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April 24, 2018

Charter School Board  
The Hammond Urban Academy, Inc.  
33 Muenich Ct  
Hammond, IN 46320

We have reviewed the Supplemental Audit Report for The Hammond Urban Academy, Inc. prepared by RSM US LLP, Independent Public Accountants, for the period July 1, 2015 to June 30, 2016. 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 contains five audit results and comments. Management's response is on pages 6 through 7.

The Supplemental Audit Report and associated audited Financial Statements are filed in our office as a matter of public record.

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

**The Hammond Urban Academy, Inc.**  
**(Lake County, Indiana)**

Supplemental Audit Report  
July 1, 2015 to June 30, 2016

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**The Hammond Urban Academy, Inc.  
Lake County, Indiana**

**School Officials  
July 1, 2015 to June 30, 2016**

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Office	Official	Term
President of Board of Directors	Kris Sakelaris	07/01/15 - 06/30/16
School Leader	Sean Egan	07/01/15 - 06/30/16
Treasurer	Mahdee Iqbal	07/01/15 - 06/30/16



RSM US LLP

To the Board of Directors  
**The Hammond Urban Academy, Inc.**  
Lake County, Indiana

We have audited the financial statements of **The Hammond Urban Academy, Inc.** (the "School") as of and for the year ended June 30, 2016 and have issued our report thereon dated October 26, 2017. 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 accompanying Audit Results and Comments are matters where we believe the School was not in compliance with those provisions.

*RSM US LLP*

Elkhart, Indiana  
October 26, 2017

## **The Hammond Urban Academy, Inc.**

### **Audit Results and Comments July 1, 2015 to June 30, 2016**

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#### **Vendor Disbursements**

The School disburses vendor payments for various expenses throughout the fiscal year. We selected 25 disbursements throughout the 2016 fiscal year to test the process for vendor disbursements. We noted 4 of the 25 disbursements tested included payment of state sales tax on exempt purchases. The total state sales tax paid on these transactions totaled \$19.95.

Charter schools are eligible for an exemption from the state sales tax on purchases. To obtain the exemption for a Sales Tax Exemption Certificate, application should be made to the Sales Tax Division of the Department of Revenue. This certificate must be presented at the time a purchase is made to avoid paying sales tax. If sales tax is paid erroneously, a refund application may be obtained from the Sales Tax Division. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

#### **Receipts and Deposits**

The School receives cash for various purposes including meals, fees, and various other items. We selected 25 receipts from throughout the 2016 fiscal year to test the process for receipt and deposit of funds. We noted 6 of the 25 payments did not have receipts issued or receipts could not be produced in support for the cash transaction. The transaction amount was verified as deposited using deposit listing but it could not be determined if cash had been deposited timely due to the lack of receipt.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. All charter school money must be deposited in the designated depository not later than the business day following the receipt of funds on business days of the depository in the same form in which the funds were received. Timely receipts and deposits are required to provide the organizer and charter school administration with current information necessary for all financial decisions. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

#### **Proper Bonding**

The School obtained bonding on the Business Manager in the amount of \$100,000. We noted, however, the average amount of cash or receipts on hand during the 2016 school year that the employee designated to handle cash had access to was in excess of the School's bond protection.

The organizer shall designate employees who are responsible for handling a majority of the cash, receipts, and disbursements for the school. The designated employees must have either a cash bond or an insurance policy on their behalf that protects the charter school from employee theft, fraud, errors, and omissions. The cash bond or insurance policy should represent an average amount of cash or receipts on hand during the school year." (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

## **The Hammond Urban Academy, Inc.**

### **Audit Results and Comments July 1, 2015 to June 30, 2016**

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#### **Extra-Curricular Activities**

The School maintains a number of bank accounts managed by teachers and staff personnel for various extra-curricular activities. Neither the cash balance, which amounted to \$31,111 at June 30, 2016, nor the activity for the year are recorded on the School's accounting records.

All financial transactions pertaining to the charter school must be recorded in the records of the charter school. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

Special Funds may be established to account for money received by a school corporation for a special purpose or purposes if no local tax revenues are involved. These Funds may be supported by gifts, donations, endowments or be established pursuant to federal statutes. A ledger account on prescribed Form Number 508 must be established for each fund. Each fund account will serve as a control account for all receipt and disbursement transactions pertaining to that fund. In addition, a ledger account on Form Number 508 must be established for the "All Funds Control" to which all receipts and disbursements for all funds shall be posted. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 3).

