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July 24, 2013

Charter School Board
The Recovery High School at
Fairbanks, Inc. dba Hope Academy
8102 Clearvista Parkway
Indianapolis, IN 46256

We have reviewed the Supplemental Agreed-Upon Procedures Report prepared by Blue & Co., LLC, Independent Public Accountants, for the period July 1, 2011 to June 30, 2012. In our opinion, the Supplemental Agreed-Upon Procedures Report was prepared in accordance with the guidelines established by the State Board of Accounts.

We call your attention to the findings noted in the report.

In addition to the report presented herein, a Financial Statements and Independent Auditors' Report for The Recovery High School at Fairbanks, Inc. dba Hope Academy, was prepared in accordance with the guidelines established by the State Board of Accounts.

The Supplemental Agreed-Upon Procedures Report and the Financial Statements and Independent Auditors' Report are filed in our office as a matter of public record.

State Board of Accounts



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Mr. Mark Monson
Chief Executive Officer
The Recovery High School at Fairbanks, Inc.
dba Hope Academy
8102 Clearvista Pkwy.
Indianapolis, IN 46256-4698

Mr. Monson:

We have performed the procedures enumerated below, which were agreed to by the management of The Recovery High School at Fairbanks, Inc. dba Hope Academy (hereby referred to "Hope Academy"), solely to assist you with respect to assessing compliance with required compliance testing noted in Exhibit A of the Guidelines for the Audits of Charter Schools established by the State Board of Accounts for the fiscal year ended June 30, 2012. Hope Academy's management is responsible for the compliance with the guide. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

We will perform the following agreed-upon procedures in accordance with attestation standards established by the American Institute of Certified Public Accountants:

Review Form Usage

1. Review form usage to determine that the charter school is using prescribed or approved forms.

Finding: Noted that Hope Academy used certain prescribed and non-prescribed forms. No documentation was provided verifying that the non-prescribed forms had been approved by the State Board of Accounts. However, in review of the prior year audit findings, there were no findings noted related to forms usage.

Verify Proper Bonding

2. Verify that Hope Academy has designated an employee or employees who are responsible for handling the majority of the cash, receipts, and disbursements for the school.

Finding: Noted that Hope Academy has a designated employee responsible for handling the cash, receipts, and disbursements for the School.

3. Determine that the designated employee(s) have either a cash bond or an insurance policy on their behalf and obtain and copy of the documentation for engagement workpapers.

Finding: Noted that Hope Academy maintains a cash bond.

4. Verify the sufficiency of the bond amount(s) by comparing to the average amount of cash or receipts on hand during the fiscal year.

Finding: Noted that Hope Academy cash bond exceeds average receipts during the fiscal year.

Verify Submission and Accuracy of Required Reports

5. Verify the ADM count was submitted timely.

Finding: Noted that Hope Academy submitted the annual ADM submission for the fiscal year ending June 30, 2012 within the appropriate time period.

6. Verify records have been retained to support the number of students claimed for ADM for the year(s) being tested.

Finding: Noted that supporting documentation Hope Academy provided for the number of students claimed for the ADM submitted during the fiscal year ending June 30, 2012 tied to the submission.

7. Verify that the building level official has certified the ADM count, which contains a statement detailing the names and location of the records used.

Finding: Noted that the ADM count provided was certified by the building level official.

8. Verify the Student Information Reporting was submitted timely to IDOE.

Finding: Noted that supporting documentation of the student information reported to the IDOE tied to the ADM submitted during the fiscal year ending June 30, 2012. In addition, the student information reported to the IDOE was submitted within the appropriate time period.

9. Verify the sufficiency of the bond amount(s) by comparing to the average amount of cash or receipts on hand during the fiscal year.

Finding: Noted that Hope Academy cash bond exceeds average receipts during the fiscal year.

10. Verify the sufficiency of the bond amount(s) by comparing to the average amount of cash or receipts on hand during the fiscal year.

