

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

FINANCIAL STATEMENT EXAMINATION REPORT

OF

HOPE ACADEMY CHARTER SCHOOL

MARION COUNTY, INDIANA

July 1, 2009 to June 30, 2011



FILED

05/14/2012

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Corporation Treasurer	Barbara Elliott	07-01-09 to 06-30-12
Director	Gail Stone	07-01-09 to 06-30-12
Chairman of the School Board	Christopher Stack, M.D.	07-01-09 to 06-30-12
School Board Treasurer	Malcolm Pownall	07-01-09 to 06-30-12



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

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

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF HOPE ACADEMY CHARTER SCHOOL, MARION COUNTY, INDIANA

We have examined the financial statement of HOPE Academy Charter School (School Corporation), for the period of July 1, 2009 to June 30, 2011. The School Corporation's management is responsible for the financial statement. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial statement and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

As discussed in Note 1, the School Corporation prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis noted above is a different basis than that used in the prior year.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the School Corporation for the years ended June 30, 2010 and 2011, on the basis of accounting described in Note 1.

The Combining Schedule of Receipts, Disbursements, Other Financing Sources (Uses), and Cash and Investment Balances – Regulatory Basis, Schedule of Capital Assets and Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the examination procedures applied to the financial statement and, accordingly, we express no opinion on them.

The School Corporation's response to the Examination Results and Comments identified in our examination is described in the accompanying section of the report entitled Official Response. We did not examine 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 others within the entity, 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 20, 2012

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FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the School Corporation. The financial statement and notes are presented as intended by the School Corporation.

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HOPE ACADEMY CHARTER SCHOOL
STATEMENT OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES
REGULATORY BASIS
For the Years Ended June 30, 2010 and 2011

	Cash and Investments 07-01-09	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-10	Receipts	Disbursements	Other Financing Sources (Uses)	Cash and Investments 06-30-11
General	\$ 22,882	\$ 547,162	\$ 568,679	\$ 137	\$ 1,502	\$ 617,680	\$ 613,453	\$ 919	\$ 6,648
School Lunch	12,433	300	8,000	-	4,733	8,146	12,879	-	-
Textbook Rental	9,591	6,351	725	-	15,217	6,512	1,484	-	20,245
Alternative Education	21,002	160,000	181,002	-	-	230,000	230,000	-	-
Fidelity Charitable Gift	-	25,000	533	-	24,467	2,500	24,750	-	2,217
Naare Contribution	-	4,500	4,500	-	-	-	-	-	-
Junior League Grant	-	1,635	-	-	1,635	-	1,635	-	-
School Administration Fund	30,134	51,128	81,185	-	77	60,451	35,056	-	25,472
Improving Teaching Quality, No Child Left, Title II, Part A	65	1,093	65	-	1,093	-	1,093	-	-
Public Charter School ESEA Title X, Part C	17,392	-	17,392	-	-	-	-	-	-
Fiscal Stabilization - Education	-	6,961	6,961	-	-	-	-	-	-
Education Jobs	-	-	-	-	-	6,505	6,505	-	-
Totals	<u>\$ 113,499</u>	<u>\$ 804,130</u>	<u>\$ 869,042</u>	<u>\$ 137</u>	<u>\$ 48,724</u>	<u>\$ 931,794</u>	<u>\$ 926,855</u>	<u>\$ 919</u>	<u>\$ 54,582</u>

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

HOPE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENT

Note 1. 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 accompanying financial statement presents the financial information for the School Corporation (primary government).

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The regulatory 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.

C. Cash and Investments

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

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Local sources which include taxes, revenue from local governmental units other than school corporations, transfer tuition, investment income, food services, school corporation activities, revenue from community services activities, and other revenue from local sources.

State sources which include distributions from the State of Indiana to be used by the School Corporation for various purposes. Included in state sources are unrestricted grants, restricted grants, revenue in lieu of taxes, and revenue for or on behalf of the School Corporation.

Federal sources which include distributions from the federal government to be used by the School Corporation for various purposes. Included in federal sources are unrestricted grants, restricted grants, revenue in lieu of taxes, and revenue for or on behalf of the School Corporation.

HOPE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENT
(Continued)

Temporary loans which include money received from a loan obtained to pay current expenses.

Interfund loans which include money temporarily transferred from one fund to a depleted fund for use in paying current operating expenses. Such advancement shall not be made for a period extending beyond the budget year.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Instruction which includes outflows for regular programs, special programs, adult and continuing education programs, summer school programs, enrichment programs, remediation, and payments to other governmental units.

