

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

AUDIT REPORT

OF

21ST CENTURY CHARTER SCHOOL OF GARY

LAKE COUNTY, INDIANA

July 1, 2008 to June 30, 2010



FILED
03/16/2011

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Dana Johnson	07-01-08 to 06-30-11
Superintendent of Schools	Kevin Teasley	07-01-08 to 06-30-11
President of the School Board	Alyce Butler	07-01-08 to 06-30-11



STATE OF INDIANA
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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE 21ST CENTURY CHARTER
SCHOOL OF GARY, LAKE COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the 21st Century Charter School of Gary (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 following 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.

Changes were made to the cash and investment balances reported as of July 1, 2008, which were not documented. The School Corporation did not maintain records to support how the cash balances by fund were determined as of June 30, 2008 or July 1, 2008. The cash balances reported as of June 30, 2008, did not agree to the cash balances being reported as of July 1, 2008. Furthermore, the School Corporation reported loan proceeds and repayments on various short-term loans for which loan documents were not provided for audit.

As discussed in Note I, the School Corporation prepares 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.

In our opinion, except for the lack of documentation to support the cash balances established by fund as of July 1, 2008, and the lack of loan documents to support the debt service transactions reported in the financial statements, the financial statements referred to above present fairly, in all material respects, 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.

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

In accordance with Government Auditing Standards, we have also issued a report dated February 8, 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 and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The School Corporation has not presented Management's Discussion and Analysis, Schedules of Funding Progress, or 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, Schedule of Capital Assets, and Schedule of Long-Term Debt 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, except for the lack of documentation provided to establish beginning cash balances by fund, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

February 8, 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 21ST CENTURY CHARTER
SCHOOL OF GARY, LAKE COUNTY, INDIANA

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the 21st Century Charter School of Gary (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 February 8, 2011. The opinions to the financial statements were qualified due to the lack of documentation made available to support amounts reported for cash balances by fund as of July 1, 2008, and the lack of documentation made available to support short-term loan transactions during the audit period. 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 items 2010-1 and 2010-2 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
(Continued)

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 items 2010-1 and 2010-2 to be material weaknesses.

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, 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

February 8, 2011

21ST CENTURY CHARTER SCHOOL OF GARY
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>Totals</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Disbursement) Receipts and Changes in Net Assets</u>
Governmental activities:				
Instruction	\$ 1,079,465	\$ -	\$ 52,379	\$ (1,027,086)
Support services	1,611,374	1,241	164,072	(1,446,061)
Noninstructional services	140,210	-	-	(140,210)
Facilities acquisition and construction	388,452	-	-	(388,452)
Debt service	1,070,385	-	-	(1,070,385)
Total governmental activities	\$ 4,289,886	\$ 1,241	\$ 216,451	(4,072,194)
General receipts:				
Property taxes				872,251
Other local sources				9,190
State aid				2,072,199
Bonds and loans				899,332
Grants and contributions not restricted to specific programs				728,690
Total general receipts				4,581,662
Change in net assets				509,468
Net assets - beginning restated (Note III.B.)				(253,915)
Net assets - ending				\$ 255,553
<u>Assets</u>				
Cash and investments				\$ 255,553
<u>Net Assets</u>				
Total unrestricted net assets				\$ 255,553

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

21ST CENTURY CHARTER SCHOOL OF GARY
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:				
Instruction	\$ 1,533,075	\$ -	\$ 49,671	\$ (1,483,404)
Support services	1,759,195	8,020	158,705	(1,592,470)
Noninstructional services	181,880	-	-	(181,880)
Facilities acquisition and construction	557,457	-	-	(557,457)
Debt service	50,000	-	-	(50,000)
Nonprogrammed charges	34	-	-	(34)
Total governmental activities	<u>\$ 4,081,641</u>	<u>\$ 8,020</u>	<u>\$ 208,376</u>	<u>(3,865,245)</u>
General receipts:				
Property taxes				1,450
Other local sources				69,040
State aid				2,751,831
Bonds and loans				50,000
Grants and contributions not restricted to specific programs				<u>911,402</u>
Total general receipts				<u>3,783,723</u>
Change in net assets				(81,522)
Net assets - beginning				<u>255,553</u>
Net assets - ending				<u>\$ 174,031</u>
<u>Assets</u>				
Cash and investments				<u>\$ 174,031</u>
<u>Net Assets</u>				
Total unrestricted net assets				<u>\$ 174,031</u>

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

21ST CENTURY CHARTER SCHOOL OF GARY
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

	General	Special Education IDEA Part B	Title II Improving Teacher Quality	Fiscal Stabilization	Other	Totals
Receipts:						
Local sources	\$ 881,635	\$ -	\$ -	\$ -	\$ 1,047	\$ 882,682
State sources	2,124,578	-	-	-	93,801	2,218,379
Federal sources	-	61,139	-	234,722	503,100	798,961
Total receipts	3,006,213	61,139	-	234,722	597,948	3,900,022
Disbursements:						
Current:						
Instruction	723,563	21,948	-	-	333,954	1,079,465
Support services	1,494,086	-	-	-	117,288	1,611,374
Noninstructional services	13,723	-	-	-	126,487	140,210
Facilities acquisition and construction	377,987	-	-	-	10,465	388,452
Debt services	1,070,385	-	-	-	-	1,070,385
Total disbursements	3,679,744	21,948	-	-	588,194	4,289,886
Excess (deficiency) of receipts over disbursements	(673,531)	39,191	-	234,722	9,754	(389,864)
Other financing sources (uses):						
Proceeds of short-term debt	899,332	-	-	-	-	899,332
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	225,801	39,191	-	234,722	9,754	509,468
Restated cash and investments - beginning (Note III.B.)	(330,130)	-	45,622	-	30,593	(253,915)
Cash and investments - ending	<u>\$ (104,329)</u>	<u>\$ 39,191</u>	<u>\$ 45,622</u>	<u>\$ 234,722</u>	<u>\$ 40,347</u>	<u>\$ 255,553</u>
Cash and Investment Assets - Ending						
Total cash and investment assets - ending	<u>\$ (104,329)</u>	<u>\$ 39,191</u>	<u>\$ 45,622</u>	<u>\$ 234,722</u>	<u>\$ 40,347</u>	<u>\$ 255,553</u>
Cash and Investment Fund Balance - Ending						
Total unrestricted cash and investment fund balance - ending	<u>\$ (104,329)</u>	<u>\$ 39,191</u>	<u>\$ 45,622</u>	<u>\$ 234,722</u>	<u>\$ 40,347</u>	<u>\$ 255,553</u>

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

21ST CENTURY CHARTER SCHOOL OF GARY
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

	General	Title I FY 2009-10	Special Education IDEA Part B	Title II Improving Teacher Quality	Fiscal Stabilization	Other	Totals
Receipts:							
Local sources	\$ 20,489	\$ -	\$ 50,000	\$ -	\$ -	\$ 8,021	\$ 78,510
State sources	2,801,502	-	-	-	-	51,096	2,852,598
Federal sources	-	440,143	-	61,817	72,090	444,962	1,019,012
Total receipts	<u>2,821,991</u>	<u>440,143</u>	<u>50,000</u>	<u>61,817</u>	<u>72,090</u>	<u>504,079</u>	<u>3,950,120</u>
Disbursements:							
Current:							
Instruction	649,440	354,634	40,359	-	238,632	250,010	1,533,075
Support services	1,492,662	70,667	-	40,122	68,180	87,565	1,759,196
Noninstructional services	9,508	3,500	-	-	-	168,872	181,880
Facilities acquisition and construction	496,602	9,000	-	-	-	51,855	557,457
Debt services	50,000	-	-	-	-	-	50,000
Nonprogrammed charges	-	-	-	-	-	34	34
Total disbursements	<u>2,698,212</u>	<u>437,801</u>	<u>40,359</u>	<u>40,122</u>	<u>306,812</u>	<u>558,336</u>	<u>4,081,642</u>
Excess (deficiency) of receipts over disbursements	<u>123,779</u>	<u>2,342</u>	<u>9,641</u>	<u>21,695</u>	<u>(234,722)</u>	<u>(54,257)</u>	<u>(131,522)</u>
Other financing sources (uses):							
Proceeds of short-term debt	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,000</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	173,779	2,342	9,641	21,695	(234,722)	(54,257)	(81,522)
Cash and investments - beginning	<u>(104,329)</u>	<u>-</u>	<u>39,191</u>	<u>45,622</u>	<u>234,722</u>	<u>40,347</u>	<u>255,553</u>
Cash and investments - ending	<u>\$ 69,450</u>	<u>\$ 2,342</u>	<u>\$ 48,832</u>	<u>\$ 67,317</u>	<u>\$ -</u>	<u>\$ (13,910)</u>	<u>\$ 174,031</u>
Cash and Investment Assets - Ending							
Total cash and investment assets - ending	<u>\$ 69,450</u>	<u>\$ 2,342</u>	<u>\$ 48,832</u>	<u>\$ 67,317</u>	<u>\$ -</u>	<u>\$ (13,910)</u>	<u>\$ 174,031</u>
Cash and Investment Fund Balance - Ending							
Total unrestricted cash and investment fund balance - ending	<u>\$ 69,450</u>	<u>\$ 2,342</u>	<u>\$ 48,832</u>	<u>\$ 67,317</u>	<u>\$ -</u>	<u>\$ (13,910)</u>	<u>\$ 174,031</u>

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

21ST CENTURY CHARTER SCHOOL OF GARY
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: 21st Century Charter School of Gary

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

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. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

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. Major individual governmental funds are reported as separate columns in the fund financial statements.