Finding: Noted that Hope Academy cash bond exceeds average receipts during the fiscal year.

Verify Submission and Accuracy of Required Reports

11. Verify the ADM count was submitted timely.

Finding: Noted that Hope Academy submitted the annual ADM submission for the fiscal year ending June 30, 2012 within the appropriate time period.

12. Verify records have been retained to support the number of students claimed for ADM for the year(s) being tested.

Finding: Noted that supporting documentation Hope Academy provided for the number of students claimed for the ADM submitted during the fiscal year ending June 30, 2012 tied to the submission.

13. Verify that the building level official has certified the ADM count, which contains a statement detailing the names and location of the records used.

Finding: Noted that the ADM count provided was certified by the building level official.

14. Verify the Student Information Reporting was submitted timely to IDOE.

Finding: Noted that supporting documentation of the student information reported to the IDOE tied to the ADM submitted during the fiscal year ending June 30, 2012. In addition, the student information reported to the IDOE was submitted within the appropriate time period.

15. Verify that the Form 9 Financial Annual Report information was submitted timely with the IDOE.

Finding: Noted that Form 9 Financial Annual Report information filed during the fiscal year ended June 30, 2012 for the periods January 2011 to June 2011 and July 2011 to December 31 were submitted timely.

16. Verify that the Form 9 Financial Annual Report information agrees to the cash records of the charter school.

Finding: Noted that Form 9 Financial Annual Report information filed during the fiscal year ended June 30, 2012 for the periods January 2011 to June 2011 and July 2011 to December 31 agreed to the cash receipts reported for the corresponding period without exception.

17. Verify that the Form 9 Financial Annual Report information is presented in the manner prescribed by the State Board of Accounts in that the financial information contains the prescribed funds, receipt codes, and expenditure codes.

Finding: Noted that Form 9 Financial Annual Report information was in the prescribed format including funds, receipt codes, and expenditures codes.

Open Door Policy

18. Verify that the school's charter specifies that the charter school is subject to the requirements of the Open Door Law.

Finding: Noted that the charter did not reference the Open Door Law but that the bylaws did refer to the Open Door Law.

19. Verify that the Open Door Law was observed for applicable meetings.

Finding: Reviewed fliers that had been posted in the School for the board meetings for the fiscal year ending June 30, 2012.

Conflict of Interest

20. Review Part 13 of the charter school manual as well as IC 5-16-11 and determine that the appropriate conflict of interest statements have been filed and also provided to the State Board of Accounts.

Finding: Copies of the conflict of interest statements were obtained for the fiscal year ending June 30, 2012. In previous years, copies were provided to the State Board of Accounts during audit procedures. With the change of procedures being completed by Independent Public Accountants, copies of the conflict of interest statements have not been provided directly to the State Board of Accounts.

Also, it was noted that a conflict of interest statement had not been obtained from a new board member during the fiscal year ending June 30, 2012. The board member was only on the board a few months and did not attend the meetings held during the time that the conflict of interest statements were obtained.

Monthly Reconcilements Maintained

21. Determine if the charter school is reconciling their accounts monthly.

Finding: Noted that balance sheet reconciliations tied to the general ledger balance as of June 30, 2012. In addition, reconciliations for the months ending October 31, 2011, December 31, 2011 and May 31, 2012 were haphazardly selected and viewed to ensure that reconciliations were completed throughout the year.

General Testing over Cash Balances

22. Determine if the charter school has any overdrawn fund or cash balances which are not due to awaiting reimbursement on a reimbursement grant.
Finding: Noted no overdrawn funds noted as of June 30, 2012 per review of general ledger cash balances.

23. Determine that the charter school is routinely seeking reimbursement for those funds which are funded by reimbursement grants.

Finding: Per review of the general ledger and inquiry of management, Hope Academy does not received funds from expense based reimbursement grants.