Support services which include outflows for support services related to students, instruction, general administration, and school administration. It also includes outflows for central services, operation and maintenance of plant services, and student transportation.

Noninstructional services which include outflows for food service operations and community service operations.

Facilities acquisition and construction which includes outflows for the acquisition, development, construction, and improvement of new and existing facilities.

Debt services which include fixed obligations resulting from financial transactions previously entered into by the School Corporation. It includes all expenditures for the reduction of the principal and interest of the School Corporation's general obligation indebtedness.

Nonprogrammed charges which include outflows for donations to foundations, securities purchased, indirect costs, scholarships, and self-insurance payments.

Interfund loans which include money temporarily transferred from one fund to a depleted fund for use in paying current operating expenses. Such advancement shall not be made for a period extending beyond the budget year.

F. Other Financing Sources and Uses

Other financing sources and uses are presented in the aggregate on the face of the financial statement. The aggregate other financing sources and uses include the following:

Transfers out which includes money paid by one fund to another fund. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the School Corporation. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while

HOPE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENT
(Continued)

other funds are internally restricted by the School Corporation. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the School Corporation in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the School Corporation submits a proposed operating budget to the governing board for the following calendar year. The budget for funds is subject to final approval by the School Corporation's chartering agency.

Note 3. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the School Corporation to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 4. Risk Management

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

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the School Corporation to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks. These risks may also be mitigated by the School Corporation by recording as a disbursement and replacement items purchased.

HOPE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 5. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

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

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

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

B. Teachers' Retirement Fund

Plan Description

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

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

HOPE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENT
(Continued)

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 286-3544

Funding Policy and Annual Pension Cost

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

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the School Corporation's Financial Reports can be found on the Indiana Department of Education website: <http://mustang.doe.state.in.us/TRENDS/fin.cfm>. This website is maintained by the Indiana Department of Education. More current financial information is available from the School Corporation Treasurer's office.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Financial Reports of the School Corporation which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the examination. This is a common occurrence in any financial statement examination. The financial information presented in this report is examined information, and the accuracy of such information can be determined by reading the opinion given in the Independent Accountant's Report.

The supplementary information presented was prepared and/or approved by management of the School Corporation. It is presented as intended by the School Corporation.

HOPE ACADEMY CHARTER SCHOOL
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2010

	General	School Lunch	Textbook Rental	Alternative Education	Fidelity Charitable Gift	Naare Contribution
Cash and investments - beginning	\$ 22,882	\$ 12,433	\$ 9,591	\$ 21,002	\$ -	\$ -
Receipts:						
Local sources	267,988	300	5,764	-	25,000	4,500
State sources	195,274	-	587	160,000	-	-
Federal sources	-	-	-	-	-	-
Temporary loans	75,900	-	-	-	-	-
Interfund loans	8,000	-	-	-	-	-
Total receipts	<u>547,162</u>	<u>300</u>	<u>6,351</u>	<u>160,000</u>	<u>25,000</u>	<u>4,500</u>
Disbursements:						
Current:						
Instruction	162,615	-	200	119,583	-	-
Support services	242,696	-	525	61,419	35	4,500
Noninstructional services	-	-	-	-	498	-
Facilities acquisition and construction	149,281	-	-	-	-	-
Debt services	612	-	-	-	-	-
Nonprogrammed charges	13,475	-	-	-	-	-
Interfund loans	-	8,000	-	-	-	-
Total disbursements	<u>568,679</u>	<u>8,000</u>	<u>725</u>	<u>181,002</u>	<u>533</u>	<u>4,500</u>
Excess (deficiency) of receipts over disbursements	<u>(21,517)</u>	<u>(7,700)</u>	<u>5,626</u>	<u>(21,002)</u>	<u>24,467</u>	<u>-</u>
Other financing sources:						
Transfers out	137	-	-	-	-	-
Total other financing sources	<u>137</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>(21,380)</u>	<u>(7,700)</u>	<u>5,626</u>	<u>(21,002)</u>	<u>24,467</u>	<u>-</u>
Cash and investments - ending	<u>\$ 1,502</u>	<u>\$ 4,733</u>	<u>\$ 15,217</u>	<u>\$ -</u>	<u>\$ 24,467</u>	<u>\$ -</u>

HOPE ACADEMY CHARTER SCHOOL
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2010
 (Continued)