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.

Title I FY 2009-10 Fund accounts for federal awards received to improve the learning skills of children who are at risk of not meeting academic standards.

Special Education IDEA Part B Fund accounts for federal awards received to assist with providing educational services to children with special needs.

21ST CENTURY CHARTER SCHOOL OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Title II Improving Teacher Quality Fund accounts for federal awards received to address challenges to teacher quality, whether they concern teacher preparation and qualifications of new teachers, recruitment and hiring, induction, professional development, teacher retention, or the need for more capable principals and assistant principals to serve as effective school leaders.

Fiscal Stabilization Fund accounts for federal awards received from the American Recovery and Reinvestment Act of 2009 to be used to subsidize operating expenses.

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. 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.

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.

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. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as facilities acquisition and construction disbursements of the fund upon acquisition.

3. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental funds is not reported as a liability in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as debt services disbursements.

21ST CENTURY CHARTER SCHOOL OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. The School Corporation does not have any restricted net assets at this time.
- 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.

E. Receipts and Disbursements

Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, and (2) operating grants and contributions. 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.

21ST CENTURY CHARTER SCHOOL OF GARY
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

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. 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.

II. Stewardship, Compliance and Accountability

Cash Balance Deficits

At June 30, 2009 and 2010, the following funds reported deficits in cash, which are violations of the Uniform Compliance Guidelines as authorized by State statute:

Fund	2009	2010
General	\$ (104,329)	\$ -
Nonmajor Funds:		
Textbook Rental	-	(29,665)
Drug Free Schools	-	(7,544)
Title I ARRA	(14,163)	(33,336)

Cash and investment deficits arose primarily from disbursements exceeding receipts due to the underestimate of current requirements, which are to be repaid from the following year's receipts.

III. Detailed Notes on All Funds

A. Deposits and Investments

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 \$186,021.

21ST CENTURY CHARTER SCHOOL OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

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. Restatements and Reclassifications

Prior Period Adjustments

For the year ended June 30, 2008, certain changes have been made to the financial statements to more appropriately reflect financial activity of the School Corporation. The following schedule presents a summary of restated beginning balances by opinion unit. Prior period adjustments represent undisclosed changes to the cash and investment balances to the General Fund.

Opinion Unit	Balance as Reported June 30, 2008	Prior Period Adjustments	Balance as Restated July 1, 2008
Statement of Activities and Net Assets - Cash and Investment Basis	\$ 42,348	\$ (296,263)	\$ -
Statement of Assets and Fund Balances and Receipts, Disbursements, and Changes in Fund Balances - Cash and Investment Basis Governmental Funds	42,348	(296,263)	(253,915)

IV. 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; job related illnesses or injuries to employees; medical benefits to employees, and dependents; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, and dependents; 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. Related Party Transactions

During the period for which financial statements are presented, the School Corporation had material transactions with Greater Education Opportunities Foundation in relation to management, operation, and administration services, as well as payroll and accounting services in the amount of \$1,041,880.

21ST CENTURY CHARTER SCHOOL OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

During the period for which financial statements are presented, the School Corporation had material transactions with Greater Education Opportunities Foundation in relation to short-term loans made by GEO Foundation to the School Corporation in the amount of \$949,332.

During the period for which financial statements are presented, the School Corporation had material transactions with Greater Education Opportunities Foundation Holdings Indiana, LLC, in relation to building lease in the amount of \$770,903. In accordance with the operating lease agreement, the School Corporation is required to remit \$360,000 annually through the year 2012, and \$60,000 in the year 2013.

During the period for which the financial statements are presented, the School Corporation had material transactions with Ball State University. The School Corporation operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay Ball State University an annual administrative fee equal to 3% of State tuition support, along with other licensing fees. Payments under this charter agreement were \$179,132.

C. Subsequent Events

The School Corporation is anticipating acquiring additional land and buildings to allow for adequate space and resources for increasing enrollment.

D. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), 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 the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF 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 member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF 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. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

21ST CENTURY CHARTER SCHOOL OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Funding Policy

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The total contributions made to PERF by the School Corporation during the period were \$70,351.

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), 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 TRF 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 member's contributions, set by state statute at 3% 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.

TRF 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:

Teachers' Retirement Fund
150 West Market Street
Indianapolis, IN 46204
Ph. (317) 232-3860

Funding Policy

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.

The School Corporation's contributions to the plan during the period were \$102,375.

21ST CENTURY CHARTER SCHOOL OF GARY
 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	School Improvement Grant	Title I FY 2007-08	Title I FY 2008-09
Receipts:					
Local sources	\$ 1,047	\$ -	\$ -	\$ -	\$ -
State sources	169	38,632	55,000	-	-
Federal sources	125,271	-	-	15,000	362,618
Total receipts	126,487	38,632	55,000	15,000	362,618
Disbursements:					
Current:					
Instruction	-	43,265	-	-	290,689
Support services	-	-	41,661	-	61,464
Noninstructional services	126,487	-	-	-	-
Facilities acquisition and construction	-	-	-	-	10,465
Total disbursements	126,487	43,265	41,661	-	362,618
Excess (deficiency) of receipts over disbursements	-	(4,633)	13,339	15,000	-
Cash and investment - beginning	-	21,042	-	(1)	-
Cash and investments - ending	\$ -	\$ 16,409	\$ 13,339	\$ 14,999	\$ -
<u>Cash and Investment Assets - Ending</u>					
Cash and investments assets - ending	\$ -	\$ 16,409	\$ 13,339	\$ 14,999	\$ -
<u>Cash and Investment Fund Balance - Ending</u>					
Total unrestricted cash and investment fund balance - ending	\$ -	\$ 16,409	\$ 13,339	\$ 14,999	\$ -

21ST CENTURY CHARTER SCHOOL OF GARY
 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
 (Continued)

	Title I FY 2006-07	State Grants for Innovative Programs Title V, Part A	Drug Free Schools	Title I ARRA	Totals
Receipts:					
Local sources	\$ -	\$ -	\$ -	\$ -	\$ 1,047
State sources	-	-	-	-	93,801
Federal sources	-	211	-	-	503,100
Total receipts	-	211	-	-	597,948
Disbursements:					
Current:					
Instruction	-	-	-	-	333,954
Support services	-	-	-	14,163	117,288
Noninstructional services	-	-	-	-	126,487
Facilities acquisition and construction	-	-	-	-	10,465
Total disbursements	-	-	-	14,163	588,194
Excess (deficiency) of receipts over disbursements	-	211	-	(14,163)	9,754
Cash and investment - beginning	7,418	541	1,593	-	30,593
Cash and investments - ending	<u>\$ 7,418</u>	<u>\$ 752</u>	<u>\$ 1,593</u>	<u>\$ (14,163)</u>	<u>\$ 40,347</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments assets - ending	<u>\$ 7,418</u>	<u>\$ 752</u>	<u>\$ 1,593</u>	<u>\$ (14,163)</u>	<u>\$ 40,347</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Total unrestricted cash and investment fund balance - ending	<u>\$ 7,418</u>	<u>\$ 752</u>	<u>\$ 1,593</u>	<u>\$ (14,163)</u>	<u>\$ 40,347</u>

