

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

SPECIAL COMPLIANCE REPORT

OF

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY

LAKE COUNTY, INDIANA

January 1, 2017 to June 30, 2018



FILED
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STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE HIGHER INSTITUTE OF ARTS
AND TECHNOLOGY, LAKE COUNTY, INDIANA

This is a special compliance report for the Higher Institute of Arts and Technology (Charter School), for the period January 1, 2017 to June 30, 2018, and is in addition to any other report for the Charter School as required under Indiana Code 5-11-1. All reports pertaining to the Charter School may be found at www.in.gov/sboa.

We performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts and were limited to records associated with expenses incurred by the Charter School's management. The Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

The Official Response to the Results and Comments, incorporated within this report, was not verified for accuracy.

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

May 8, 2019

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY
RESULTS AND COMMENTS

EMPLOYMENT CONTRACT

On January 10, 2017, the School Board approved Erica Brownfield's (Brownfield) contract for employment as School Principal. We requested a copy of the contract, including the signatures of both parties, Brownfield and the School Board; however, neither party to the contract could honor the request.

1. Brownfield received three bonuses totaling \$10,865.42 during her tenure as School Principal. Per the contract: "The Employer agrees to pay the Principal the following bonus: Enrollment 5% student increase, Student Assessment Growth, Attendance and Parental Involvement within the first 30 days, results in a 5% salary bonus, not to exceed 15% equal installments . . ." Also per the contract: "The Principal will initiate, complete and submit twice a year a performance review . . ." Performance reviews or other documentation, such as School Board approvals, supporting achievements for payment of bonuses in accordance with the contract was not provided for investigation; however, the President of the School Board subsequently confirmed the bonuses were authorized by the School Board.
2. Brownfield received a stipend for \$184.70 for attending a workshop on January 4, 2017. Expense reimbursements were addressed in the contract as: "The Employer shall reimburse the Principal for involvement in professional associations, tuition for classes related to advancement of professional growth and state certifications, . . ." Documentation of attendance at the workshop and an invoice supporting the payment of the stipend was not provided for investigation.

Payments made or received for contractual services must be supported by a written contract. Each charter school is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

UNDOCUMENTED DISBURSEMENTS

The Charter School was unable to provide receipts or invoices to support thirty-four transactions totaling \$21,337.01. Five of the undocumented disbursements were made for staff and/or School Board member appreciation gifts for condolences totaling \$824.58. Fifteen of the thirty-four transactions were made using a debit card to make purchases at warehouse stores, pharmacies, an online vendor, a clothing store, and a car rental totaling \$2,480.64. The remaining sixteen transactions were made to hotels, office supply vendors, restaurants (at locations of hotels), registration fees for conferences, and an electronics vendor. The lack of documentation does not allow for a School Board member, fiscal officer, or outside party to determine the school related purpose of such disbursements.

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)

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY
RESULTS AND COMMENTS
(Continued)

All claims, invoices, receipts, and accounts payable vouchers shall contain adequate detailed documentation. All claims, invoices, receipts, and accounts payable vouchers regarding reimbursement for meals and expenses for individuals must have specific detailed information of the names of all individuals for which amounts are claimed, including the nature, name, and purpose of the business meeting, to enable payment. Payments which do not have proper itemization showing the business nature of the claim may be the personal obligation of the responsible employee or other person for whom the claim is made. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

Public funds shall not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the charter school. Any personal expenses paid by the charter school may be the personal obligation of the responsible employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 10)

INTERNAL CONTROLS

The Charter School did not have adequate controls over disbursements due to a lack of management oversight as follows:

1. The School Board minutes did not sufficiently document actions by the School Board in relation to approving accounts payable vouchers, payroll adjustments, and other disbursements.
2. The management did not adequately safeguard the accounts payable vouchers, payroll records, contracts, and other documents to support the disbursements.

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:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

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. . . ."

HIGHER INSTITUTE OF ARTS AND TECHNOLOGY
EXIT CONFERENCE

The contents of this report were discussed on May 8, 2019, with Sharla Johnson, President of the School Board; Erica Brownfield, former School Principal; Danielle Robinson, Phalen Leadership Academies Regional Director; and Eva Spilker, Chief Financial Officer.

OFFICIAL RESPONSE

Regarding State Board of Accounts Special Investigation of
Higher Institute of Arts and Technology
For the Period of January 1, 2017 through June 30, 2018

The Board of Directors, (BOD), of Higher Institute of Arts and Technology (HIAT), would like to thank the State Board of Accounts for a thorough investigation. HIAT experienced a change in leadership in January of 2017. During this transition, the BOD acknowledged the lack of internal controls and sought to rectify this weakness with the new leader. After several months of requesting reports, making resolutions and amending failed policies, the BOD determined that we needed to hire an Educational Management Organization.

Following the directions of the Indiana Charter School Board, the BOD understood that our function is for Governance and Oversight. We decided that allowing one person to function as the School Leader, Superintendent, Human Resources and Fiscal Officer would not yield the outcome we desired. When the School Leader presented this plan to the BOD it included a resume demonstrating previous experience, having had her own Educational Business, in those areas. She also showed how it would save HIAT money. Unfortunately, it was not a success. Therefore, the HIAT BOD entered talks with Phalen Leadership Academies (PLA), in December of 2017. PLA presented to the HIAT BOD in April of 2018 and we signed a contract with them in June of 2018. We believe that Phalen Leadership Academies has the experience and capacity to ensure total compliance fiscally. We do not anticipate being in the position described in this report under the Leadership of PLA.

We appreciate the thorough nature of your investigation and are pleased that no charges are being filed. The HIAT BOD will take the steps necessary to ensure that we have documents and that the destruction of documents will not occur again without us having copies and electronic files to produce when requested. We have learned valuable lessons during this process.

Respectfully,

Sharla C. Johnson, M.Ed., President of the Board
Higher Institute of Arts and Technology