



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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March 19, 2019

Indiana Virtual Education Foundation, Inc.
d/b/a Indiana Virtual School
510 E 96 St., Ste. 180
Indianapolis, IN 46240

We have received the Supplemental Audit Report of Indiana Virtual School which was prepared and opined upon by Huth Thompson, LLP, Independent Public Accountants, for the period July 1, 2015 to June 30, 2016.

The Supplemental Audit Report is filed in our office as a matter of public record.

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

Supplemental Audit Report

**INDIANA VIRTUAL EDUCATION
FOUNDATION, INC.**

d/b/a INDIANA VIRTUAL SCHOOL

JUNE 30, 2016

**INDIANA VIRTUAL EDUCATION FOUNDATION, INC.
d/b/a INDIANA VIRTUAL SCHOOL
MARION COUNTY**

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**INDIANA VIRTUAL EDUCATION FOUNDATION, INC.
d/b/a INDIANA VIRTUAL SCHOOL
MARION COUNTY**

**SCHOOL OFFICIALS
For the Year Ended June 30, 2016**

<u>Office</u>	<u>Official</u>	<u>Term</u>
President of Board of Directors	Thomas H. Stoughton	7/1/15-6/30/16
Secretary	Thomas Burroughs	7/1/15-6/30/16
Treasurer	James Tilford	7/1/15-6/30/16
Members of the Board	Thomas A. Krudy Gar P. Hoover Fred Ellis	7/1/15-6/30/16 7/1/15-6/30/16 7/1/15-6/30/16
Superintendent	Dr. Percy Clark	7/1/15-6/30/16



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To the Board of Directors
Indiana Virtual Education Foundation, Inc.
d/b/a Indiana Virtual School
Indianapolis, Indiana

We have audited the financial statements of Indiana Virtual Education Foundation, Inc. (the "School") as of and for the fiscal year ended June 30, 2016, and have issued our report thereon dated January 4, 2019, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. As part of our audit, we tested the School's compliance with provisions of the Accounting and Uniform Compliance Guidelines Manual for audits of 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.

Huth Thompson LLP

January 4, 2019
Lafayette, Indiana

**INDIANA VIRTUAL EDUCATION FOUNDATION, INC.
d/b/a INDIANA VIRTUAL SCHOOL
MARION COUNTY**

**AUDIT RESULTS AND COMMENTS
For the Year Ended June 30, 2016**

RECEIPTS AND DEPOSITS

We examined twenty-five (25) receipts and noted the following for fiscal year ended June 30, 2016:

- Deposits slipped were not provided for fifteen (15) transactions.
- Daily deposits could not be confirmed for sixteen (16) transactions.
- Receipts were not issued for eleven (11) transactions.
- Fee schedule could not be confirmed for nine (9) transactions.
- The prescribed form 517 was not utilized.

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.

The form (Form 517) is to be prenumbered by the printing supplier in duplicate, five receipts to the page. A receipt must be written on the form each time any money is received by the charter school, regardless of whether it is in the form of cash, check, money order, bank card/credit card, EFT (all on which must be indicated as payment type and amount) or other negotiable instrument. The original, signed by the treasurer of the charter school, is to be issued to the person paying the money. The duplicate is punched for containing in a post binder and serves as permanent register or receipts. It also serves as a source document for posting to the Ledger of Receipts, the Fund Ledger, and to the Treasurer's Daily Balance of Cash and Depositories Record. In the case of county or state distribution of school monies, it is not necessary to mail the original to the distributing agency. (Accounting and Uniform Compliance Manual for 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).

**INDIANA VIRTUAL EDUCATION FOUNDATION, INC.
d/b/a INDIANA VIRTUAL SCHOOL
MARION COUNTY**

**AUDIT RESULTS AND COMMENTS
For the Year Ended June 30, 2016**

VENDOR DISBURSEMENTS

We examined sixty (60) invoices and noted the following for the fiscal year ended June 30, 2016:

- Original invoices for twenty-five (25) transactions did not match the general ledger amounts and were not recorded correctly in the general ledger. Subsequently, the invoices were revised and the general ledger updated (Alpha Com invoices).
- For one (1) disbursement, no support or invoice could be located.
- One (1) invoice was improperly dated to support the disbursement timeframe.
- One (1) invoice included sales tax which was not refunded.
- Six (6) transactions were missing the proper signature on Form 98.
- Ten (10) transactions were missing signatures on Form 528.
- One (1) bill was not entered through payables properly in the accounting system and the sub ledger did not contain the transaction.