21ST CENTURY CHARTER SCHOOL OF GARY
 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	School Improvement Grant	Title I FY 2007-08	Title I FY 2006-07	State Grants for Innovative Programs Title V, Part A
Receipts:						
Local sources	\$ 8,021	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	96	-	51,000	-	-	-
Federal sources	158,609	-	-	-	-	-
Total receipts	166,726	-	51,000	-	-	-
Disbursements:						
Current:						
Instruction	-	46,074	-	-	-	752
Support services	-	-	55,494	-	-	-
Noninstructional services	157,272	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-
Nonprogrammed charges	-	-	-	-	-	-
Total disbursements	157,272	46,074	55,494	-	-	752
Excess (deficiency) of receipts over disbursements	9,454	(46,074)	(4,494)	-	-	(752)
Cash and investments - beginning	-	16,409	13,339	14,999	7,418	752
Cash and investments - ending	<u>\$ 9,454</u>	<u>\$ (29,665)</u>	<u>\$ 8,845</u>	<u>\$ 14,999</u>	<u>\$ 7,418</u>	<u>\$ -</u>
Cash and Investment Assets - Ending						
Total cash and investment assets - ending	<u>\$ 9,454</u>	<u>\$ (29,665)</u>	<u>\$ 8,845</u>	<u>\$ 14,999</u>	<u>\$ 7,418</u>	<u>\$ -</u>
Cash and Investment Fund Balance - Ending						
Total unrestricted cash and investment fund balance - ending	<u>\$ 9,454</u>	<u>\$ (29,665)</u>	<u>\$ 8,845</u>	<u>\$ 14,999</u>	<u>\$ 7,418</u>	<u>\$ -</u>

21ST CENTURY CHARTER SCHOOL OF GARY
 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

	Drug Free Schools	Title I ARRA	Education Technology Stimulus	Kitchen Equipment Stimulus	Totals
Receipts:					
Local sources	\$ -	\$ -	\$ -	\$ -	\$ 8,021
State sources	-	-	-	-	51,096
Federal sources	-	177,953	98,000	10,400	444,962
Total receipts	-	177,953	98,000	10,400	504,079
Disbursements:					
Current:					
Instruction	9,137	129,635	64,412	-	250,010
Support services	-	15,459	16,612	-	87,565
Noninstructional services	-	11,600	-	-	168,872
Facilities acquisition and construction	-	40,432	1,057	10,366	51,855
Nonprogrammed charges	-	-	-	34	34
Total disbursements	9,137	197,126	82,081	10,400	558,336
Excess (deficiency) of receipts over disbursements	(9,137)	(19,173)	15,919	-	(54,257)
Cash and investments - beginning	1,593	(14,163)	-	-	40,347
Cash and investments - ending	<u>(7,544)</u>	<u>(33,336)</u>	<u>15,919</u>	<u>-</u>	<u>(13,910)</u>
Cash and Investment Assets - Ending					
Total cash and investment assets - ending	<u>\$ (7,544)</u>	<u>\$ (33,336)</u>	<u>\$ 15,919</u>	<u>\$ -</u>	<u>\$ (13,910)</u>
Cash and Investment Fund Balance - Ending					
Total unrestricted cash and investment fund balance - ending	<u>\$ (7,544)</u>	<u>\$ (33,336)</u>	<u>\$ 15,919</u>	<u>\$ -</u>	<u>\$ (13,910)</u>

21ST CENTURY CHARTER SCHOOL OF GARY
 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:	
Improvements other than buildings	\$ 93,857
Machinery and equipment	<u>1,087,271</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 1,181,128</u>

21ST CENTURY CHARTER SCHOOL OF GARY
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 June 30, 2010

The Charter School has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:		
Common school loans payable	\$ 1,592,135	\$ -

In 2009, the Indiana Common School Fund granted a two year moratorium on loan payments. Payments will commence on July 1, 2011.

21ST CENTURY CHARTER SCHOOL OF GARY
AUDIT RESULTS AND COMMENTS

FINANCIAL STATEMENT OPINION MODIFICATION

The opinion issued on the financial statements presented herein is qualified due to the lack of documentation for the reported cash balances at July 1, 2008, and for the lack of documentation to substantiate the reported short-term loan transactions reported for the 2008-2009 and 2009-2010 school years.

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)

CONDITION OF RECORDS

The Charter School Officials maintain their records electronically on a modified accrual basis of accounting. The computer software allows for individual funds to be established, but all of the cash is reported in the General Fund. To determine the cash balances of the individual funds, computations must be made using prior period ending cash balances, revenues and expenses which must be converted to actual cash receipts and disbursements.

The Charter School has not established controls to ensure that cash balances reported from one financial accounting period to the next agree. Furthermore, controls have not been established to ensure records are maintained to support the computations made to determine the cash balances being reported. Specifically, the cash balance reported as of July 1, 2008, for the General Fund did not agree to the cash balance previously reported for the General Fund as of June 30, 2008. The cash balance of the General Fund previously reported as of June 30, 2008, was reduced by \$296,263. The unidentified reduction in the cash balance meant that the reconciled cash balance as of June 30, 2008, exceeded the record cash balances of all funds by \$314,002. If adjustments were made to the cash balances to bring them into agreement to the prior audited cash balances, then the ending cash balances for June 30, 2009 and June 30, 2010, would not agree to the reconciled cash balances for each of these years.

The Charter School throughout the school year, but mostly near the close of the school year, reclassifies a significant number of posted transactions from one fund to another. Officials explained that they will review transactions with grant administrators and locate discrepancies. However, controls were not established so that the transactions are reviewed by appropriate personnel prior to posting the entry. Such controls would then alleviate the need to perform such a large volume of reclassifications.

A fund, as used in the manual, represents moneys set aside for specific activities of a school corporation. A fund constitutes a complete accounting entity and all financial transactions, both receipts and disbursements, are to be recorded in the fund to which they pertain. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public Schools, Chapter 3)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

21ST CENTURY CHARTER SCHOOL OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

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)

CONTROLS AND COMPLIANCE RELATED TO DISBURSEMENTS

Several accounts payable vouchers examined indicated a different fund or account number than that to which the disbursement was actually posted. For example, one accounts payable voucher indicated the disbursement should be made from the General Fund; however, the disbursement was posted to the Textbook Rental Fund. Numerous others for the 2008-2009 school year indicated disbursements should have been posted to the General Fund; however, many of these disbursements were subsequently reclassified to the Title I Fund.

The Charter School uses computer software to maintain the financial records of the Charter School. The payroll processing software is intended to "interface" with the financial recordkeeping software to post payroll transactions to the general ledger. When the interface is completed, payroll expenditures allocated to funds through the payroll program are supposed to be posted to the funds in the general ledger in the same manner.

For the school year 2008-2009, internal controls were not in place to adequately identify and post payroll related expenditures. The payroll expenses allocated to the various funds per the payroll reports did not agree to amounts posted to those same funds per the General Ledger. Officials explained that employees' disbursements per the payroll records were not correlated to a fund; thus, the payroll disbursements per the payroll reports did not agree to amounts posted to the funds for payroll per the General Ledger. The Treasurer attempted to post the payroll expenditures to the appropriate funds as, reclassifications were performed by the Treasurer at the end of the school year. However, documentation to substantiate which employees' wages and benefits were reclassified was not maintained.

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 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 School Corporations, Chapter 9)

21ST CENTURY CHARTER SCHOOL OF GARY
 AUDIT RESULTS AND COMMENTS
 (Continued)

DEFICIT CASH BALANCES AND GRANT FUND CASH BALANCES

Deficit Cash Balances

The Charter School reported deficit cash balances in the following funds:

<u>Fund</u>	<u>June 30, 2009</u>	<u>June 30, 2010</u>
General	\$ (104,329)	\$ -
Nonmajor Funds:		
Textbook Rental	-	(29,665)
Drug Free Schools	-	(7,544)
Title I ARRA	(14,163)	(33,336)

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana School Corporations, Chapter 9)

Grant Fund Cash Balances

At June 30, 2010, the Charter School is reporting cash balances in the amounts of \$14,999, and \$7,418 for the Title I FY 2007-2008 and Title I FY 2006-2007 Funds, respectively. The money held in these two funds was not spent prior to June 30, 2009, in accordance with federal guidelines. Officials of the Charter School have not contacted the Indiana Department of Education to determine disposition of the funds.