Review of Capital Assets

24. Determine that the charter school has maintained an up to date capital asset inventory.

Finding: Noted that the capital asset inventory listing ties to the general ledger capital asset balances without exception.

25. Verify that the charter school maintained its capital asset inventory on a prescribed or approved form.

Finding: Noted that the capital asset inventory listing as of June 30, 2012 was maintained on the prescribed form.

26. Verify that all assets purchased by the charter school were titled in the name of the charter school.

Finding: Noted that Hope Academy had one asset addition for the current year. This item was tested and noted to be titled in the name of Hope Academy.

Receipts and Deposit

27. Select a sampling of 25, 40, or 60 receipts to test based on expected deviations and the related assessed level of control risk to perform the following procedures

- a. Determine receipts were issued at the time of transaction, when cash or check was received.
- b. Determine daily deposits were made.
- c. Determine that the classification on the receipt (i.e., cash, check, etc.) agrees with the actual amounts of cash, checks, etc., shown on the deposit slip to insure deposits are made in the same form received.
- d. Determine that the collection is properly receipted into the proper fund based on the source of the collection
- e. For receipts selected that are for fees established by the charter school, determine that the fees are collected in accordance with a fee schedule established by management.

Finding: Noted no deviations detected in the 25 receipts sampled for testing for attributes a and c – e. However, it was noted that Hope Academy does not make deposits on a daily basis but makes deposit once the balance to be deposited reaches a set amount.

Vendor Disbursements Compliance Testing

28. Select a sampling of 25, 40, or 50 vendor checks or Electronic Fund Transfers (EFTs) to test based on expected deviations and the related assessed level of control risk to perform the following procedures:
- a. Determine if the voucher or attached invoice is adequately itemized.
 - b. Determine that the check is math accuracy.
 - c. Determine that the check is certified by the employee designated.
 - d. Determine that the check is approved by the board.
 - e. Determine that there is a written contract if the payment was for a contractual service and compare to the contract price. Retain written contract in the audit documentation.
 - f. Agree accounts payable voucher amount to supporting documentation (other than a statement or credit card slip) and check amount, if applicable.
 - g. Determine that sales tax was not paid inappropriately
 - h. Verify that payment was not made in advance.
 - i. Determine that the payment was made timely, not incurring any late fees.
 - j. Verify that payment was not made by cash.
 - k. Determine that payment was not a donation.
 - l. Determine that expense was not a personal expense, but was attributable to the operation of the charter school.

Finding: Noted no deviations detected in the 25 disbursements sampled for testing.

Specific Testing On Travel Claims

29. Determine if the charter school has adopted a travel policy and obtain a copy of the travel policy for the engagement documentation.

Finding: Noted that Hope Academy has adopted policies for auto mileage and training/conference.

Vendor Disbursements Compliance Testing

30. Select a sampling of 25, 40, or 50 vendor checks or Electronic Fund Transfers (EFTs) to test based on expected deviations and the related assessed level of control risk to perform the following procedures:
- m. Determine if the voucher or attached invoice is adequately itemized.
 - n. Determine that the check is math accuracy.
 - o. Determine that the check is certified by the employee designated.
 - p. Determine that the check is approved by the board.
 - q. Determine that there is a written contract if the payment was for a contractual service and compare to the contract price. Retain written contract in the audit documentation.
 - r. Agree accounts payable voucher amount to supporting documentation (other than a statement or credit card slip) and check amount, if applicable.
 - s. Determine that sales tax was not paid inappropriately
 - t. Verify that payment was not made in advance.
 - u. Determine that the payment was made timely, not incurring any late fees.
 - v. Verify that payment was not made by cash.
 - w. Determine that payment was not a donation.
 - x. Determine that expense was not a personal expense, but was attributable to the operation of the charter school.

Finding: Noted no deviations detected in the 25 disbursements sampled for testing.

Specific Testing On Travel Claims

31. Determine if the charter school has adopted a travel policy and obtain a copy of the travel policy for the engagement documentation.

