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STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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January 13, 2014

Charter School Board
Duneland Charter School, Inc. d/b/a
Discovery Charter School
800 Canonie Drive
Porter, IN 46304

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

We call your attention to the findings in the report. Pages 3 through 4 contain four audit results and comments. Management's response is on page 6.

In addition to the report presented herein, a Financial Statements and Independent Auditors' Report for Duneland Charter School, Inc. d/b/a Discovery 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

DUNELAND CHARTER SCHOOL, INC.
d/b/a
DISCOVERY CHARTER SCHOOL

PORTER COUNTY, INDIANA

July 1, 2012 to June 30, 2013

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DUNELAND CHARTER SCHOOL, INC.
d/b/a
DISCOVERY CHARTER SCHOOL
PORTER COUNTY, INDIANA

SCHOOL OFFICIALS

Year Ended June 30, 2013

Office	Official	Term
Treasurer	Allan Gabriele	7/1/12 – 6/30/13
Principal	Ernesto Martinez	7/1/12 – 6/30/13
President of Board of Directors	Laurie Metz	7/1/12 – 6/30/13

Wieland & Company, Inc.
Certified Public Accountants

12 West Wilson Street
Batavia, Illinois 60510
Phone (630) 406-4490
Fax (630) 406-4491
www.wielandcpas.net

To the Board of Directors
Duneland Charter School, Inc.

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

Wieland & Company, Inc.

December 19, 2013

DUNELAND CHARTER SCHOOL, INC.
d/b/a
DISCOVERY CHARTER SCHOOL
PORTER COUNTY, INDIANA

AUDIT RESULTS AND COMMENTS

PUBLIC WORKS LAWS

The School completed a construction project totaling $324,518.36 during the year ended June 30, 2013. This project met the definition of public works according to IC 36-1-12, but the School did not follow the procedures described in IC 36-1-12.

When a charter school uses public funds for the construction, reconstruction, alteration, or renovation of a public building, bidding and wage determination laws and all other statutes and rules apply, IC 20-24-7-7. The "Public Works Law" [IC 36-1-12] applies to all public work performed or contracted by political subdivisions and their agencies on property owned or leased by them. [IC 36-1-12-1]

Notice

Upon filing of the plans and specifications, the board shall publish a notice two times, at least one week apart, with the second publication made at least seven days before the date the bids will be received, calling for sealed proposals for the public work. [IC 36-1-12-4(b)(3)]

The notice must specify the place where the plans and specifications are on file, the date fixed for receiving bids, and the amount of the bond or certified check to be filed with each bid. [IC 36-1-12-4(b)(4); IC 36-1-12-4.5]

The period of time between the date of the first publication and the date of receiving bids may not be more than six weeks. [IC 36-1-12-4(b)(5)]

Public Meeting

The board may not require a bidder to submit a bid before the meeting at which bids are to be received. The meeting for receiving bids must be open to the public. All bids received shall be opened publicly and read aloud at the time and place designated. Bids shall be submitted on prescribed General Form 96 (Bid for Construction). [IC 36-1-12-4(b)(7)] (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 16).

UNRECORDED TRANSACTIONS

The unpaid portion of the construction contract with Bouma Construction, Inc. totaling $259,518 was not included on the general ledger as either an asset or a liability at June 30, 2013.

Charter schools should have internal controls in place to provide reasonable assurance that their goals and objectives are accomplished; laws, regulations, and good business practices are complied with; assets are safeguarded; and accurate and reliable data are maintained. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8).

STATE AND FEDERAL TAXES

The School has been assessed a penalty of $22,300 by the Internal Revenue Service for the inadvertent late filing of Form 990 - *Return of Organization Exempt From Income Tax* for the year ended June 30, 2012. Management has appealed the penalty for reasonable cause and believes it will be abated. However, the ultimate outcome of the matter is not determinable as of the date of this report.

Charter Schools 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. Charter Schools shall file accurate reports required by federal and state agencies. Noncompliance would require corrective action.

Each charter school is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit. Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10).

USE OF PRESCRIBED FORMS

The school maintains internal control procedures, but with a few exceptions does not utilize any of the required state-approved forms in its activities.

All the necessary forms for fund, program and object accounting are prescribed by the State Board of Accounts in accordance with the Indiana Public Accounting Law. These forms can be used in their original design for manual systems. Although the accounting forms and ledgers cannot be used in systems utilizing electronic data processing equipment, such systems must provide, as a minimum, the information contained in the manual system with no changes in the fund accounting requirements or the classifications of receipts and expenditures.

When the forms and ledgers are modified for use with computer hardware and software, they must be submitted to the State Board of Accounts for approval as replacements for the prescribed forms. The approval process necessitates submitting, to the attention of the State Examiner, each of the forms exactly as they must be modified for use with a computer and a letter from the charter school requesting approval for use in the system of the charter school. The forms submitted shall be a facsimile of the prescribed system (headings of reports, etc.). Otherwise a cross-reference to the prescribed form intended to be replaced shall be submitted. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 1).

DUNELAND CHARTER SCHOOL, INC.
d/b/a
DISCOVERY CHARTER SCHOOL
PORTER COUNTY, INDIANA

EXIT CONFERENCE

The contents of this report were discussed on December 19, 2013 with Laurie Metz (Board Treasurer), Allan Gabriele (Board Treasurer), Thomas Aubin (Vice-President of American Quality Schools, Inc.) and Josh Samuelson (Account Specialist of American Quality Schools, Inc.). The Official Response has been made a part of this report and may be found on page six.

DUNELAND CHARTER SCHOOL, INC.
d/b/a
DISCOVERY CHARTER SCHOOL
PORTER COUNTY, INDIANA

OFFICIAL RESPONSE TO AUDIT RESULTS

PUBLIC WORKS LAWS

Members of the Board did not realize the specific contract was subject to the provisions of the Public Works Law. Other than the known quality of work, the contractor was selected due to the Company's willingness to accept nominal monthly installments and defer full payment until the Board was able to procure long-term financing. The Board believes it acted fully in the best interests of the School. These provisions will be fully complied with for future applicable contracts.

UNRECORDED TRANSACTIONS

Although cash payments to Buoma Construction were recorded, the unpaid portion of the construction contract was not recorded. This occurred because responsibility for the contract's administration was handled locally under the direction of the Board. American Quality Schools, Inc. (AQS) then made the installment payments required under the contract at which time they were recorded on the general ledger. AQS believed it preferable for the CPA firm doing the audit to review the contract details and make adjustments to record the unpaid portion of the contract.

STATE AND FEDERAL TAXES

The School takes all its filing and reporting obligations very seriously. The School typically engages a CPA firm to complete its audit and prepare its tax filings. In the prior year the CPA firm was engaged on our behalf by our charter authorizer and responsibility for tax preparation and the submission of extension requests to the Internal Revenue Service was miscommunicated. Management has filed a written appeal to the Internal Revenue Service and believes the penalty will be abated for reasonable cause.

USE OF PRESCRIBED FORMS

This matter has never been raised for the School in past audits. Management believes the forms used in the School's operations are proven and effective. However, management will follow up with appropriate State personnel to assure requirements for the usage of specific forms is either waived or adopted to assure compliance.