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 School Corporations, Chapter 9)

ACCOUNTS PAYABLE VOUCHER ITEMIZATION

The accounts payable vouchers or claims paid by the school to Greater Education Opportunities (GEO) Foundation for administrative fees and student fees were not properly itemized. According to the management agreement, the Charter School shall pay GEO Foundation all administrative fees incurred by GEO, and as invoiced to the Charter School by GEO on a monthly basis, and a student service fee of \$500 per student of record based on the State Average Daily Membership count. The claims indicate a dollar amount for administrative fees, and a dollar amount for student fees; however, a breakdown was not provided as to what the administrative fees include, and the claims did not indicate the number of students the student fees are based upon.

The Accounts Payable Voucher (Form 523) is designed to replace Claim Form 505. The form must be used in accordance with the following conditions: School corporations may not draw a warrant or check for payment of a claim unless; (1) there is a fully itemized invoice or bill for the claim; (2) the invoice or bill is approved by the officer or person receiving the goods and services; (3) the invoice or bill is filed

21ST CENTURY CHARTER SCHOOL OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

with the fiscal officer; (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and (5) payment of the claim is allowed by the board having jurisdiction over the allowance of the payment of the claim. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 2)

SHORT-TERM LOANS

Greater Education Opportunities Foundation (GEO) makes short-term loans to the Charter School. Based upon the financial statements, loan transactions totaled \$899,332 for the 2008-2009 school year and \$50,000 for the 2009-2010 school year. Information to substantiate loan transactions was not provided for audit. A loan agreement is not prepared, and the loans are not presented to the School Board for approval.

All business transacted by the governing body must be recorded in the minutes of the meetings. The secretary of the governing body has the duty to keep the minutes and the minutes of each meeting should be approved by the governing body and signed by the members attending. . . .

Examples of school business decisions and transactions which should be recorded in the minutes are: . . . 16. Records of reasons and amounts of all emergency and temporary loans. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

BOARD MINUTES

The following was noted from the review of the minutes:

1. Approval of claims or accounts payable vouchers was not discussed. Claims are signed as approved by the Board President, but the minutes are unclear as to if the claims are presented to the entire board for approval.
2. Compensation and benefits to be paid to officials and employees are not approved in any form by the School Board.
3. Amounts disbursed by the Charter School for payroll are not presented for approval by the Board.
4. A meeting was held on January 12, 2010, and the minutes indicated three School Board members were in attendance while three were absent which represented a lack of a quorum for the conduct of official school business; however, official business was conducted which included approval by the School Board of reductions of school budget line items.

21ST CENTURY CHARTER SCHOOL OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

IC 5-14-1.5-1 states:

"In enacting this chapter, the general assembly finds and declares that this state and its political subdivisions exist only to aid in the conduct of the business of the people of this state. It is the intent of this chapter that the official action of public agencies be conducted and taken openly, unless otherwise expressly provided by statute, in order that the people may be fully informed. The purposes of this chapter are remedial, and its provisions are to be liberally construed with the view of carrying out its policy."

IC 5-14-1.5-4 (b) states:

"As the meeting progresses, the following memoranda shall be kept:

- (1) The date, time, and place of the meeting.
- (2) The members of the governing body recorded as either present or absent.
- (3) The general substance of all matters proposed, discussed, or decided.
- (4) A record of all votes taken, by individual members if there is a roll call.
- (5) Any additional information required under IC 5-1.5-2-2.5."

IC 5-11-10-1.6 states in part:

"(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 13)

21ST CENTURY CHARTER SCHOOL OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

OPTICAL IMAGES OF CHECKS

The financial institution did not return the actual cancelled checks or optical images of the checks with the monthly bank statements.

IC 5-15-6-3(a) concerning optical imaging of checks states in part:

". . . 'original records' includes the optical image of a check or deposit document when:

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process . . . ; and
- (2) the drawer of the check receives an optical image of the check after the check is processed for payment . . ."

Furthermore, IC 26-2-8-111 states in part:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise; and
- (2) remains accessible for later reference."

"(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a)."

TEXTBOOK RENTAL CLAIM FOR REIMBURSEMENT

The Charter School provided for audit the claim for textbook rental assistance which had been submitted to the Indiana Department of Education for the 2008-2009 school year. However, they were unable to provide any documentation as to how the costs of the textbooks on the claim were determined. A claim for textbook rental assistance was not provided for the 2009-2010 school year as Officials indicated the claim was rejected by the Indiana Department of Education and was not resubmitted by the Charter School.

IC 20-33-5-7 states in part:

"(b) A school corporation may receive a reimbursement from the department for some or all of the costs incurred by a school corporation during a school year in providing textbook assistance to students who are eligible under section 2 of this chapter.

(c) To be guaranteed some level of reimbursement from the department, the governing body of a school corporation shall request the reimbursement before November 1 of a school year.

21ST CENTURY CHARTER SCHOOL OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

- (d) In its request, the governing body shall certify to the department:
- (1) the number of students who are enrolled in that school corporation and who are eligible for assistance under this chapter;
 - (2) the costs incurred by the school corporation in providing:
 - (A) textbooks (including textbooks used in special education and high ability classes) to these students;
 - (B) workbooks and consumable textbooks (including workbooks, consumable textbooks, and other consumable instructional materials that are used in special education and high ability classes) that are used by students for not more than one (1) school year; and
 - (C) instead of the purchase of textbooks, developmentally appropriate material for instruction in kindergarten through the grade 3 level, laboratories, and children's literature programs; . . ."

PRESCRIBED FORMS

The computer generated ledgers have not been approved for use by the State Board of Accounts. A similar comment has been reported in prior Audit Reports.

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)

REPORT OF EMPLOYEES AND COMPENSATION NOT FILED

The Charter School did not prepare or file the Certified Report of Names, Addresses, Duties and Compensation of Public Employees (General Form 100R) for either the 2008-2009 or 2009-2010 school years.

The form will be used to list the name, business address, duties and compensation of each officer and employee of the school corporation during the month of January.

After the form is prepared it should be mailed before January 31 each year to the State Board of Accounts, 302 West Washington Street, Room E418, Indianapolis, Indiana, 46204-2765. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 2)

OFFICIALS BONDS

Officials bonds were not provided for audit, or found recorded, for the School Corporation Treasurer and the Extra-Curricular Treasurer.

21ST CENTURY CHARTER SCHOOL OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

The treasurer of the school corporation, and the deputy treasurer if one is appointed, for each school year commencing July 1, shall each give a bond for the faithful performance of duty, written by an insurance company licensed to do business in the State of Indiana, in an amount determined by the governing body. The treasurer shall be responsible under the treasurer's bond for the acts of any deputy treasurer appointed as provided in IC 20-26-4-5. All bonds must be made payable to the State of Indiana, IC 5-4-1-10; and approved by the governing body of the school corporation. The State Board of Accounts is of the audit position bonds should be filed and recorded in the office of the county recorder. No charge is made for recording official bonds, IC 36-2-7-10.

The treasurer of each extra-curricular account shall provide a faithful performance of duty bond for one year, the term of the office. The amount of the bond shall be fixed and approved by the school superintendent and principal approximating the total amount of anticipated funds which will come into the hands of the treasurer at any one time during the regular school year, IC 20-41-1-6. The State Board of Accounts is of the audit position bonds should be filed and recorded in the office of the county recorder and a new bond shall be issued and filed each year. If either school lunch funds or textbook rental funds are handled through an extra-curricular account, the governing body of the school corporation shall approve the amount of the bond of the treasurer, IC 20-41-2-6. The bond may be either an individual bond for each extra-curricular treasurer or a single blanket position bond for all extra-curricular treasurers, IC 20-41-1-6. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

FINANCIAL REPORT OF SCHOOL EXTRA-CURRICULAR ACCOUNTS

The Financial Reports of School Extra-Curricular Accounts, (Prescribed Forms SA5-1, SA5-2, SA5-3, and SA5-4), were not prepared by the Extra-Curricular Treasurer for either school year during the audit period.