Finding: Noted that Hope Academy has adopted policies for auto mileage and training/conference.

32. If the travel policy allows for advances, test advances provided (number to be determined by examiner) for proper handling.

Finding: Noted that the policies do not allow for advances.

33. Select a sample of travel reimbursements (number to be determined by examiner) to test to determine that appropriate claims have been submitted by performing the following procedures:
- a. Determine the claims are in writing.
 - b. Determine the claims are properly itemized.
 - c. Determine the claims are supported by original receipts.
 - d. Determine that proper documentation was provided
 - e. Determine that the trip was for charter school business.
 - f. Determine for mileage reimbursements, if applicable, that the mileage does not include travel to and from the employee's home or building of employment.
 - g. Determine for mileage reimbursements, if applicable, that the mileage rate of pay agrees to the charter school's travel policy.

Finding: Noted one error out of a sample size of 6, which was 20% of the population. The error related to mileage reimbursement being paid at the old rate of fifty-one cents a mile instead of the revised rate of fifty-five and a half cents per mile. The resulting error was an underpayment of \$1.35 and is considered immaterial.

It was also noted that one of the sample items selected appeared to have the same individual preparing and approving the request.

Review Credit Card Policy, Procedures, and Disbursements

34. Determine that the following criteria for the use of credit cards have been observed by selecting a minimum of 5 credit card payments for testing:
- a. Determine that the Charter School has appropriately adopted a credit card policy and obtain a copy of the policy for the engagement workpapers.
 - b. Determine that the issuance and use is handled by an official or employee designated by the charter school.
 - c. Determine that the purpose for which the credit card may be used is specifically stated in the policy.
 - d. Determine when the purpose for which the card has been issued has been accomplished, the card is returned to the custody of the responsible official.
 - e. Determine that the designated responsible official or employee maintains an accounting system or log which includes the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, and the date the card is issued and returned.
 - f. Determine that credit cards are not used to bypass the accounting system.
 - g. Determine payment is not made on the basis of a statement or a credit card slip only.
 - h. Determine that annual fees, if applicable, were authorized by the management of the charter school and/or organizer.

Finding: It was noted that Hope Academy does not maintain and utilize credit cards, per inquiry and corroboration.

Review Compliance with Public Works Laws

35. For projects that meet the definition of public works (IC 36-1-12), test the following:
- a. Determine specifications for the project were appropriately prepared.
 - b. Determine the bid was sought through the proper advertisement.
 - c. Determine bid Form 96 was used.
 - d. Determine the contract awarded was pursuant to IC 36-1-12.
 - e. Determine the financial statements were provided with the bid.
 - f. Determine the escrow contract for retainage, per IC 36-1-12-14, was intact.
 - g. Determine that a performance bond was included with the bid documents.
 - h. Determine that a non-collusion affidavit was provided with the bid documents.
 - i. Determine that any change orders were approved and not greater than 20 percent of the original contract amount.

Finding: It was noted that Hope Academy does not have any projects that meet the definition of public works through inquiry, corroboration, and review of the capital asset listing.

Review Payroll Policies and Test for Payroll Compliance

36. Determine that the charter school organizer and/or management of the charter school have appropriately established a payroll schedule or has labor contracts on file for employees.

Finding: Noted that Hope Academy provided labor contracts for each of the 12 employees tested. A sample size of 12 was used rather than the minimum 15 suggested in the guide as that was the entire number of employees that the Hope Academy employed.

37. Obtain and review employment policies, including leave and overtime policy; in engagement workpapers.

Finding: Employment policies were reviewed and maintained as part of the engagement workpapers.

38. For those charters that transfer money to an Education Management Organization (EMO) for employees which are paid by the EMO, verify that the charter school has adequate supporting documentation for the payroll transfer that ensures that payments are made only for services rendered at the charter school.

Finding: Noted, that Hope Academy does not utilize an Education Management Organization, per inquiry and corroboration.

