



STATE OF INDIANA
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April 9, 2014

Charter School Board
Indiana Cyber Charter School
7508 Beechwood Centre Road
Avon, IN 46123

We have reviewed the Supplemental Audit Report prepared by Alerding CPA Group, Independent Public Accountants, for the period July 1, 2012 to June 30, 2013. In our opinion, the Supplemental Audit Report was prepared in accordance with the guidelines established by the State Board of Accounts.

We call your attention to the findings in the report. Pages 3 through 6 contain five audit results and comments.

In addition to the report presented herein, a Financial Statements and Independent Auditors' Report for Indiana Cyber Charter School was prepared in accordance with the guidelines established by the State Board of Accounts.

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

State Board of Accounts

INDIANA STATE BOARD OF ACCOUNTS
COMPLIANCE REPORT OF

INCYBER
The Indiana Cyber Charter School

LAKE COUNTY, INDIANA

JULY 1, 2012 TO JUNE 30, 2013



INDIANA CYBER CHARTER SCHOOL, INC.

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INDIANA CYBER CHARTER SCHOOL, INC.

SCHOOL OFFICIALS
JULY 1, 2012 TO JUNE 30, 2013

<u>Office</u>	<u>Official</u>	<u>Term</u>
Bookkeeper	Kelly Majors	February 1, 2013 to June 30, 2013
Chief Executive Officer	Dr. J. Donald Williams	February 1, 2013 to June 30, 2013
Chairperson	Jan Myers	April 23, 2012 to June 30, 2013



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TO: THE OFFICIALS OF INDIANA CYBER CHARTER SCHOOL, INC.

We have audited the records of Indiana Cyber Charter School, Inc. for the period from July 1, 2012 to June 30, 2013, and certify that the records and accountability for cash and other assets are satisfactory to the best of our knowledge and belief, except as stated in the Audit Results and Comments. The financial transactions of this office are reflected in the Annual Report of Indiana Cyber Charter School, Inc. for the year ended June 30, 2013.

Alerding CPA Group

December 11, 2013

INDIANA CYBER CHARTER SCHOOL, INC.

AUDIT RESULTS AND COMMENTS JULY 1, 2012 TO JUNE 30, 2013

Our opinion on the financial statements, which is unqualified, is included on pages 1 and 2 of the financial statements.

1. **Segregation of Duties, Review and Approval**

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

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 Charter Schools, Part 10)

Finding

An effective system of internal control provides that no single individual has the ability or authority to initiate, process and record a transaction, or review and reconcile the series of transactions consummated by the same individual. A lack of segregation of duties or oversight may allow for transactions to be consummated inconsistent with the objectives of IN Cyber.

We recognize IN Cyber has limited personnel, and while we have no reason to question the ability or integrity of your personnel, IN Cyber's current system of internal control provides access and control to the Bookkeeper of substantially all financial transactions and reporting of activities with little or no independent review of approval.

Recommendation

The adoption of an effective system of internal control does not necessarily require the addition of personnel, but often may simply result in realignment of key responsibilities and review by an individual independent of initiating the transaction. Accordingly, we recommend that management reevaluate the system of internal control to provide appropriate segregation of duties, review and approval of transactions with emphasis on the security of cash balances. However, the system of internal control should, at minimum, include the following:

INDIANA CYBER CHARTER SCHOOL, INC.

AUDIT RESULTS AND COMMENTS JULY 1, 2012 TO JUNE 30, 2013

- Bank statements should be delivered, unopened, directly to a member of management independent of initiating, recording and reconciling cash activities for review and approval prior to delivery to accounting personnel for reconciliation of the bank accounts. The approval of the bank statement should be documented on the face of the statement. Upon reconciliation of the bank statements, the bank statements and reconciliations, together with the underlying reconciliation reports should be returned to the independent member of Management for approval of the reconciliation, which should be documented on the face of the reconciliation. Areas of specific review should include any journal entries posted to the cash account, unusual automatic transactions, wire transfers, old outstanding deposits or expenditures which have not cleared the bank, and any other unusual transactions;
- Because a journal entry is a simple process it can be used to circumvent accounting systems and related controls, and to conceal misappropriation of IN Cyber assets. Management should evaluate routine journal entries and document which will be treated as preapproved by a member of Management, such as recording of depreciation, etc. Non-routine journal entries, including entries to cash accounts, should be reviewed and approved, in writing, by an independent member of Management.