A financial report must be made within two weeks after the close of the school year, of all activity funds. Bank statements should be dated as of the last day of school. Forms for making the report have been prescribed; they are Forms SA5-1, SA5-2, SA5-3 and SA5-4. The report shall be made in detail on the prescribed forms showing the source of all receipts, the purpose of all disbursements and the balance remaining in the fund of each activity. The SA forms shall be filed with the school board within two weeks after the close of each school year together with the records and files of the activities. Schools having two (2) or more semesters in any one school year are required to have the treasurer of such school file a copy of the financial report of receipts and disbursements within two (2) weeks after the close of each semester. The law also requires that a copy of the report shall be filed with the superintendent of schools. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Funds, Chapter 1)

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 Public School Corporations, Chapter 9) (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

EXTRA-CURRICULAR RECEIPTS

The Extra-Curricular Treasurer issues nonprescribed, unapproved receipts for collections of fees from students. The duplicates of these receipts are then attached to a prescribed receipt, which is issued for the cumulative collections.

21ST CENTURY CHARTER SCHOOL OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

Receipts do not always indicate for which fund the money should be receipted. Furthermore, ledgers are posted based upon deposit dates and amounts, so if more than one prescribed receipt comprises a deposit amount, multiple receipts are posted as one amount. For some of the amounts posted, receipt numbers were not indicated.

The receipt form (Receipt and Register of Receipts Form SA-3) is to be prenumbered and printed in duplicate, three receipts to the page if bound and five receipts to the page if printed loose-leaf. If printed loose-leaf, the duplicate shall be contained in a post binder as a permanent record. The receipt is to be issued for any and all money received. A separate receipt shall be issued for each amount of money received. The duplicate serves as a register of receipts from which all receipts are posted to the proper activity funds and the control account. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

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 Public School Corporations, Chapter 9) (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

EXTRA-CURRICULAR ACCOUNT DISBURSEMENTS

Purchase orders are used regarding disbursements from the extra-curricular accounts. However, the purchase orders used are not prescribed forms and have not been approved for use by the State Board of Accounts. The purchase order forms in use is not prenumbered, and therefore, are not accountable documents. Additionally the checks used are not prescribed forms.

Not all purchase orders had invoices attached to support the disbursement. Examples include payments of referees, tournament entry fees, and a purchase of concession supplies from Sam's Club. We did observe some payments to referees were supported by a "Contract for Official". Additionally, not all of the purchase orders indicated the date of the game for which the referee was being compensated. Most of the purchase orders were signed as approved by the School Principal after the check date and in some cases after the date the check cleared the bank. Some purchase orders did not indicate the check number or fund to which the disbursement should be posted.

Checks are not signed by the Extra-Curricular Treasurer, but instead are signed by the School Principal and the Academic Coach. Also, the purchase orders are not being signed by the Treasurer certifying a balance is available in a fund.

Finally, some disbursements posted to the detail fund ledgers did not include check numbers.

Cancelled checks are returned by the bank as electronic images, but only the front side of the check is being returned.

IC 20-41-1-7 (a) states:

"The treasurer has charge of the custody and disbursement of any funds collected by a collecting authority and expended to pay expenses:

21ST CENTURY CHARTER SCHOOL OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

- (1) approved by the principal or teacher in charge of the school;
- (2) incurred in conducting any athletic, social, or other school function (other than functions conducted solely by any organization of parents and teachers);
- (3) that cost more than twenty-five dollars (\$25) during the school year; and
- (4) that are not paid from public funds."

The Purchase Order and Accounts Payable Voucher (SA-1) is to be used when a purchase is made for delivery at a later date. The form is to be executed in full and signed by the person authorized to purchase for the particular activity concerned. Before the activity is permitted to use the Purchase Order and Accounts Payable Voucher (SA-1), the extra-curricular account treasurer must determine if there is sufficient balance in the fund of the activity to make payment upon receipt of the merchandise. The treasurer is required to certify as to the unobligated balance. The sponsor must also know that approval for the purchase has been given by the membership of the activity, as applicable, except in the case of athletic, school lunch, and textbook rental purchases. . . .

These must either be prepared by the Treasurer of the extra-curricular account, or issued by pads to the activities, or by set as required for their immediate needs. When the form is prepared, the original is to be given to the vendor. The receiving copy (duplicate) and the file copy (triplicate) shall be retained by the treasurer of the extra-curricular account and filed in an obligation file by fund and serves notice that an expense has been incurred against that particular fund, and also enables the treasurer to see that no further purchase orders are issued against a particular fund if that fund balance is depleted.

When shipment is made, the vendor shall send an invoice to the school. Shipments received by an activity must be verified with the invoice and voucher (duplicate copy) as to quantity and price by the person who made the purchase and received the items. The person receiving the shipment indicates on the voucher that they have received and checked the shipment and the voucher is to be forwarded to the treasurer who makes the payment after signing the certification required on the form SA-1. After payment is made, the check number and date the voucher is paid are entered on the duplicate copy before filing. The duplicate may be filed in a Vendor file if desired. The date and check number must also be entered on the file copy (triplicate). The file copy must then be removed from the obligation file and placed in a numerical file along with the vendor invoice. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

The Check and Register of Checks (SA-2) form is to be prenumbered and printed in duplicate, three checks to the page if checkbook bound and five checks to the page if printed loose-leaf. If loose-leaf, the duplicate shall be contained in a post binder as a permanent record. The check form shall be used to make disbursements for any activity whether such disbursement is for accounts payable or direct purchases. If used for accounts payable, the tear strip at the top is removed by the treasurer before presentation to the payee; however, if used for payroll purposes, the strip serves as a statement of earnings and deductions for the employee and is removed by the employee before cashing the check. The check provides for making all types of disbursements through the use of one printed form bearing one series of numbers.

The duplicate copy serves as a permanent check register from which all disbursements are posted to the proper activity funds and to the control account. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 2)

21ST CENTURY CHARTER SCHOOL OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

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 Public School Corporations, Chapter 9) (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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 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 21ST CENTURY CHARTER
SCHOOL OF GARY, LAKE COUNTY, INDIANA

Compliance

We have audited the compliance of the 21st Century Charter School of Gary (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.

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.

As described in items 2010-4 and 2010-5 in the accompanying Schedule of Findings and Questioned Costs, the School Corporation did not comply with requirements regarding cash management, and equipment that are applicable to its Title I Grants to Local Educational Agencies, and ARRA Title I Grants to Local Educational Agencies, Recovery Act. As described in item 2010-6 in the accompanying Schedule of Findings and Questioned Costs, the School Corporation did not comply with requirements regarding reporting that are applicable to its Title I Grants to Local Educational Agencies, ARRA Title I Grants to Local Educational Agencies, Recovery Act, and ARRA State Fiscal Stabilization Fund – Education State Grants, Recovery Act. Compliance with such requirements is necessary, in our opinion, for the School Corporation to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the School Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the years ended June 30, 2009 and 2010.

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 items 2010-3, 2010-4, 2010-5, and 2010-6 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

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 items 2010-3, 2010-4, 2010-5, and 2010-6, to be material weaknesses.

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, 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

February 8, 2011

21ST CENTURY CHARTER SCHOOL OF GARY
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	FY 2008-09 FY 2009-10	\$ 18,280 -	\$ - 29,295
National School Lunch Program	10.555	FY 2008-09 FY 2009-10	106,991 -	- 129,314
Total for cluster			<u>125,271</u>	<u>158,609</u>
ARRA - Child Nutrition Discretionary Grants Limited Availability				
National School Lunch Program Equipment Assistance Grant	10.579	FY 2009-10	-	10,366
Total for federal grantor agency			<u>125,271</u>	<u>168,975</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			
FY 2008-09		09-9545	362,618	-
FY 2009-10		10-9545	-	437,801
School Improvement		09-9545	41,661	13,339
School Improvement		10-9545	-	42,155
Total for program			<u>404,279</u>	<u>493,295</u>
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	10-9545	14,163	197,126
Total for cluster			<u>418,442</u>	<u>690,421</u>
Special Education Cluster (IDEA)				
Special Education Grants to States	84.027			
FY 2008-09		09-9545	21,948	29,691
FY 2009-10		10-9545	-	10,668
Total for cluster			<u>21,948</u>	<u>40,359</u>
Education Technology State Grants Cluster				
ARRA - Education Technology State Grants, Recovery Act	84.386	10-9545	-	82,081
State Fiscal Stabilization Cluster				
ARRA - State Fiscal Stabilization Fund (SFSF) -				
Education State Grants, Recovery Act	84.394	FY 2008-09 FY 2009-10	- -	234,722 72,090
Total for cluster			<u>-</u>	<u>306,812</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 2007-08	-	9,137
State Grants for Innovative Programs	84.298	FY 2007-08	-	752
Improving Teacher Quality State Grants	84.367	FY 2009-10	-	40,122
Total for federal grantor agency			<u>418,442</u>	<u>690,421</u>
Total federal awards expended			<u>\$ 565,661</u>	<u>\$ 1,338,659</u>

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

21ST CENTURY CHARTER SCHOOL OF GARY
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 21st Century Charter School of Gary (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.

