



**STATE OF INDIANA**  
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November 13, 2018

Charter School Board  
Higher Institute of Arts and Technology, Inc.  
PO Box 1113  
Merrillville, IN 46411

We have reviewed the Supplemental Audit Report for Higher Institute of Arts and Technology, Inc. prepared by Donovan CPAs, Independent Public Accountants, for the period July 1, 2016 to June 30, 2017. 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 6 contain eight audit results and comments. Management's response begins on page 8.

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

**SUPPLEMENTAL AUDIT REPORT  
OF  
HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.**

LAKE COUNTY, INDIANA

July 1, 2016 to June 30, 2017



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**HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.**  
**LAKE COUNTY, INDIANA**  
**School Officials**  
**July 1, 2016 to June 30, 2017**

<u>Office</u>	<u>Official</u>	<u>Term</u>
President of Board of Directors	Sharla Johnson	07/01/16 – 06/30/17
School Leader	Dr. Shelley Fisher Erica Brownfield	07/01/16 – 10/31/16 11/01/06 – 06/30/17
School Treasurer	Thomas Rowland, CPA	07/01/16 – 06/30/17



# Donovan CPAs

The Board of Directors  
Higher Institute of Arts and Technology, Inc.

We have audited the financial statements of Higher Institute of Arts and Technology, Inc. ("HIAT") as of and for the year ended June 30, 2017 and have issued our report thereon dated October 19, 2018. As part of our audit, we tested the HIAT'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 HIAT was not in compliance with those provisions.

DONOVAN

Indianapolis, Indiana  
October 19, 2018

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# HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.

LAKE COUNTY, INDIANA

**Audit Results and Comments**

**July 1, 2016 to June 30, 2017**

## **EMPLOYEE BOND**

HIAT was unable to provide documentation showing that the School had obtained a cash bond or insurance policy.

The organizer shall designate employees who are responsible for handling a majority of the cash, receipts, and disbursements. 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)

## **FINANCIAL REPORTING**

Our examination of the semi-annual financial reports to the Indiana Department of Education (Form 9) for the period July 1, 2016 to June 30, 2017 revealed the following reportable issues:

1. The overall cash balance on the Form 9 report at June 30, 2017 for did not agree with the balance of cash per the school's accounting records. The Form 9 was over-reported by \$535,488.
2. Fund activity was not reflective of actual activity during the year.

A fund, as used in the Charter School 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 Charter Schools, Part 3)

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 may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

## **CAPITAL ASSETS**

HIAT did not complete an annual physical inventory of its capital assets.

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)

**HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.**  
**LAKE COUNTY, INDIANA**  
**Audit Results and Comments**  
**July 1, 2016 to June 30, 2017**

**RECEIPTS AND DEPOSITS**

We tested 25 cash receipts from HIAT's receipt books, noting the following instances of non-compliance:

1. Of the 25 receipts selected for testing, deposit support could not be located for 11 receipts.
2. Of the 14 receipts for which deposit support was provided, 6 were not deposited in a timely manner.
3. Of the 25 receipts selected for testing, 5 did not list a form of 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)

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 Charter Schools, Part 10)

**VENDOR DISBURSEMENTS**

We tested 47 disbursement transactions and requested documentation to support each, noting the following instances of non-compliance:

1. HIAT was unable to provide invoices for 17 of the selected transactions.
2. HIAT was unable to provide vouchers for 36 of the selected transactions.

The Accounts Payable Voucher (Form 523)...must be used in accordance with the following conditions: 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)

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 Charter Schools, Part 10)

# HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.

LAKE COUNTY, INDIANA

Audit Results and Comments

July 1, 2016 to June 30, 2017

## PAYROLL POLICIES AND COMPLIANCE

Generally in our testing of payroll, we select one pay period for testing to determine compliance. The HIAT Board President raised concerns about payroll transactions involving the previous School Leader, who was replaced in December 2016. As a result, we selected two pay periods prior to December 2016 and one pay period after. We noted the following issues of non-compliance:

1. Four employees were paid hourly wages while their employment agreements stated they were salaried employees.
2. No time records were available prior to December 2016.
3. Of the 23 individual employees tested in the two pay periods prior to December 2016, 17 of the contracts could not be located.
4. Of the 15 employees tested in the pay period after December 2016, 4 of the contracts could not be located.

