



STATE OF INDIANA
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January 6, 2015

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, 2013 to June 30, 2014. 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 7 contain seven audit results and comments. Management's response directly follows each finding.

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.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

INDIANA STATE BOARD OF ACCOUNTS
COMPLIANCE REPORT OF

INCYBER

The Indiana Cyber Charter School

HENDRICKS COUNTY, INDIANA

JULY 1, 2013 TO JUNE 30, 2014



INDIANA CYBER CHARTER SCHOOL, INC.

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INDIANA CYBER CHARTER SCHOOL, INC.

SCHOOL OFFICIALS
JULY 1, 2013 TO JUNE 30, 2014

<u>Office</u>	<u>Official</u>	<u>Term</u>
Bookkeeper	Kelly Majors	February 1, 2012 to June 20, 2014
Bookkeeper	Suzann Simmons	June 20, 2014 to June 30, 2014
Chief Executive Officer	Dr. J. Donald Williams	February 1, 2012 to June 30, 2014
Chairperson	Jan Myers	April 23, 2012 to June 30, 2014



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, 2013 to June 30, 2014, 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, 2014.

Alerding CPA Group

November 24, 2014

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

1. Pay Rate Documentation

A charter school has a duty of obedience to ensure 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

While performing our test of controls over payroll, we noted an instance where an employee's documentation of their current pay rate was not maintained in the personnel file. All employee pay rate documentation should be maintained in each employee's personnel file and signed by the employee. This documentation assists in the event of any employee dispute regarding wages and is required by the Department of Labor.

Recommendation

We recommend that employee personnel files include written documentation of the current rate of pay, acknowledge in writing by the employer and employee, including any change in pay rates.

2. Penalties and Other Charges

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

Penalties of \$36 were paid to PNC Bank for writing a check when the bank account did not have sufficient-funds to pay the check.

Officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed. Any penalties, interest or other charges paid may be the personal obligation of the responsible official or employee.

Recommendation

We recommend that controls be implemented to ensure that bank accounts have sufficient funds to pay expenses. Overdrawn funds could be an indicator of serious financial problems which should be investigated.

3. Segregation of Duties, Review and Approval

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 and Recommendation

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.

We recommended 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:

- 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 all inclusive listing of recommendation 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.

Status

During our current year audit we noted that the recommendations above had not been implemented. We continue to recommend that the Organization adopt an effective internal control system that segregates the duties of the individuals involved in the internal control process.

4. 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 and Recommendation

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.

We recommended 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.

Status

During our current year audit, we noted expenses that were improperly excluded from the accounts payable balance. We continue to recommend that a monthly review be performed to ensure that all expenses are being recorded in the proper period.

5. Dual Signature on Checks

A charter school has a duty of obedience to ensure 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 and Recommendation

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.

We recommended the Organization 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.

Status

During the current year, the Organization revised their By-Laws to require one officer or person designated by the Board of Directors to sign any check, even if the amount is greater than \$5,000.

6. 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 and Recommendation

The Organization has represented to us that their internal policy in regards to capitalization of fixed assets is set at \$1,000. Therefore, all expenditures under \$1,000 are to be expensed and all in excess of that threshold are to be capitalized.

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

Status

During our current year audit, we noted that the Organization had not formalized their capitalization policy. We continue to recommend that the Organization adopt a formal capitalization policy and have it approved by the Board of Directors.

7. 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 and Recommendation

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. 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.

We recommended that IN Cyber develop a comprehensive Accounting Policies and Procedures Manual. In the process of developing the manual, we recommended 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.

Status

During our current year audit, we noted that the Organization had not implemented an Accounting Policies and Procedures Manual. We continue to recommend that the Organization develop a comprehensive Accounting Policies and Procedures Manual.

INDIANA CYBER CHARTER SCHOOL, INC.

EXIT CONFERENCE
JULY 1, 2013 TO JUNE 30, 2014

The contents of this report were discussed on November 24, 2014 with Dr. J. Donald Williams. The officials concurred with the audit findings.