21ST CENTURY CHARTER SCHOOL OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Qualified

Internal control over financial reporting:

Material weaknesses identified?	yes
Significant deficiencies identified that are not considered to be material weaknesses?	no

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: Qualified

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 Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2010-1, CONDITION OF RECORDS

The Charter School Officials maintain their records electronically on a modified accrual basis of accounting. The computer software allows for individual funds to be established, but all of the cash is reported in the General Fund. To determine the cash balances of the individual funds, computations must be made using prior period ending cash balances, revenues and expenses which must be converted to actual cash receipts and disbursements.

The Charter School has not established controls to ensure that cash balances reported from one financial accounting period to the next agree. Furthermore, controls have not been established to ensure records are maintained to support the computations made to determine the cash balances being reported. Specifically, the cash balance reported as of July 1, 2008, for the General Fund did not agree to the cash balance previously reported for the General Fund as of June 30, 2008. The cash balance of

21ST CENTURY CHARTER SCHOOL OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

the General Fund previously reported as of June 30, 2008, was reduced by \$296,263. The unidentified reduction in the cash balance meant that the reconciled cash balance as of June 30, 2008, exceeded the record cash balances of all funds by \$314,002. If adjustments were made to the cash balances to bring them into agreement to the prior audited cash balances, then the ending cash balances for June 30, 2009 and June 30, 2010, would not agree to the reconciled cash balances for each of these years.

The Charter School throughout the school year, but mostly near the close of the school year, reclassifies a significant number of posted transactions from one fund to another. Officials explained that they will review transactions with grant administrators and locate discrepancies. However, controls were not established so that the transactions are reviewed by appropriate personnel prior to posting the entry. Such controls would then alleviate the need to perform such a large volume of reclassifications.

A fund, as used in the manual, represents moneys set aside for specific activities of a school corporation. A fund constitutes a complete accounting entity and all financial transactions, both receipts and disbursements, are to be recorded in the fund to which they pertain. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public Schools, Chapter 3)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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)

We recommended cash balances should be maintained by fund in the general ledger. Controls should be established for grant administrators and other personnel to review disbursements prior to posting to ensure proper allocation to the appropriate funds.

FINDING 2010-2, CONTROLS AND COMPLIANCE RELATED TO DISBURSEMENTS

Several accounts payable vouchers examined indicated a different fund or account number than that to which the disbursement was actually posted. For example, one accounts payable voucher indicated the disbursement should be made from the General Fund; however, the disbursement was posted to the Textbook Rental Fund. Numerous others for the 2008-2009 school year indicated disbursements should have been posted to the General Fund; however, many of these disbursements were, subsequently, reclassified to the Title I Fund.

21ST CENTURY CHARTER SCHOOL OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The Charter School uses computer software to maintain the financial records of the Charter School. The payroll processing software is intended to "interface" with the financial recordkeeping software to post payroll transactions to the general ledger. When the interface is completed, payroll expenditures allocated to funds through the payroll program are suppose to be posted to the funds in the general ledger in same manner.

For the school year 2008-2009, internal controls were not in place to adequately identify and post payroll related expenditures. The payroll expenses allocated to the various funds per the payroll reports did not agree to amounts posted to those same funds per the General Ledger. Officials explained that employees' disbursements per the payroll records were not correlated to a fund; thus, the payroll disbursements per the payroll reports did not agree to amounts posted to the funds for payroll per the General Ledger. The Treasurer attempted to post the payroll expenditures to the appropriate funds as reclassifications at the end of the school year. However, documentation to substantiate which employees' wages and benefits were reclassified was not maintained.

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 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 School Corporations, Chapter 9)

We recommended that Officials implement controls to allow for the timely posting of transactions to the appropriate funds. These controls when implemented should alleviate the need to reclassify transactions. The appropriate grant directors should be consulted as disbursements are incurred to ensure the transactions are properly allocable to the applicable grant funds. Officials should continue to correctly identify employees by fund in the payroll records which allows the computerized accounting records to interface correctly. Officials should monitor the interfaces so problems can be identified and corrected more timely to alleviate the need to reclassify disbursements.

Section III – Federal Award Findings and Questioned Costs

FINDING 2010-3, CONTROLS OVER ALLOWABLE COSTS

Federal Agency: U.S. Department of Education
Federal Program (CFDA Title): Title I Grants to Local Educational Agencies
CFDA Numbers: 84.010
Pass-Through Entity: Indiana Department of Education
Award Numbers and Years: 09-9545 (FY 2008-09)

The Charter School uses computer software to maintain the financial records of the Charter School. The payroll processing software must "interface" with the financial recordkeeping software to post payroll transactions to the general ledger. When the interface is completed, payroll expenditures allocated to funds through the payroll program should be posted to the funds in the general ledger in same manner.

21ST CENTURY CHARTER SCHOOL OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

For the school year 2008-2009, internal controls were not in place to adequately identify and post payroll related expenditures allocated to the Title I Funds. The payroll expenses allocated to the Title I funds as well as other funds per the payroll reports did not agree to amounts posted to those same funds per the General Ledger. Officials explained that employees designated to be paid from Title I funds were not correctly coded as such in the payroll records. The Treasurer attempted to post the payroll expenditures to the appropriate funds as reclassifications at the end of the school year. However, documentation to substantiate which employees' wages and benefits were reclassified by the Treasurer, was not maintained. The total net effect of the reclassification of wages and benefits increased the Title I expenditures by \$57,771.48. The total amount of wages and benefits posted as paid from the Title I funds were reasonable based upon the salaries of persons identified by the Title I Director as Title I employees.

Another financial tool which acts as a control to assist management in monitoring grant expenditures is the implementation of tracking actual grant disbursements against the approved budgets for the grant awards. Currently, School Corporation Officials do not post grant expenditures against the budget for comparative purposes, or to assist in determining if amounts spent are reasonable and in proportion to budgeted amounts.

EDGAR § 80.20 states in part:

". . . (b) The financial management systems of other grantees and subgrantees must meet the following standards: . . .

- (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.
- (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. . . ."

21ST CENTURY CHARTER SCHOOL OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

For the 2009-2010 school year, controls had been enacted to correctly identify employees by fund in the payroll records which allowed the computerized accounting records to interface correctly. We recommended that School Corporation Officials continue with the controls enacted. Officials will need to update records as necessary for any changes in personnel. We further recommended that School Corporation Officials implement tools to allow for the posting of actual expenditures against the approved budgets for the various grant funds.

FINDING 2010-4, CASH MANAGEMENT CONTROLS AND COMPLIANCE

Federal Agency: U.S. Department of Education
Federal Program (CFDA Title): Title I Grants to Local Educational Agencies, ARRA - Title I Grants to Local Educational Agencies, Recovery Act
CFDA Number: 84.010, 84.389
Pass-Through Entity: Indiana Department of Education
Award Numbers and Years: 09-9545 (FY 2008-09), 10-9545 (FY 2009-10)

As part of the application for Title I Grants to Local Educational Agencies (Title I) funds, school corporations are required to assess needs and develop a drawdown request of Title I funds to meet their cash needs for the entire grant period. The drawdown amounts are listed by month, and must total the grant award.

The Indiana Department of Education requires School Corporations to prepare quarterly monitoring reports. The quarterly monitoring reports include grant receipts, disbursements, and cash balances. The report also allows the School Corporation to modify subsequent drawdowns. For each of the Title I grant programs, no attempts were made by the Charter School to reduce a subsequent drawdown to be in compliance with cash management requirements.

For the 2008-2009 Title I (09-9545) Grant Program, the Charter School held cash in excess of immediate needs for December through May. In June, the Charter School reclassified payroll and some other expenses from the General Fund to the Title I Fund, which helped to alleviate the excess cash on hand. Payroll expenses were not posted directly to the Title I Fund because internal controls were not in place to identify the individuals to be paid from the Title I funds within the payroll records and reports. We could not determine why the other expenses were not posted directly to the Title I Fund as incurred. If the Charter School had proper controls in place to correctly identify the Title I payroll and vendor disbursements so they would have been promptly posted to the Title I Fund as the disbursements occurred, the excess cash balances may have been alleviated.