The charter school shall maintain adequate supporting documentation for payroll to ensure that payments are made only for services rendered. Supporting documentation, such as time cards, must show signs of supervisory approval. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

All compensation and benefits paid to employees must be included in the labor contract or salary schedule unless otherwise authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

## SCHOOL LUNCH REPORTING

In our testing of HIAT's meals program, we noted the School was not in compliance due to the following issues:

1. We selected 15 students and requested documentation to support the School's determination of their status as qualifying for free, reduced, or paid meals. Of the 15 selected, we noted four applications were not completed in full.
2. HIAT could not provide support for completion of the required 3% verification of applications.
3. We selected the March 2017 meals claim for testing. The school could not support 60 free lunches and 30 free breakfasts that were claimed.

The State Board of Accounts is of the audit position charter schools shall request a written position from the Indiana Department of Education stating whether the corrective action taken was sufficient or if additional verifications need to be performed when high incidences of errors in test sample verifications are noted. The written communication to the Department of Education must also request a determination if any increases or decreases in funding will result to the charter school because of the concerns noted with the verification process. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 17)

**HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.**  
**LAKE COUNTY, INDIANA**  
**Audit Results and Comments**  
**July 1, 2016 to June 30, 2017**

**SCHOOL LUNCH REPORTING, Continued**

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 may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

**MINIMUM INTERNAL CONTROL STANDARDS**

Per review and discussion with school personnel, the School was not in compliance with either of the minimum internal control requirements as set forth by IC 5-11-1-27(g).

After June 30, 2016, the legislative body of a political subdivision shall ensure that:

1. the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
2. personnel received training concerning the internal control standards and procedures adopted by the political subdivision.

(IC 5-11-1-27(g))

**HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.**

**LAKE COUNTY, INDIANA**

**Exit Conference**

**July 1, 2016 to June 30, 2017**

The contents of this report were discussed on August 27, 2018 with Eva Spilker (Phalen Leadership Academies) and Sharla Johnson (President of Board of Directors). The Official Response has been made a part of this report and may be found on page 8.

## **HIAT – Management Responses to SBOA Findings – FY17**

### **EMPLOYEE BOND**

HIAT was unable to provide documentation showing that the School had obtained a cash bond or insurance policy . The organizer shall designate employees who are responsible for handling a majority of the cash, receipts, and disbursements. 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)

#### *Response:*

*Employee theft/dishonesty coverage was added to the package insurance policy. See attached.*

### **FINANCIAL REPORTING**

Our examination of the semi-annual financial reports to the Indiana Department of Education (Form 9) for the period July 1, 2016 to June 30, 2017 revealed the following reportable issues:

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#### *Response:*

*The Board brought in Bookkeeping Plus to manage the Form 9 submissions and fund accounting as well as to ensure compliance with State and Federal financial reporting. The Form 9 balance for 12/31/17 and 6/30/18 will match the balances on the balance sheet for each period. The fund activity was applied as much as possible if the information was given to BPI from the school. All required reports were filed.*

### **CAPITAL ASSETS**

HIAT did not complete an annual physical inventory of its capital assets.

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)

#### *Response:*

*Bookkeeping plus kept a fixed asset log in 2017-2018 and the school will create and maintain a physical inventory onsite in 2018-2019. The Regional Director will approve the physical inventory and submit to finance for annual reconciliation.*

**HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.**  
**LAKE COUNTY, INDIANA**  
**Audit Results and Comments**  
**July 1, 2016 to June 30, 2017**

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**RECEIPTS AND DEPOSITS**

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*Response:*

*Bookkeeping Plus was brought on in 2017-2018 and worked to ensure that all deposits were recorded in accordance with SBOA guidelines. They worked with the school to secure as much deposit documentation as the school would provide. In 2018-2019, Phalen will receive a copy of all supporting documentation for deposits and confirm receipt of clear support in the monthly bank reconciliation. The Operations Manager will ensure that all deposits are made no later than the business day following the receipt of funds.*

**VENDOR DISBURSEMENTS**

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1. HIAT was unable to provide invoices for 17 of the selected transactions.
2. HIAT was unable to provide vouchers for 36 of the selected transactions.