The considerations provided above are not intended to be an all inclusive listing of recommendations for enhancing your system of internal control, and we further recommend engaging professional assistance in this process to provide the requisite expertise and experience in enhancing your system of internal control.

2. Recording of Expenses in the Appropriate Period

The charter school's accounting system must facilitate the preparation of the periodic financial reports for administrative review and the required year end financial statements.

All accounting transactions must be supported by adequate documentation. Transaction entries are supported by an explanation of the reason for the entry and must show an evidence of supervisory approval. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

Finding

During our testing of the year end accounts payable balances, we noted several expenses that were improperly excluded from the accounts payable balance. Similar to other expenses, and in accordance with U.S. GAAP, liabilities should be recorded in the period in which the goods or services are rendered rather than the period in which the invoice is received.

INDIANA CYBER CHARTER SCHOOL, INC.

AUDIT RESULTS AND COMMENTS JULY 1, 2012 TO JUNE 30, 2013

Recommendation

We recommend a review be performed at each reporting period month end for outstanding invoices so that all liabilities and expenses that exist as of the reporting dates are properly recorded.

3. Dual Signature on Checks

A charter school has a duty of obedience to insure that the school complies with applicable laws and regulations and its internal policies and procedures. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

Finding

During our audit procedures, we noted all expenditures, regardless of dollar amount, had only one signature for authorization of payment. Per IN Cyber's By-Laws, all checks in excess of \$5,000 are required to have two signatures.

Recommendation

We recommend IN Cyber enforce their policy whereby checks written over the \$5,000 threshold require two signatures. At least one of the signatures should be obtained by the President.

4. Fixed Asset Capitalization Policy

The charter school must establish minimum policies and procedures concerning operations. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

Finding

During our audit procedures, the Organization represented to us that their internal policy in regards to capitalization of fixed assets was set at \$1,000. Therefore, all expenditures under \$1,000 were to be expensed and all in excess of that threshold were to be capitalized.

Recommendation

While expensing capital assets under \$1,000 is an acceptable practice, we recommend that the Organization formalize the policy in written format with formal Board of Director approval.

INDIANA CYBER CHARTER SCHOOL, INC.

AUDIT RESULTS AND COMMENTS
JULY 1, 2012 TO JUNE 30, 2013

5. Accounting Policies and Procedures Manual

The charter school must establish minimum policies and procedures concerning operations. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

Finding

During our audit, we noted that IN Cyber does not have an Accounting Policies and Procedures Manual. The purpose of such a manual is to ensure that proper accounting principles are being applied, that similar transactions are treated consistently, and that financial reports are produced in the form desired by management. A well-written accounting manual will aid in the training of new employees and assist management in delegating and segregating duties. The manual will also serve to bridge the learning curve gap that can be created by a key employee leaving IN Cyber unexpectedly and not being available to offer training or answer questions for their successor. The manual should include, but not be limited to, the following:

- An organizational chart of those involved in the accounting and reporting process;
- Job descriptions, outlining duties and responsibilities of each position;
- Descriptions of methods, procedures, and accounting principles to be followed, including explanations and examples of principle transactions;
- A chart of accounts with detailed explanation of the items to be included therein;
- Any other documents or forms for which uniformity of use is desired.

Recommendation

We recommend that IN Cyber develop a comprehensive Accounting Policies and Procedures Manual. In the process of developing the manual, we recommend a comprehensive review of the existing accounting system and processes in place and offering management the opportunity to eliminate or improve procedures thereby creating a more efficient and effective system.

INDIANA CYBER CHARTER SCHOOL, INC.

EXIT CONFERENCE
JULY 1, 2012 TO JUNE 30, 2013

The contents of this report were discussed on December 11, 2013 with Dr. J. Donald Williams, Chief Executive Officer and Kelly Majors, Bookkeeper. The officials concurred with the audit findings.