The School must establish procedures to ensure compliance with State requirements surrounding vendor purchases and disbursements. Supporting documentation must be maintained for all transactions and be recorded properly in the accounting system. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8).

CONFLICT OF INTEREST STATEMENTS

In accordance with Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8 involving internal controls provides that Conflict of Interest are to be identified and disclosed. In 2016, the School did not have Conflict of Interest statements on file.

PREPARATION OF FINANCIAL STATEMENT AND NET ASSETS

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. The charter school's accounting system must facilitate the preparation of the periodic financial reports for administrative review and the required year-end financial statements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8)

A system of internal control over financial reporting includes controls over the preparation of full disclosure financial statements. A material weakness exists if the

**INDIANA VIRTUAL EDUCATION FOUNDATION, INC.
d/b/a INDIANA VIRTUAL SCHOOL
MARION COUNTY**

**AUDIT RESULTS AND COMMENTS
For the Year Ended June 30, 2016**

School does not have controls over the preparation of the financial statements, including the footnote disclosures, which would prevent or detect a material misstatement in the financial statements. Management did not demonstrate the ability to prepare financial statements with full disclosure in accordance with generally accepted accounting principles, as evidenced by the lack of board oversight and control identified as a result of audit procedures along with material journal entries proposed by the auditors:

- The Board is meeting on a monthly basis; however, financial statements do not appear to be reviewed or approved by the Board or Board committee. A formal budget is not reviewed and approved by the Board. Additionally, bank reconciliations and detail, check registers, and journal entries are not reviewed by the Board. Controls do not exist around the month end close process, meaning material misstatements could exist in the data presented to the Board.
- Material entries include:
 - Net adjustments to increase accounts payable of \$484,127
 - Record goodwill of \$362,711
 - Correction to increase service fees of \$153,460
 - Correction to prepaid software license fees of \$105,863
 - Correction to record forgiveness of debt of \$463,915

SEGREGATION OF DUTIES

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, Uniform Internal Control Standards for Indiana Political Subdivisions. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual: "an integral part of the control activity component is segregation of duties. There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk".

Per inquiry of multiple personnel, a process does not exist around the receipt of the bank statement and its subsequent transfer to the external accountant for reconciliation. Bank statements are at times received in the mail directly by the Board Chairman who also has check signing authority, has the ability to approve cash disbursements, the ability to enter transactions in the general ledger, and is the only approved depositor. The Board Chairman also presents data to the Board based on the reconciliation performed with the bank statement received. It is possible for the Board Chairman to make incomplete deposits or approve improper purchases without notice of the Board or external accountant through the manipulation of the bank statement.

**INDIANA VIRTUAL EDUCATION FOUNDATION, INC.
d/b/a INDIANA VIRTUAL SCHOOL
MARION COUNTY**

**AUDIT RESULTS AND COMMENTS
For the Year Ended June 30, 2016**

Additionally, the Treasurer is supposed to perform a second review of approved disbursements though we noted a case in our walkthrough where this did not occur, increasing the risk of manipulation of disbursements and the bank statement due to the lack of segregation of duties.

We also recommend separating the duties around the creation of STN numbers and the submission of the STN numbers to the Indiana Department of Education (IDOE). Currently, the STN numbers are being created and submitted by the same person.

**INDIANA VIRTUAL EDUCATION FOUNDATION, INC.
d/b/a INDIANA VIRTUAL SCHOOL
MARION COUNTY**

**EXIT CONFERENCE
For the Year Ended June 30, 2016**

**The contents of this report were discussed on January 4, 2019 with Greg Bright, CFO.
The Official Response has been made part of this report and may be found on page 8.**



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March 18, 2019

Kimberley Morisette, Partner
Huth Thompson LLP
415 Columbia Street Ste 2000
Lafayette, IN 47902

Re: Supplemental Audit Results and Comments for FYE June 30, 2016

We received the presentation, results, and comments regarding the audit for Indiana Virtual Education Foundation, Inc. d/b/a Indiana Virtual School and would like to take this opportunity to respond to the updated findings by outlining courses of action we have or will institute and follow to resolve the issues raised by the examiners:

RECEIPTS AND DEPOSITS

Findings:

- Deposits slips were not provided for fifteen (15) transactions.
- Daily deposits could not be confirmed for sixteen (16) transactions.
- Receipts were not issued for eleven (11) transactions.
- Fee schedule could not be confirmed for nine (9) transactions.
- The prescribed form 517 was not utilized.