	Junior League Grant	School Administration Fund	Improving Teaching Quality No Child Left Title II, Part A	Public Charter School ESEA Title X Part C	Fiscal Stabilization Education	Totals
Cash and investments - beginning	\$ -	\$ 30,134	\$ 65	\$ 17,392	\$ -	\$ 113,499
Receipts:						
Local sources	1,635	51,128	-	-	-	356,315
State sources	-	-	-	-	-	355,861
Federal sources	-	-	1,093	-	6,961	8,054
Temporary loans	-	-	-	-	-	75,900
Interfund loans	-	-	-	-	-	8,000
Total receipts	<u>1,635</u>	<u>51,128</u>	<u>1,093</u>	<u>-</u>	<u>6,961</u>	<u>804,130</u>
Disbursements:						
Current:						
Instruction	-	27,578	-	551	1,156	311,683
Support services	-	52,070	65	12,460	5,791	379,561
Noninstructional services	-	1,537	-	-	14	2,049
Facilities acquisition and construction	-	-	-	4,381	-	153,662
Debt services	-	-	-	-	-	612
Nonprogrammed charges	-	-	-	-	-	13,475
Interfund loans	-	-	-	-	-	8,000
Total disbursements	<u>-</u>	<u>81,185</u>	<u>65</u>	<u>17,392</u>	<u>6,961</u>	<u>869,042</u>
Excess (deficiency) of receipts over disbursements	<u>1,635</u>	<u>(30,057)</u>	<u>1,028</u>	<u>(17,392)</u>	<u>-</u>	<u>(64,912)</u>
Other financing sources:						
Transfers out	-	-	-	-	-	137
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>137</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>1,635</u>	<u>(30,057)</u>	<u>1,028</u>	<u>(17,392)</u>	<u>-</u>	<u>(64,775)</u>
Cash and investments - ending	<u>\$ 1,635</u>	<u>\$ 77</u>	<u>\$ 1,093</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,724</u>

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HOPE ACADEMY CHARTER SCHOOL
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, OTHER FINANCING SOURCES (USES), AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended June 30, 2011

	General	School Lunch	Textbook Rental	Alternative Education	Fidelity Charitable Gift	Junior League Grant	School Administration Fund	Improving Teaching Quality No Child Left Title II, Part A	Education Jobs	Totals
Cash and investments - beginning	\$ 1,502	\$ 4,733	\$ 15,217	\$ -	\$ 24,467	\$ 1,635	\$ 77	\$ 1,093	\$ -	\$ 48,724
Receipts:										
Local sources	259,597	146	6,168	-	2,500	-	60,451	-	-	328,862
State sources	228,083	-	344	230,000	-	-	-	-	-	458,427
Federal sources	-	-	-	-	-	-	-	-	6,505	6,505
Temporary loans	130,000	-	-	-	-	-	-	-	-	130,000
Interfund loans	-	8,000	-	-	-	-	-	-	-	8,000
Total receipts	617,680	8,146	6,512	230,000	2,500	-	60,451	-	6,505	931,794
Disbursements:										
Current:										
Instruction	159,185	-	1,484	146,855	24,703	1,635	4,271	-	-	338,133
Support services	281,711	-	-	83,145	47	-	28,281	1,093	6,505	400,782
Noninstructional services	1,176	12,879	-	-	-	-	-	-	-	14,055
Facilities acquisition and construction	156,129	-	-	-	-	-	2,504	-	-	158,633
Nonprogrammed charges	7,252	-	-	-	-	-	-	-	-	7,252
Interfund loans	8,000	-	-	-	-	-	-	-	-	8,000
Total disbursements	613,453	12,879	1,484	230,000	24,750	1,635	35,056	1,093	6,505	926,855
Excess (deficiency) of receipts over disbursements	4,227	(4,733)	5,028	-	(22,250)	(1,635)	25,395	(1,093)	-	4,939
Other financing sources:										
Transfers out	919	-	-	-	-	-	-	-	-	919
Total other financing sources	919	-	-	-	-	-	-	-	-	919
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	5,146	(4,733)	5,028	-	(22,250)	(1,635)	25,395	(1,093)	-	5,858
Cash and investments - ending	\$ 6,648	\$ -	\$ 20,245	\$ -	\$ 2,217	\$ -	\$ 25,472	\$ -	\$ -	\$ 54,582

HOPE ACADEMY CHARTER SCHOOL
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
June 30, 2011

