditures on the school's behalf prior to the filing of the reimbursement request. After the reimbursement request is processed, the School will transfer the funds to NHA in accordance with the services agreement and the Board will review the original reimbursement request and transaction level detail to ensure the fee paid by the School to NHA complies with federal compliance requirements.

To address the finding for the period under audit, the Board has requested that NHA provide transaction level detail of the federal expenditures at the May 2011 board meeting.

Invoices and supporting documentation for the federal expenditures are available for audit by the Cognizant Agency upon request.

In addition to the actions already proposed in this response, the Board is prepared to take an additional action. If the Cognizant Agency and the School mutually agree that another A-133 audit should be performed by an independent accountant for the period 07-01-08 through 06-30-10, the Board and NHA will fully support and facilitate an audit. Any invoices and supporting documentation required to support federal expenditures will be made available to the accountant.

Services agreement – Compliance with Internal Revenue Service Guidelines

The SBA raised concerns about compliance with IRS guidelines, particularly those in the IRS Manual 4.76.8.8.2 for examiners.

The School applied for and received a determination from the IRS that it is a public charity described in Section 501(c)(3) of the Internal Revenue Code. In making this determination, the IRS closely reviewed the School's activities, its relationship with NHA and the terms of the Services Agreement (a copy of which was included as part of the School's application for exemption), including the fee arrangement.

The IRS applied the requirements in the manual for examiners to the School's application (as we understand it does in the case of all charter schools that choose to retain a management company in connection with their operations) and determined that the School (and the Services Agreement) complied with the requirements of Section 501(c)(3) and that the School was therefore entitled to tax exemption.

The School has not changed its operations or the substance of its relationship with NHA, nor has it amended the Services Agreement in any material way since it filed its application for exemption and received its IRS determination letter.

#### Prescribed Forms

The Board has outsourced the general ledger and accounts payable functions to NHA.

The Board will ensure that the will begin using a prescribed receipt book.

#### Accountable Items

In the future, if the School hosts a basketball game and charges admission, pre-numbered tickets will be used to track sales. The number of tickets sold will be saved with the deposit slip, and the money received will be deposited in the School's bank account.

#### Textbook Rental Fees

The SBA noted that the textbook rental fees were not properly calculated or approved. In the future, textbook rental fees charged (or not charged) will be specifically approved by the Board of Directors. If textbook rental fees are charged, the annual rental rate will comply with IC 20-26-12-2.

#### Textbook Reimbursement from State

The SBA noted that the Textbook Reimbursement claims sent to the State were not accurate. Upon review, NHA determined that the Reimbursement requested from the State was less than what should have been requested due to incorrectly classifying consumable and reusable textbooks. In the future, the Textbook Reimbursement claim submitted will properly classify the cost of reusable textbooks and the cost of consumable workbooks by grade.

#### Average Daily Membership (ADM) – Lack of Records

On the School's behalf, in accordance with the Services agreement, NHA tracks ADM records in its internal system, AtSchool. This data is available at the School at all times. The School is required to and did extract the files from its system and submitted the information in an electronic format to the Indiana Department of Education.

The extracted Excel file was saved at the time of download on count day, and was provided to the SBA during the audit. The file included the student's identification number and grade level. The file reconciled to the total ADM count by grade level certified (i.e., signed) by the School's Principal.

It should be noted that the School did have the required documentation (i.e., signed class lists) for the September 2008 count day but the signed version for 2009 was either not created or could not be located during the audit.

Going forward, the Board will ensure that the School will retain class lists that reconcile to the ADM count. The class lists will be signed by the Principal and saved for audit purposes.

We appreciate the opportunity to respond to the SBA's audit results and comments.

Signed:  
March 28, 2011



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Dr. Thomas Brown  
Board President  
Andrew J. Brown Academy



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Ms. Quiana Graham  
Board Treasurer  
Andrew J. Brown Academy