Response:

In October 2016, following conclusion of FYE June 30, 2016, we contracted with Bright Financial to act as the School's Business Manager. Some of these deficiencies were also noted in the FYE June 30, 2015 audit report and these deficiencies were addressed by the School before commencement of the FYE 2016 audit in August 2017. The School implemented the use of form 517 and the instructional processes for all money received by it in accordance with the Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Parts 2 and 10.

VENDOR DISBURSEMENTS

Findings:

We examined sixty (60) invoices and noted the following for the fiscal year ended June 30, 2016:

- Original invoices for twenty-five (25) transactions did not match the general ledger amounts and were not recorded correctly in the general ledger. Subsequently, the invoices were revised, and the general ledger updated (AlphaCom, Inc. invoices).
- For one (1) disbursement, no support or invoice could be located.

- One (1) invoice was improperly dated to support the disbursement timeframe.
- One (1) invoice included sales tax which was not refunded.
- Six (6) transactions were missing the proper signature on Form 98.
- Ten (10) transactions were missing signatures on Form 528.
- One (1) bill was not entered through payables properly in the accounting system and the sub ledger did not contain the transaction.

Response:

After its retention in October 2016, Bright Financial consistently emphasized and reinforced the importance of the School ensuring that vendor invoices are consistent with the underlying purchase orders and contracts to ensure compliance with the Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 8, and we are now compliance with those requirements. In January 2019, the School retained the services of Clifton Larsen Allen (CLA) to perform the services formerly performed by Bright Financial. CLA is reinforcing and expanding on the instruction provided by Bright Financial and the School expects to see substantial improvement in the vendor disbursements area.

CONFLICT OF INTEREST STATEMENTS

Finding:

In accordance with Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 13, Conflict of Interest statements are to be signed, on file, and provided to the State Board of Accounts. In 2016, the School did not have Conflict of Interest statements on file.

Response:

Until late 2018, the School was unaware of the duty of “consultants” to file Conflict of Interest Disclosures relative to “public projects” pursuant to I.C. 5-16-11-1 et seq. (the “Act”). The School has adopted a written Conflict of Interest policy and provides each director a copy of the policy on appointment to the board. Each director signs a formal acknowledgement of receipt relative to the policy. The policy requires the director to identify possible conflicts and to abstain from participating in conflict of interest activities. Prior to development of the policy, the board of directors followed a policy substantially in compliance with the policy, albeit without receipt of a formal written acknowledgement by the director. We have signed conflict of interest statements on file for our directors as of this date and we annually update the forms.

The School does not presently have a “consultant” with a “conflict of interest” as those terms are defined in the Act. The Board of Directors presently evaluate and approve contracts with the School. The Board believes that, for the time after October 2017, no Board Member had a conflict of interest of the type identified in I.C. 5-16-11-5.5.

Section 5.5 of the Act obligates a “consultant” to file a conflict of interest disclosure if the consultant has a conflict of interest. So, for the period from October 2017, no filings are required.

On a going forward basis, the School and the Board will continue to implement and enforce its conflict of interest policy and, should an “consultant” relationship arise between the Board and the School as addressed by the Act, the School will ensure appropriate disclosures are filed pursuant to Section 5.5 of the Act. The School’s Director Handbooks will also be amended to include similar language.

It is not presently possible to correct any oversights from the period covered by this audit and all subsequent audit periods beginning prior to the date on which the Board obtained notice.

PREPARATION OF FINANCIAL STATEMENT AND NET ASSETS

Findings:

Management did not demonstrate the ability to prepare financial statements with full disclosure in accordance with generally accepted accounting principles, as evidenced by the lack of board oversight and control identified as a result of audit procedures along with material journal entries proposed by the auditors:

The Board is meeting on a monthly basis; however, financial statements do not appear to be reviewed or approved by the Board or Board committee. A formal budget is not reviewed and approved by the Board. Additionally, bank reconciliations and detail, check registers, and journal entries are not reviewed by the Board. Controls do not exist around the month end close process, meaning material misstatements could exist in the data presented to the Board.

