



STATE OF INDIANA
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January 8, 2013

Charter School Board
East Chicago Lighthouse Charter School
6525 Kentucky Avenue
Hammond, IN 46323

We have reviewed the Supplemental Audit Report prepared by Fitzgerald/Isaac LLC, Independent Public Accountants, for the period July 1, 2011 to June 30, 2012. In our opinion, the Supplemental Audit Report was prepared in accordance with the guidelines established by the State Board of Accounts.

We call your attention to the findings in the report. Pages 3 through 5 contain four audit results and comments.

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

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

State Board of Accounts

SUPPLEMENTAL AUDIT REPORT
OF
EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL
LAKE COUNTY, INDIANA
July 1, 2011 to June 30, 2012

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL

LAKE COUNTY, INDIANA

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EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL

LAKE COUNTY, INDIANA

School Officials

Year Ended June 30, 2012

<u>Office</u>	<u>Official</u>	<u>Term</u>
President of Board of Directors	Thakena Hogue	07/01/11 – 06/30/12
Superintendent	Charles Salter	07/01/11 – 06/30/12
Treasurer	Robert Stearns	07/01/11 – 06/30/12

The Board of Directors
Lighthouse Academies of Indiana, Inc.

We have audited the financial statements of **East Chicago Lighthouse Charter School** (the "School") as of and for the year ended June 30, 2012 and have issued our report thereon dated October 29, 2012. As part of our audit, we tested the School's compliance with provisions of the Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools issued by the Indiana State Board of Accounts and related provisions of laws, regulations, contracts and grant agreements. Reported in the Audit Results and Comments are matters where we believe the School was not in compliance with those provisions.

Fitzgerald / Isaac

Indianapolis, IN
October 29, 2012

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL

LAKE COUNTY, INDIANA

Audit Results and Comments

Year Ended June 30, 2012

CASH RECEIPTING AND DEPOSITING

In our audit, we examined records relating to cash receipts at the school pertaining to such items as uniform sales, student fees, fundraising, and field trips. From the records maintained at the school, it was not possible to trace numerous transactions from the receipt records to bank deposits. A clear audit trail representing an accumulation of all written receipts that combine to make up the bank deposit was not maintained. We also noted that one receipt book (250 items) could not be located and that certain receipt books contained overlapping numbers.

The deposit ticket or attached documentation must provide a detailed listing of the deposit, which includes at a minimum, check numbers and corresponding names of payors. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

CAPITAL ASSETS

The School maintains a property record for accounting purposes, but this record does not include all assets in the possession of the School. A large number of assets with an initial cost of less than \$5,000 have been expensed in accordance with the School's accounting policies. A complete record of assets, whether capitalized or expensed, should be produced and maintained for disaster recovery purposes.

Every charter school must have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory must be recorded on the applicable Capital Assets Ledger. A complete inventory shall be taken for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 15)

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL

LAKE COUNTY, INDIANA

Audit Results and Comments, Continued

SCHOOL LUNCH ELIGIBILITY

In our audit sample of 15 students, we noted that the eligibility determination for 3 students was incorrect (a 20% error rate). In two instances, the students were determined to qualify for reduced cost meals when they actually qualified for free meals. In one case, the student was determined to qualify for free meals when she actually qualified for reduced cost meals. The effect of such errors is reduced because no student is charged for the cost of meals and because the majority of students are pre-qualified.

The results of test checks are to be reported to the Indiana Department of Education in accordance with 7CFR 245.6a...An error for purposes of the test-check is an approved application, attempted to be verified that cannot be verified by the program participants with requested income verification information (i.e., paycheck stub, W-2, etc.). (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 17)

The local educational agency must determine household eligibility for free or reduced price meals either through direct certification or the application process at or about the beginning of the school year. [7 CFR, part 245.6(c)]

VENDOR DISBURSEMENTS

We selected and examined a sample of 66 cash disbursement transactions from throughout the year. Within this sample we noted the following:

- In 3 instances, the invoice reflected the imposition of late payment fees. The total of late fees imposed on these invoices was \$242.
- In 2 instances, sales tax was included on the invoice and the vendor payment. The total of sales tax imposed on these invoices was \$82.
- In 4 instances, the accounts payable voucher was not approved by the school principal.
- In 5 instances, the accounts payable voucher was not certified by the treasurer.