Charter schools are required to submit a Form 9 Biannual Financial Report two times per year during the months of January and July. The financial information in the Form 9 shall reflect cash basis information. The January report must include previous calendar year financial and other required information for the period July 1 to December 31, financial data. The July report must include current calendar year financial and other required information for the period January 1 to June 30. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 9.)

#### **Material Weakness – Internal Controls**

During the course of our audit, we identified several adjustments to the trial balance originally presented to us by management that individually and in aggregate represented a material effect on the financial statements. These adjustments related to several accounts including accounts receivable, deferred financing costs, accrued interest, revenue, and interest expense and had a result of lowering the change in net assets by approximately \$232,000. Since the adjustments related to several different accounts and were not isolated to a single transaction, we believe the underlying deficiencies could be pervasive to the entire financial statements and thus rises to the level of a material weakness.

We concluded that these adjustments resulted from the lack of oversight by management and/or knowledge of properly accounting for certain transactions. We suggest that management design proper controls to ensure that the trial balance is reviewed in detail periodically, at a minimum annually, to ensure all accounts are reconciled and accurate to their knowledge. In addition, if there are areas where management is not aware of the proper treatment for accounting for a transaction, we recommend that management perform appropriate research into the proper accounting treatment, which can include consulting with their external auditor.

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.)

**The Hammond Urban Academy, Inc.**

**Exit Conference**

**July 1, 2015 to June 30, 2016**

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The contents of this report were discussed on Thursday October 19, 2017 with Sean Egan (School Leader), Dennis Small (Business Manager), Kris Sakelaris (Board President), Owana Miller (Board Secretary), and other members of the Board of Directors, including Mark McLaughlin, Marty Wielgos, Lori Lambert, Mira Projovic, Daliz Suarez, and Anne Herbert. The Official Response has been made a part of this report and may be found on the following page.



## **Formal Response to Audit Findings for Year Ended June 30, 2016**

Date: October 26, 2017

Document: Supplement Audit Report

### **1) Vendor Disbursements:**

- A. Sales tax is sometimes unavoidable - Some vendors do not accept state exemption even on school business. One example is the hotel stay while employees travel for a seminar or workshop purposes based solely on school business. Meals and other hotel expenses incurred toward the school are not eligible for tax exemption. However, our general sales tax exemption form has been updated and given to employees and vendors alike. A refund application has been obtained to avoid erroneous sales tax paid.

### **2) Receipts and Deposits:**

- B. Record keeping of the school receipts and deposits has improved. For example, the type of activity along with the student name and grade level has been recorded in each excel deposit sheet regarding internal records of all financial transactions whether cash, check, or electronic fund transfer (EFT) the day activity occurred. This supports the deposit taken to the bank. Also, due to eliminating the assistant business manager position responsible for cash handling, the school has been in process to purchase a software or point of sale system that helps parents make purchases through an online portal for real time cash reporting from paying lunch accounts, tuition, and any other school-related fees reducing manual written receipts probable to human error.

### **3) Proper Bonding:**

- C. In addition to the proper bonding per employee involved with cash-related activities of the school based on the average amount of cash or receipts on hand throughout the school year, we are working with our insurance company to assure employees that handles cash for all school operations are bonded appropriately to comply with the Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8.

### **4) Extra-Curricular Activities (ECA):**

- D. This decision is for the School Leader and School Board to approve bringing all ECA accounts under a separate 501(c)3

## **Formal Response to Audit Findings for Year Ended June 30, 2016**

### **5) Material Weakness - Internal Controls:**

- E. In regards to improving compliance with Generally Accepted Accounting Principles (GAAP) and reducing and/or eliminating material weakness of internal controls, management ensures the financial statements are to be reviewed and discussed with third party that prepares the financial statements on a monthly basis. Changes and/or adjustments made would be required to assure the school shows best practices in proper accounting treatment. This method would help administer a healthy routine following accounting standards detecting any misstatements and/or fraud within school business operations. In addition, management related to these financial operations will be required to research, attend trainings and other related events to maintain current regulations, laws, and due diligence involving appropriate accounting practices in the education sector.