The Accounts Payable Voucher (Form 523)...must be used in accordance with the following conditions: 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) 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 Charter Schools, Part 10)

*Response:*

*Bookkeeping Plus did utilize the voucher form 523 for each disbursement once they began managing the school's financials in January, 2018. For each claim processed, BKP emailed the school for any information that was not attached to the claim and kept a missing documentation list if that information was not received from the school. In 2018-2019 a clear system of segregation of responsibilities and approvals was implemented. All expenses and checks go through a multi-level approval prior to disbursement.*

**HIGHER INSTITUTE OF ARTS AND TECHNOLOGY, INC.**  
**LAKE COUNTY, INDIANA**  
**Audit Results and Comments**  
**July 1, 2016 to June 30, 2017**

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**PAYROLL POLICIES AND COMPLIANCE**

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1. Four employees were paid hourly wages while their employment agreements stated they were salaried employees.
2. No time records were available prior to December 2016.
3. Of the 23 individual employees tested in the two pay periods prior to December 2016, 17 of the contracts could not be located.
4. Of the 15 employees tested in the pay period after December 2016, 4 of the contracts could not be located. The charter school shall maintain adequate supporting documentation for payroll to ensure that payments are made only for services rendered. Supporting documentation, such as time cards, must show signs of supervisory approval. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8) All compensation and benefits paid to employees must be included in the labor contract or salary schedule unless otherwise authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

**Response:**

*Bookkeeping Plus was not given authority to take over the school payroll process per the school leader until the school leader left at the end of FY18. For 2018-2019, Phalen implemented a multi-tiered approval process to ensure accurate and supported payroll. All salaried staff salaries are tied to payroll roster maintained by HR that agrees to their executed employment agreements. All hourly staff submit timesheets that are approved by the school leader and Regional Director prior to their submission to finance.*

**SCHOOL LUNCH REPORTING**

In our testing of HIAT's meals program, we noted the School was not in compliance due to the following issues:

1. We selected 15 students and requested documentation to support the School's determination of their status as qualifying for free, reduced, or paid meals. Of the 15 selected, we noted four applications were not completed in full.
2. HIAT could not provide support for completion of the required 3% verification of applications.
3. We selected the March 2017 meals claim for testing. The school could not support 60 free lunches and 30 free breakfasts that were claimed.

The State Board of Accounts is of the audit position charter schools shall request a written position from the Indiana Department of Education stating whether the corrective action taken was sufficient or if additional verifications need to be performed when high incidences of errors in test sample verifications are noted. The written communication to the Department of Education must also request a determination if any increases or decreases in funding will result to the charter school because of the concerns noted with the verification process. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 17)

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 may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

**Response: (2018-2019)**

*Finding #1 - Applications shall be on file in the School Office. An application, direct certification letter, or documentation of eligibility (based on income guidelines) will be kept on current file for each family approved for free or reduced price meals. All completed applications will be processed within 10 days of receipt of application. For a child to be eligible for free or reduced price benefits, the household must submit a complete application and be either categorically eligible or have a total household income at or below the amounts on the eligibility income chart. A letter of eligibility will be mailed as soon as the process is complete. All incomplete applications will be returned for further or missing information and processed when complete. A new application must be completed every school year. No deviations are permitted. Only fully completed applications will be accepted.*

*Finding #2 - Free and reduced applications will be verified each year as per the verification process of the IDOE. See attached*

*Finding #3 - Food Service Admin will provide regular monitoring to ensure that Food Services Staff are accurately completing the meal counting forms at the point of service. Internal controls used to ensure accuracy in claims will include unannounced monthly edit checks and on-site monitoring.*

**MINIMUM INTERNAL CONTROL STANDARDS**

Per review and discussion with school personnel, the School was not in compliance with either of the minimum internal control requirements as set forth by IC 5-11-1-27(g).

After June 30, 2016, the legislative body of a political subdivision shall ensure that:

1. the internal control standards and procedures developed under subsection (e) are adopted by the political subdivision; and
2. personnel received training concerning the internal control standards and procedures adopted by the political subdivision. (IC 5-11-1-27(g))

**Response:**

*Internal controls were prepared at the end of FY18 and will be implemented in 2018-2019 (attached)*