Material entries include:

- Net adjustments to increase accounts payable of \$484,127;
- Record goodwill of \$362,711;
- Correction to increase service fees of \$153,460;
- Correction to prepaid software license fees of \$105,863; and
- Correction to record forgiveness of debt of \$463,915.

Response:

The School first retained a business manager (Greg Bright Financial) in October 2016. The business manager was not involved in the creation or receipt of invoices for the 2016 school year. The net adjustments to increase accounts payable of \$484,127; correction to increase service fees of \$153,460 and the correction to prepaid software license fees of \$105,863 were all identified by the School's former business manager during the audit, and he submitted the adjustments to the auditors for their approval before booking them. These corrections were created and necessary to adjust incorrect billings by the School's vendors which were not noticed by the School when the invoices are paid. After the year under audit (SY2016), all invoices are now reviewed and are confirmed to be consistent with the underlying contract prior to entry in the School's records.

The goodwill entry of \$362,711 was a highly technical issue that required the School to obtain input from an outside expert. The goodwill resulted from the acquisition by the School of the assets of and assumption of the liabilities of BCI. It is believed that this transaction is a unique, "one off" transaction and should not occur again.

The forgiveness of debt of \$463,915 was related to the prior audit by Madden & Co. The audit for school year ending June 30, 2015 resulted in an agreement by AlphaCom, Inc. to repay over \$600,000 to the School. The vendor treated the agreement as a "wash" of the net of all transactions as of June 30, 2015 while the School, kept the liability on the books. The School was unaware the vendor considered the June 30, 2015 balance to have been forgiven and written off until the auditors confirmed balances with the vendor. Once again, this is a highly unusual transaction that should not recur in the future.

In January 2019, the School terminated the services of the former Business Manager (Greg Bright Financial) and the School is presently relying on CLA for assistance ensuring compliance and the proper accounting of all transactions. CLA will either provide the services through a "team approach" or one of more persons who shall become the School's chief financial officer.

The School is also modernizing its accounting software and, on the recommendation of CLA, will be acquiring the Sage Intacct software which we understand will use Cloud and SaaS ERP Accounts Payable and Accounts Receivable applications. We anticipate these changes will enhance transparency and compliance.

SEGREGATION OF DUTIES

Finding:

Per inquiry of multiple personnel, a process does not exist around the receipt of the bank statement and its subsequent transfer to the external accountant for reconciliation. Bank statements are at times received in the mail directly by the Board Chairman who also has check signing authority, has the ability to approve cash disbursements, the ability to enter transactions in the general ledger, and is the only approved depositor. The Board Chairman also presents data to the Board based on the reconciliation performed with the bank statement received. It is possible for the Board Chairman to make incomplete deposits or approve improper purchases without notice of the Board of external accountant through the manipulation of the bank statement.

Response:

The Board Chairman does not have the ability to enter transactions in the School's general ledger. The general ledger software was maintained solely on the former Business Manager's desktop computer and was password protected. The general ledger is presently managed by CLA.

The external accountant obtained bank statements via online banking. Also, the Board Chairman is not the only approved depositor. Fred Ellis, Treasurer is the second approved depositor. As noted above, the School will rely on CLA to ensure proper internal controls are in place going forward.

AUDIT RESULTS AND COMMENTS

Findings:


The Treasurer is supposed to perform a second review of approved disbursements though we noted a case in our walkthrough where this did not occur, increasing the risk of manipulation of disbursements and the bank statement due to the lack of segregation.

We also recommend separating the duties around the creation of STN numbers and the submission of the STN numbers to the Indiana Department of Education (IDOE). Currently, the STN numbers are being created and submitted by the same person.

Response:

The School has alerted CLA to these observations and will work in concert with CLA to ensure internal controls are strengthened or instituted as recommended by CLA to address these concerns.

Indiana Virtual Education Foundation, Inc.
d/b/a Indiana Virtual School

By:  _____

Fred W. Ellis, Treasurer