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>Ending Balance</u>
Machinery and equipment	<u>\$ 287,900</u>

HOPE ACADEMY CHARTER SCHOOL
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 June 30, 2011

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Notes and loans payable:		
Common School Loans	\$ 74,674	10,185
Fairbanks Loan	262,100	-
Total debt	\$ 336,774	\$ 10,185

HOPE ACADEMY CHARTER SCHOOL
EXAMINATION RESULTS AND COMMENTS

INDIANA SPECIAL EDUCATION CHARTER COOPERATIVE (ISECC)

During the examination period, IDOE awarded IDEA, Part B special education grants to HOPE Academy Charter School. The charter school was awarded \$6,532 during the 2009-2010 school year and \$6,090 during the 2010-2011 school year, which was administered by Indiana Special Education Charter Cooperative (ISECC). The School Corporation entered into a joint services agreement with ISECC to provide special education related services. We identified major concerns with the agreement.

The agreement states: ". . . this Agreement is authorized by Indiana Code 20-35-5 and shall be operated pursuant thereto." However, Indiana Code 20-35-5 does not authorize this type of agreement between a not for profit organization and a school corporation. This type of agreement is only allowable between two or more participating school corporations.

According to the joint services agreement, ISECC is "a service of the Institute for School Excellence, a 501(c)3 organization under Indiana law governing non-profit organizations" and designated the Institute for School Excellence as the administrator and fiscal agent of the cooperative. ISECC does not have a separate governing board and relies on the governing board of the Institute for School Excellence.

The joint services agreement requires that all federal funds awarded to participating schools be used for ISECC operations and flow directly to ISECC. ISECC prepares and submits special education grant applications to IDOE each year on behalf of all participating schools as a cooperative program. IDOE awards each school an amount based on their eligibility under one project number for the cooperative. ISECC prepares and submits draw down and reimbursement requests as one amount under the cooperative project number. However, Institute for School Excellence and ISECC are not established as school corporations and are not entitled to receive funds directly from Indiana Department of Education (IDOE). Therefore, the Institute for School Excellence designates a participating school corporation each year to act as the Local Education Agency (LEA) to receive the special education grant funds. Once the grant funds are received by the LEA, they are immediately disbursed to ISECC. ISECC disburses the grant funds and retains all supporting documentation for their records. Summarized reports are provided to participating schools and the LEA upon request. However, detailed documentation to support the disbursements of special education grant funds by ISECC is not made available to participating schools or the LEA. Proper internal controls were not in place at the school corporation to ensure accountability for the federal funds awarded to them.

Indiana Code 20-35-5-1(5) states: "Participating school corporation" means a local public school corporation that: (A) is established under Indiana law; and (B) cooperates with other corporations in a special education cooperative." IC 20-35 applies to charter schools pursuant to IC 20-24-8-5(3).

Indiana Code 20-35-5-2 states in part: "Two (2) or more participating school corporations may form a special education cooperative in accordance with the provisions of either sections 13 through 15 of this chapter or section 16 . . ."

Indiana Code 20-35-5-13 states:

"A special education cooperative may: (1) be attached to a participating school corporation that has responsibility for administrative and financial controls; or (2) establish a separate treasury with separate accounts. If a special education cooperative is not attached to a participating school corporation, it must comply with the state board of accounts' approved forms and rules for fiscal accountability and is subject to audit by the state board of accounts."

HOPE ACADEMY CHARTER SCHOOL
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 20-35-5-14 states in part: ". . . The board of managers consists of one (1) designated member from each participating school corporation . . ."

Indiana Code 20-35-5-15 states: "Meetings of the board of managers shall be held in accordance with IC 20-26-4-3."

Indiana Code 20-35-5-16 states: "The special education cooperative may be organized in accordance with IC 20-26-10 or IC 36-1-7."

QUESTIONED COST - LACK OF CONTRACT

As discussed in the previous comment, the School Corporation entered into a joint services agreement with Indiana Special Education Charter Cooperative (ISECC) to provide special education related services. We have outlined our concerns of this agreement in the previous comment. In addition to receiving the School Corporation's full special education federal award amount, as indicated in the agreement, the School Corporation also paid ISECC a separate amount which was not included in the agreement or supported by a separate contract.