For the 2009-2010 ARRA Title I Grants to Local Educational Agencies, Recovery Act (ARRA Title I) (10-9545) grant funds, a cash drawdown request was not prepared per instructions from the Indiana Department of Education. Funds were distributed to the Charter School beginning in July 2009 less than one month after the application was approved by the Indiana Department of Education. The Charter School posted disbursements to the grant fund beginning in June 2009. They reclassified many of these disbursements in May and June 2010, to either the General Fund or the Title I (10-9545) grant program. When these reclassifications were considered made against the period the disbursement occurred, we determined the Charter School to have had funds in excess of needs for the six month period of December 2009 through May 2010.

Failure to minimize the cash on hand balances indicate noncompliance with cash management requirements established by federal agencies. For the ARRA Title I funding, the maintenance of excess cash balances caused the School Corporation to remit interest earnings to the U.S. Department of Education.

21ST CENTURY CHARTER SCHOOL OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

EDGAR § 80.20 states in part:

". . . (b) The financial management systems of other grantees and subgrantees must meet the following standards: . . .

- (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.
- (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. . . .
- (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."

Effective July 1, 2010, the Indiana Department of Education modified the grant process for their subrecipients. School Corporations will no longer be requesting grant advances; instead, school corporations will be required to spend the funds necessitating reimbursements on funds already spent.

Effective for the 2009-2010 school year, the Charter School began identifying Title I grant personnel in the payroll reports, which significantly eliminated the necessity to subsequently reclassify expenditures. We recommended that School Corporation Officials continue this effort.

We also recommended School Corporation Officials follow the new guidelines established by the Indiana Department of Education, requiring Title I funds to be reimbursed after the funds have been properly spent.

21ST CENTURY CHARTER SCHOOL OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2010-5, EQUIPMENT CONTROLS AND COMPLIANCE

Federal Agency: U.S. Department of Education
Federal Program (CFDA Title): Title I Grants to Local Educational Agencies, ARRA - Title I Grants to Local Educational Agencies, Recovery Act
CFDA Number: 84.010, 84.389
Pass-Through Entity: Indiana Department of Education
Award Numbers and Years: 09-9545 (FY 2008-09), 10-9545 (FY 2009-10)

The Charter School has purchased computers, network servers, and other equipment with Title I and Title I ARRA funds. When electronic equipment is received at the Charter School, the Information Technology Director places a tag with a sequential number on the item. However, the tag number is not used to identify the item on the list of capital assets maintained by the Charter School Accounting Department or by the Title I Director. The listing maintained by the Title I Director includes only those items purchased with Title I and Title I ARRA funds, but the listing is not detailed and is of the items purchased by groupings. (Which is also true for the capital asset list maintained by the Accounting Department). For example, the Charter School purchased several mini laptop computers at one time. Per the capital asset listing, the individual computers and tag numbers were not listed, but the entire group of items purchased was listed at the total cost for the lot.

EDGAR § 80.32 Equipment. (d) states in part:

"Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated . . ."

We recommended that equipment records be maintained by individual asset item. The items listed should include the description of the items, the item's inventory tag number, cost, location, as well as the other information required by the grant guidelines.

21ST CENTURY CHARTER SCHOOL OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2010-6, CONTROLS RELATED TO REPORTING

Federal Agency: U.S. Department of Education
Federal Program (CFDA Title): Title I Grants to Local Educational Agencies, ARRA - Title I Grants to Local Educational Agencies, Recovery Act, ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
CFDA Numbers: 84.010, 84.389
Pass-Through Entity: Indiana Department of Education
Award Numbers and Years: 09-9545 (FY 2008-09), 10-9545 (FY 2009-10)

The Charter School has not implemented controls sufficient for providing accurate and timely monitoring reports to the Indiana Department of Education. Such controls include posting expenditures as they occur to a separate fund established to account for the receipts, disbursements and cash balances of grant funds, preparing reports based upon the activities of those grant funds, and having someone other than the person preparing those reports review them for accuracy. The lack of implementing such controls has resulted in material weaknesses related to reporting, which have affected the Charter School's ability to comply with reporting requirements related to the grant programs as follows:

Title I Grants to Local Educational Agencies (Title I)

The Charter School has established separate funds to account for the activity of the various grant programs; however, cash balances are not maintained separately for each fund. All cash balances are recorded as General Fund cash.

For the Title I Grants Quarterly Monitoring Reports and Annual Expenditure Reports required by the Indiana Department of Education, cash balances are required to be reported which cannot be verified to the cash balances of the funds, because cash balances by fund are not maintained.

For the 2008-2009 Title I grant, all of the quarterly reports were filed between 10 to 25 days after the due date. Furthermore, the first quarterly report, which covered the period from July 1, 2008 to September 30, 2009, was inaccurate. Receipts were underreported by \$15,000, and disbursements were overreported by \$21,182.19. The third quarterly report, which covered the period from January 1, 2009 to March 31, 2009, also over reported disbursements by \$39,399.61.

For the 2009-2010 Title I grant, the second and third quarterly reports were filed late by 19 and 45 days, respectively. The first quarterly report was not provided for audit.

The Final Annual Expenditure Report for the 2009-2010 Title I grant agreed in total to the expenditures posted, but individual categories of expenditures did not correlate to the amounts posted in the general ledger for those same account categories. For example, the Charter School reported \$14,375 under the category entitled "Improvement of Instruction" account 22100.110, but no such account exists in the general ledger, nor could that amount be traced to any one account in the general ledger. Additionally, the overall total of \$39,613.36 for all of the accounts reported under the category entitled "Improvement of Instruction" could not be traced to any combination of amounts posted to the general ledger not already traced from the general ledger to the report.

21ST CENTURY CHARTER SCHOOL OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

ARRA - Title I Grants to Local Educational Agencies, Recovery Act (ARRA Title I)

For the ARRA Title I Grants, Monthly Monitoring Reports and Annual Expenditure Reports are required by the Indiana Department of Education. The reports include cash balances as of the end of the reporting period. We could not verify the cash balances of the funds, because cash balances by fund are not maintained. Furthermore, the monthly monitoring reports submitted are to include cumulative disbursements as of the date of the reports. All of the monthly reports submitted prior to May 2010 excluded disbursements posted in June 2009.

The timeliness of the submission of the monthly monitoring reports could not be verified as the reports were not dated.

The Final Annual Expenditure Report for the ARRA Title I grant agreed in total to the expenditures posted, but individual categories of expenditures did not correlate to the amounts posted in the general ledger for those same account categories.

ARRA - State Fiscal Stabilization Fund (SFSF) – Education State Grants,
Recovery Act (Fiscal Stabilization Fund)

The Charter School properly established a separate fund to account for the Fiscal Stabilization funds; however, disbursements of the funds were originally posted to the General Fund. The disbursements were transferred from the General Fund to the Fiscal Stabilization Fund on two dates: January 1, 2010 and May 31, 2010.

Two monitoring reports were completed for the grant. The first report of expenditures was for the period covering July 1, 2009 to October 31, 2009, and was filed by the Charter School on November 13, 2009, which was also the due date of the report. \$259,869.02 of expenditures were reported as being made from the Fiscal Stabilization Fund; however, these disbursements were not reclassified to the Fiscal Stabilization Fund until January 1, 2010.

The second report covered the period from May 11, 2010 to June 30, 2010, and was filed on June 11, 2010. This report indicated the funds were spent from the General Fund totaling \$46,942.68, but the disbursements from the General Fund for the period from May 11, 2010 to June 11, 2010, (the date the report was filed) totaled only \$33,882.47. As of June 30, 2010, sufficient funds had been spent from the General Fund to support the \$46,942.68 reported.

If the Charter School prepared the report based upon the expenditure activity of the Fiscal Stabilization Fund, the reported amount would have been considered accurate as expenditures posted to the General Fund from May 31, 2010, and prior periods had been reclassified on May 31, 2010, to the Fiscal Stabilization Fund.

EDGAR § 80.20 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.

21ST CENTURY CHARTER SCHOOL OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

- (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.
- (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 . . ."

We recommended that School Corporation Officials implement controls to allow for the timely posting of transactions to the appropriate funds. These controls when implemented should alleviate the need to reclassify transactions. The appropriate grant directors should be consulted as disbursements are incurred to ensure the transactions are properly allocable to the applicable grant funds. Reports should then be prepared based upon the activity of the grant funds. Another individual should review the reports making comparisons to the general ledger to ensure accuracy and timeliness.