Employees have the duty to pay claims and remit taxes in a timely fashion...Additionally, employees have a responsibility to perform in a manner which would not result in any unreasonable fees being assessed against the charter school. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL

LAKE COUNTY, INDIANA

Audit Results and Comments, Continued

Governmental funds generally are exempt from the payment of sales tax on qualifying purchases. Respective tax agencies should always be contacted concerning tax exemptions and payments. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

Charter schools 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 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 Charter Schools, Part 2)

EAST CHICAGO LIGHTHOUSE CHARTER SCHOOL

LAKE COUNTY, INDIANA

Exit Conference

Year Ended June 30, 2012

The contents of this report were discussed on November 30, 2012, with Michael Ronan (Lighthouse Academies President and CEO), Charles Salter (Superintendent), and Robert Stearns (Treasurer). The Official Response has been made a part of this report and may be found on pages 7 and 8.

East Chicago Lighthouse Charter School

December 7, 2012

To: State Board of Accounts
302 West Washington St, Room E 418
Indianapolis, IN 46204-2765

From: Robert Stearns, Treasurer

OFFICIAL RESPONSE for East Chicago Lighthouse Charter School

CASH RECEIPTING AND DEPOSITING

Audit comment: The school had instances where deposited items were not supported by individual receipts for sales to students of uniforms and collections from extra-curricular activities. It was also noted that receipt books could not be located.

School response: The school implemented change in May 2012 after an examination by the State Board of Accounts (SBOA) that concluded March 2012. The school has implemented the following changes as commented on by the SBOA in relation to the SBOA's Extra-Curricular Accounts Manual:

- The school officer manager will be designated the Deputy Treasurer per the SBOA's Extra-Curricular Accounts manual and IC 20-41-1. The Deputy Treasurer will be bonded.
- The Deputy Treasurer will maintain control over the receipt books for student sales and Extra-Curricular Activities.
- The Deputy Treasurer will prepare and sign the extra-curricular receipts, noting the method of payment and retaining one copy for accounting and depositing and issuing the original receipt to the student. The accounting copy of the extra-curricular receipts will be retained with the deposit slip and the account entry receipt.
- Deputy Treasurers will maintain control over forms SA-8 which will be used by teachers or sponsors for collections in the classroom of extra-curricular activities. The teacher will complete the SA-8 and a listing of the students. The Deputy Treasurer will issue student receipts and retain one copy with the SA-8. The SA-8, listing and extra-curricular receipts will be retained with the deposit slip and the account entry receipt.
- Receipts will be deposited no later than the business day following the date of receipt. The name of the payer, the purpose of the receipt, and the form of payment and check number (if applicable) will be included in the receipt.
- Assistant treasurers will be deputized and bonded to assist in receipting. The treasurer's office will monitor bank transactions for daily deposits. Samples of deposits will be selected and analyzed to ensure compliance with policies and procedures. The results of this internal audit will be reviewed with the school's principals and regional superintendent.

CAPITAL ASSETS

Audit comment: The school maintains a property record for accounting purposes, but this record does not include all assets in the possession of the school. A large number of assets with an initial cost of less than \$5,000 have been expensed in accordance with the school's accounting policies. A complete record of assets, whether capitalized or expensed, should be produced and maintained for disaster recovery purposes.

School response: The school maintains a schedule for depreciation of capitalized fixed assets as described by the auditor's comment. The school also maintains a listing of all furniture and equipment on a data base using the software Trakker that notes the item, location and tag number. The asset data base is in the process of being updated for technology equipment which will include serial numbers in addition to tag numbers, location and user.

SCHOOL LUNCH ELIGIBILITY

Audit comment: There were three instances out of fifteen applications examined by the auditor where eligibility status was not correctly determined.

School response: Improved monitoring will be implemented during the school year 2012-2013 including internal auditing and testing of the applications.

VENDOR DISBURSEMENTS

Audit comment: The auditor commented on four attributes from a sample size of 66 tested documents where the following errors were detected; three instances where late fees were imposed; two instances where sales tax was paid; four instances where vouchers were not approved by the school principal; and five instances where vouchers were not certified by the treasurer.

School response: The school recognizes that there have been instances where late fees have been incurred. This is predominantly in the case of utility vendors and a copier lease where the number of days to remit the payment is very short. The school and the treasurer will make every effort to identify these vendors and make prompt payment to avoid late fees. The copier leasing company has recently agreed to lengthen the number of days to remit payment to forty-five days. Sales tax has not been an attribute with a high error rate as most vendors have our tax exempt certificate and recognize our tax exempt status. Of the two instances cited, one was to a new phone service and we have since remitted to the provider our exemption for utilities and telecommunications. The other instance was detected within the school year tested, and the vendor issued a credit for the sales tax paid. The instances of the vouchers not being signed by the principal or treasurer will be corrected through an ongoing review and monitoring system of the accounts payables records.