At various dates during the examination period ISECC would invoice the School Corporation for special education services with a description of "Special Education Teacher of Record/Teacher of Service". The agreement between ISECC and the School Corporation did not outline the need for these types of payments nor was there a separate contract which would indicate the amounts to be paid. School officials provided for examination, emails between the School Corporation and ISECC, which indicated that the school would be invoiced for the amount of hours that a teacher, provided by ISECC, was on site at the school. School Corporation officials confirmed that a teacher was provided by ISECC for special education services. The invoice provided to the School Corporation would indicate total hours worked and a total dollar amount to be paid; however, there was not sufficient documentation to ensure that the payment was appropriate due to the lack of an official contract and detailed supporting documentation.

The total paid to ISECC during the examination period without an approved contract was \$33,190. (See Summary of Questioned Costs, page 25)

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

COLLECTION OF AMOUNTS DUE – OVERPAYMENT OF SALARY

Two employees were overpaid based on a review of their payroll against the approved contract rate of pay. One teacher was overpaid on one paycheck which resulted in an overpayment of \$1,081.94. A second teacher was overpaid on two separate paychecks which resulted in a total overpayment of \$4,153.37. Due to a change in payroll procedures all employees were double paid on two separate checks during 2010. This error was identified and corrected for all employees with the exception of these two, which were identified during our examination. The School Corporation has entered into repayment agreements with the two individual teachers. These repayment agreements outline payments to be made so that the balances due are paid in full by June 30, 2012.

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

HOPE ACADEMY CHARTER SCHOOL
EXIT CONFERENCE

The contents of this report were discussed on March 20, 2012, with Barbara Elliott, Corporation Treasurer; Sharon Baker, Director of Support Services; Rachelle Gardner, Chief Operating Officer; and Helene Cross, President and Chief Executive Officer. The official response has been made a part of this report and may be found on pages 23 and 24.



THE RECOVERY HIGH SCHOOL
AT FAIRBANKS

March 27, 2012

Indiana State Board of Accounts
302 West Washington Street, Room E 418
Indianapolis, IN 46204-2765

RE: Official Response to Audit Report for The Recovery High School at Fairbanks, Inc. DBA Hope Academy for Fiscal Years FY 10 and FY 11

Dear Sir/Madam:

Thank you for the attention given to us during the recent audit conducted at Hope Academy. We appreciated the thoroughness of the audit and professionalism of the audit team. The team clarified their examination results and comments which will result in the following procedural changes:

Indiana Special Education Charter Cooperative (ISECC)

A direct contract will be entered into with an outside provider for special education services. This contract will outline all the special education service requirements, the hours worked per week, and hourly rate to be paid for the services. An invoice will be generated by the provider. We will also request that all hours worked will be logged by the provider and signed off by the Chief Operating Officer and Treasurer before the invoice is paid.

If further assistance is required for other services, such as, physical therapy, speech therapy, occupational therapy or transportation, a contract will be entered into with specific providers of those services. In the past, those services were not needed by students. Our intention is to have this new contract in place effective with the new school year starting August 2012.

Questioned Cost – Lack of Contract

As noted above, a direct contract will be entered into with an outside provider for special education services. Our intention is to have this new contract in place effective with the new school year starting August 2012.

Collection of Amounts Due – Overpayment of Salary

Two employees were over paid and subsequently, repayment agreements were entered into with both employees to repay the amounts owed. The repayments will be made in full by 6/30/12.

Additional internal controls will be set up to prevent these overpayments in the future:

- Bi-weekly payroll vouchers submitted for approval by the Bookkeeping Plus bookkeeper will be reviewed for reasonableness and approved for payment by the Treasurer.
- Monthly and year-to-date variance reports comparing actual to budget will be reviewed by the Treasurer for reasonableness.
- Bi-weekly payrolls will be reviewed by individual until the new payroll system is in place. Once the new system is in place, audit reports will be run on the bi-weekly basis to review for reasonableness prior to payment.

Thank you for your time and cooperation.

Sincerely,



Helene M. Cross
President and Chief Executive Officer

Barbara B. Elliott
Treasurer

CC: Christopher Stack, M.D.
Board Chairman

HOPE ACADEMY CHARTER SCHOOL
SUMMARY OF QUESTIONED COSTS

Questioned Cost - Lack of Contract, page 21	<u>\$ 33,190</u>
Total Questioned Costs	<u><u>\$ 33,190</u></u>

A questioned cost is a cost that is questioned by the Board of Accounts because of (a) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (b) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (c) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

This report was forwarded to the Office of the Indiana Attorney General and the local prosecuting attorney.