21ST CENTURY CHARTER SCHOOL OF GARY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters reportable.

CORRECTIVE ACTION PLAN

FINDINGS NO. 2010-1 CONDITION OF RECORDS

Federal Agency:	U.S. Department of Education
Federal Programs:	Title 1 Part A Cluster
CFDA Number:	
Pass Through Entity:	Indiana Department of Education
Auditee Contact Person:	Dana Johnson
Title of Contact Person:	Treasurer
Phone Number:	317-713-4207
Expected Completion Date:	completed

- The findings were from June 2008. The school has already corrected the problem with better accounting processes and staff, and there have been no further issues. The school will continue to monitor the cash balances and ledgers to ensure continued compliance.


Dana L. Johnson, Treasurer

CORRECTIVE ACTION PLAN

FINDINGS NO. 2010-2 CONTROLS AND COMPLIANCE RELATED TO DISBURSEMENTS

Federal Agency:	U.S. Department of Education
Federal Programs:	Title 1 Part A Cluster
CFDA Number:	
Pass Through Entity:	Indiana Department of Education
Auditee Contact Person:	Dana Johnson
Title of Contact Person:	Treasurer
Phone Number:	317-713-4207
Expected Completion Date:	March 1, 2011

- The findings dated back to the 2008-09 school year. The school has already changed procedures and staff to ensure better controls. This process has been successful, as evidenced by lack of findings for the 09-10 school year. The school will continue to use the new processes to ensure compliance.



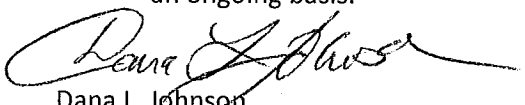
Dana L. Johnson, Treasurer

CORRECTIVE ACTION PLAN

FINDINGS NO. 2010-3 CONTROLS OVER ALLOWABLE COSTS

Federal Agency:	U.S. Department of Education
Federal Programs:	Title I Grants to Local Educational Agencies
CFDA Number:	84.010
Pass Through Entity:	Indiana Department of Education
Auditee Contact Person:	Dana Johnson
Title of Contact Person:	Treasurer
Phone Number:	317-713-4207
Expected Completion Date:	July 1, 2011

- Errors were found in the 2008-09 school year. The school has already added a Grants Manager/Administrator for 09-10 to more closely monitor the alignment between the approved application and final expenditures. This resolved the issues, and the school will continue this position.
- The school will implement a budget tracking process to monitor expenses against the grant on an ongoing basis.

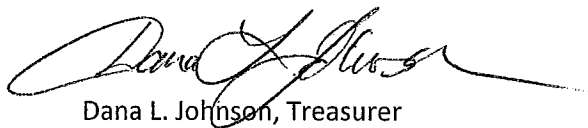

Dana L. Johnson

CORRECTIVE ACTION PLAN

FINDINGS NO. 2010-4 CASH MANAGEMENT CONTROLS AND COMPLIANCE

Federal Agency:	U.S. Department of Education
Federal Programs:	Title I Grants to Local Education Agencies, ARRA – Title I
Grants to Local Educational Agencies Recovery Act	
CFDA Number:	84.010, 84.389
Pass Through Entity:	Indiana Department of Education
Auditee Contact Person:	Dana Johnson
Title of Contact Person:	Treasurer
Phone Number:	317-713-4207
Expected Completion Date:	July 1, 2011

- The school will follow the new policies of the Indiana Department of Education regarding reimbursements for expenditures under the above grants.
- The school will follow the auditor's recommendations to identify Title I personnel in payroll reports to eliminate multiple reclasses.


Dana L. Johnson, Treasurer

CORRECTIVE ACTION PLAN

FINDINGS NO. 2010-5 EQUIPMENT CONTROLS AND COMPLIANCE

Federal Agency:	U.S. Department of Education
Federal Programs:	Title 1 Grants to Local Educational Agencies, ARRA – Title I Grants to Local Educational Agencies, Recovery Act
CFDA Number:	84.010, 84.389
Pass Through Entity:	Indiana Department of Education
Auditee Contact Person:	Dana Johnson
Title of Contact Person:	Treasurer
Phone Number:	317-713-4207
Expected Completion Date:	March 1, 2011

- School will maintain assets by individual asset item, not in total costs.



Dana L. Johnson, Treasurer

CORRECTIVE ACTION PLAN

FINDING NO. 2010-6 CONTROLS RELATED TO REPORTING

Federal Agency: US Department of Education
Federal Program: Title I Grants to Local Educational Agencies, ARRA –
Title I Grants to Local Educational Agencies, Recovery
Act, ARRA – State Fiscal Stabilization Fund (SFSF) –
Education State Grants, Recovery Act
CFDA Numbers: 84.010, 84.389
Pass-Through Entity: Indiana Department of Education
Auditee Contact Person: Dana Johnson
Title of Contact Person: Treasurer
Phone Number: 317-713-4207
Expected Completion Date: July 1, 2011

- The school is reviewing its controls, and will be implementing a different software system to better track cash balances.
- The school has already made significant improvements in grant management, and will add a grant manager to its staff to better monitor alignment of spending against the approved grant.

Dana Johnson, Treasurer

21ST CENTURY CHARTER SCHOOL OF GARY
EXIT CONFERENCE

The contents of this report were discussed on February 8, 2011, with Dana Johnson, Treasurer; Kevin Teasley, Superintendent of Schools; Alyce Butler, President of the School Board; and Angela West, School Principal. The official response has been made a part of this report and may be found on pages 58 through 60.

MEMORANDUM

TO: INDIANA STATE BOARD OF ACCOUNTS
FROM: 21st Century Charter School at Gary
RE: AUDIT RESULTS 2008-2010
DATE: February 16, 2011

21st Century Charter School at Gary wishes to thank the examiners at the State Board of Accounts for their thorough review and guidance. We would like to offer the following response to the Financial Opinion. (A separate response has been provided in the form of Corrective Action Plans for the federal findings.)

FINDING: Condition of Records

The finding on records relates to the condition of records dating back to June 2008. Those issues have already been resolved, as evidenced by no findings for any other year.

The school has further taken steps to reduce the number of reclassifications needed at the end of the year by adding an additional review step for grant management.

FINDING: Deficit Cash Balances and Grant Fund Cash Balances

The Deficit Cash Balances were merely a classification issue, and those have been resolved at this time.

The Grant Fund Cash Balances are not true cash balances, but again, are more classification issues, and the school will work with the Indiana Department of Education to resolve the issue with the older balances.

FINDING: Controls and Compliance Related to Disbursements

In late 2009, the school has more closely aligned its voucher and payroll systems to the general ledger system to resolve this issue, as evidenced by the lack of findings after 2009.

FINDING: Accounts Payable Voucher Itemization

We respectfully disagree with the need for this finding. As explained to the auditor, the fees paid to the GEO Foundation are for services as listed in the Management Agreement approved by the Board of Directors. The school does not duplicate effort by re-writing these services on every voucher every month. The documentation is clear and transparent.

FINDING: Short Term Loans

Again, we respectfully disagree with this finding. The loan terms for short term loans are set forth in the Management Agreement, as approved by the Board of Directors. The large loans in 2008-09 were to cover the school during significant delays in property tax payments from Lake County. These loans were approved in the Board Minutes by the Board of Directors.

FINDING: Board Minutes

1. The school will bring claims to the full board for approval.
2. We respectfully disagree with this finding. All salaries are approved by the board as part of the budget process.
3. The school will bring payroll disbursements to the full board for approval.
4. The school is aware of the issue.

FINDING: Optical Images of Checks

The school respectfully disagrees with this finding. As noted in the statute quoted in the audit, it is acceptable for checks to be kept electronically. The school's banking institution does maintain the cancelled checks in this manner, thus meeting the statute.

FINDING: Textbook Rental Claim for Reimbursement

The school reviewed its textbook policies and procedures in 2010, and has resolved this issue.

FINDING: Prescribed Forms

The school will work with the State Board of Accounts to get approval on forms.

FINDING: Report of Employees and Compensation not Filed.

The school will comply with this finding.

FINDING: Officials Bonds


The school will comply with this finding.

FINDING: Extra-curricular Account Issues.

The school will comply with these findings.

Thank you for the opportunity to provide a response.

Respectfully submitted,



Dana L. Johnson, Treasurer