39. Select a sampling of 15, 25, or 40 employees to test based on expected deviations and the related assessed level of control risk to perform the following procedures
- Determine that the amount and rate of pay paid for the employee agrees with the payroll schedule and/or labor contract.
 - Determine attendance and time records were maintained for the employee.
 - Determine that the employee's pay has been properly posted to the employee's earnings record.
 - Determine the employee's earnings record agrees to the Form W-2 for the year.
 - Determine that payment was made from the proper fund.
 - In the case where an employee's salary is paid from multiple funds, determine that the charter school keeps records to ensure that the employee's time is allocated appropriately across funds for payment.
 - Verify that the employee is not being paid in advance of hours worked.

Finding: A sample size of 12 was used rather than the minimum 15 suggested in the guide as that was the entire number of employees that the Hope Academy employed. Noted no deviations detected for attributes a-c and e-g in the employees sampled for testing. However, it was noted that there were discrepancies with three W-2 statements tested for attributed d. Gross wages were overstated by \$72.00, \$8.22, and \$10.56 due to an incorrect calculation for group term life insurance. The amounts noted are deemed immaterial. Hope Academy is in the process of obtaining and completing corrected W-2 statements for the individuals impacted.

40. Inquire of school officials if anyone has received any severance pay or suspension with pay. If applicable, verify that a written opinion was received by the charter school attorney, stating that the payments are in accordance with all federal laws and regulations, and state laws, as applicable. This written opinion shall be received prior to providing the pay.

Finding: Noted no severance pay or suspension with pay was noted during the fiscal year ending June 30, 2012, per inquiry and corroboration.

Amounts Withheld

41. For amounts withheld in accordance with federal and state regulations, penalties, interest, and other charges perform the following:
 - a. Determine that disbursements of withholdings were to the proper authority.
 - b. Determine if any late payments and/or interest charges were assessed.

Finding: It was noted that third quarter 2011, fourth quarter 2011 and first quarter 2012 941 tax forms were all filed on the same date of May 14, 2012 indicating all forms were filed late. It does not appear that penalties have been assessed at this time. However, Hope Academy has discontinued their relationship with the third party administrator.

Textbook Rental Procedures

42. Determine that the school is properly using Textbook Rental Form TBR 2 (1997).

Finding: A sample of 20% of the textbook rental forms processed during fiscal year 2012 was selected for testing. Noted no deviations detected in the textbooks rentals selected for testing.

43. Determine that a new TBR-2 is being issued with each payment, if applicable.

Finding: A sample of 20% of the textbook rental forms processed during fiscal year 2012 was selected for testing. Noted no deviations detected in the textbooks rentals selected for testing.

44. Review procedures for collection of partial payments.

Finding: Procedures for collection of partial payments were documented in the engagement workpapers.

45. Determine if a policy for bad debt or uncollectible accounts has been established as required and retain a copy of the policy for engagement workpapers.

Finding: Noted in Hope Academy's handbook, that any unpaid fees are to be sent to a collection agency for repayment.

46. Review procedures for pursuing delinquencies (policies, concern letter, and small claims court, collection agencies) to determine if the charter school fulfilled their responsibility to collect amounts owed to the charter school.

Finding: noted in Hope Academy's handbook that any unpaid fees are to be sent to a collection agency for repayment.

47. Select a sample of TBR-2 receipts at different collection points (number to be determined by examiner), if applicable, and determine that the classification on the receipt (i.e., cash, check, etc.) agrees with the actual amounts of cash, checks, etc., shown on the deposit slip to ensure deposits are made in the same form received. Further review is required if discrepancies exist, (i.e., check for cash substitution).

Finding: A sample of 20% of the textbook rental forms processed during fiscal year 2012 was selected for testing. Noted no deviations in the textbooks rentals selected for testing.

Review of Textbook Rental, School Lunch Forms, and Textbook Reimbursement Report

48. Review Child Nutrition Division Form CND-1 – School Lunch Reports Required to be filed monthly:
- Review the CND-1 state reports for timely submission and completeness.
 - Select a sample of actual meals served (number to be determined by examiner) and agree to the number of meals shown on the CND-1. The number of meals served shall be included on the SF 2, 2A, and 3 daily forms and shall reconcile to the monthly CND-1.

Finding: Noted that Hope Academy does not submit the CND-1 forms as the School pays for the qualified lunches and does not apply for reimbursement.

49. Review Forms 521 and 522 for proper eligibility determination and Textbook Reimbursement Report:
- Select a sample of free and reduced meals claimed on CND-1 (number to be determined by examiner) to agree to the total number of approved applications (521 and 522) to ensure the over claiming of meal reimbursement does not exist.
 - Agree number of Students Listed as qualified to receive free and reduced lunch to the number of free and reduced applications.
 - Select a sample of a minimum of 5 applications to ensure that the proper determinations of free, reduced, or paid categories were made.
 - Determine that the Textbook Reimbursement Report was filed timely (November 1st)
 - Select a sample of eligibility determinations to determine that proper verification was made by the charter school. If a large number of errors are noted, determine that the charter school receives a written opinion from the Indiana Department of Education on the proper corrective action.

Finding: Noted that attributes a – b and e are not applicable to Hope Academy as the School does not file with the state for reimbursement of free and reduced meals. However, Hope Academy does complete an application for students that the School pays for the meals.

Eight applications for school lunches were tested to ensure proper determinations were met. It was noted that one application was not properly approved and that one applicant appear to have been approved for a free meal but actually qualified for a reduced meal.

It was also noted that the textbook reimbursement report was filed by the November 1st deadline.

Review Prepaid Accounts – School Lunch

50. Determine that the charter school has a subsidiary record by student in which it reconciles at least monthly to the cash balance of the prepaid account.

Finding: Noted that Hope Academy does maintain a listing of prepaid lunches but that the prepaid lunch balances are not recorded on the general ledger as they were deemed to be immaterial. The balance in the prepaid lunches was \$-0- as of June 30, 2012 and \$549 at October 31, 2012.

Review Internal Controls over Educational Management Company Contract and Procedures.

51. Determine that the charter school organizer contracts with an Educational Management Company and obtain copy of the contract for the engagement workpapers.

Finding: Noted that Hope Academy does not utilize an Education Management Organization per inquiry and corroboration.

52. Document, in a narrative form, the relationship between the Education Management Company and the Charter School.

Finding: Noted that Hope Academy does not utilize an Education Management Organization per inquiry and corroboration.

53. Review controls in place by the organizer and/or charter school that provides assurance that the management company is completing the duties as outlined in the contract and that the charter school is only paying for services in which the management company is providing for their specific school. Determine that the controls are effective and that the organizer has maintained control over the fiscal duties.

Finding: Noted that Hope Academy does not utilize an Education Management Organization per inquiry and corroboration.

Review Extra-Curricular Activities

54. Determine that the money received and disbursed for extra-curricular activities are accounted for in the funds of the charter school.

Finding: Noted Hope Academy does not have extra-curricular activities, per inquiry and corroboration.

Review Ticket Sale Procedures

55. Determine that prenumbered tickets and ticket sale reports (Form SA-4) are used.

Finding: Noted that Hope Academy does not hold events requiring ticket sales, per inquiry and corroboration.

56. A sample of ticket sale reports shall be tested (number to be determined by examiner) to ensure the following:

- a. Determine that the charter school's receipt of monies agrees to the ticket sales reports.
- b. Determine that the monies are deposited daily
- c. Determine that all tickets are accounted for on the SA-4 Ticket Sales Forms

Finding: Noted that Hope Academy does not hold events requiring ticket sales, per inquiry and corroboration.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion, on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users listed above and is not intended to be and should not be used by anyone other than those specified parties.

Sincerely,

Blue & Co., LLC

February 27, 2013