

**GUIDELINES FOR THE AUDITS OF  
CHARTER SCHOOLS  
PERFORMED BY  
PRIVATE EXAMINERS**

Established By:

STATE BOARD OF ACCOUNTS  
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**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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The State Board of Accounts is the state agency, designated by legislation, with responsibility of the audit of public funds received and disbursed by public offices and officers, state offices, state institutions, and any other entities receiving or disbursing public funds. Through the annual/biennial reporting process and our involvement in approving requests for proposals and audit contracts with private examiners to perform the annual/biennial audit of the governmental entities, we have attempted to ensure entities subject to federal or state audit requirements have met these requirements as efficiently and inexpensively as possible.

It is the State Board of Accounts policy that units of government subject to the audit requirements of Indiana Code 5-11-1 shall have no more than one audit completed annually. Therefore, the auditor selected to perform the annual audit shall be required to complete the financial audit, the compliance audit and, if applicable, either the OMB Circular A-133 or Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) audit. It is therefore imperative that entities and their private examiner exercise diligence in determining applicable audit requirements, prior to commencing the audit process. Through adherence to our Guidelines for the Audits of Charter Schools, and with the cooperation of all parties involved, one audit can and will satisfy the needs of all interested parties. Subject to the Malfeasance, Misfeasance, and Nonfeasance section of the Guidelines for the Audits of Charter Schools, we reserve the right to audit, examine, investigate, and review records of any charter school at any time as deemed necessary by the State Examiner.

We would like to thank the charter schools and private examiners for the cooperation and assistance they provide. We hope this issue of the Guidelines for the Audits of Charter Schools will assist you in successfully addressing your responsibilities.

Paul D. Joyce, CPA  
State Examiner

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# GUIDELINES FOR AUDITS

## Statutory Authority

Indiana Code (IC) 20-24-8-5 states in part: "The following statutes and rules and guidelines adopted under the following statutes apply to a charter school: (1) IC 5-11-1-9 (required audits by the state board of accounts) . . ." Indiana Code at 5-11-1-9 gives the State Board of Accounts the responsibility for examining all accounts and all financial affairs of every public office and officer, state office, state institution, and entity disbursing public money. The State Examiner, in accordance with Indiana Code 5-11-1-7, may engage or allow private examiners to perform this examination. If so designated, the private examiner must follow the guidelines set out in this document.

If the State Examiner engages or authorizes the engagement of a private examiner to perform an examination under Indiana Code 5-11-1, the examination and report must comply with the uniform compliance guidelines established by the State Board of Accounts. If a person or entity subject to examination under this chapter engages a private examiner, the contract with the private examiner must require the examination and report to comply with the uniform compliance guidelines established (IC 5-11-1-24(d)). These guidelines may be viewed at our website: [www.in.gov/sboa](http://www.in.gov/sboa).

The state or a municipality, including charter schools, may not enter into a contract with an entity subject to examination under Indiana Code 5-11-1 if the contract does not permit the examinations and require the reports prescribed by this chapter (IC 5-11-1-24(f)) and contain the required elements outlined in the "Contract Requirements" section of these guidelines.

## Audit Coordination and Administration

The audits of charter schools may be initiated and administered by the State Board of Accounts; by state or local government funding agencies; or by the entities themselves. Audits may be performed by the State Board of Accounts or private examiners approved by the State Board of Accounts and hired by the charter school. **Audit costs are always the responsibility of the charter school.**

Coordination of these audits with the State Board of Accounts is required. We, therefore, require the submission of all charter school audit contracts to us for approval, prior to signing.

The primary responsibility for ensuring the appropriateness, timeliness, and completeness of a charter school's audit rests with the charter school itself. However, successful completion of the audit process cannot be accomplished without the direct cooperation and assistance of funding agencies, private examiners, and the State Board of Accounts. Due to the complexity of government regulations and the uniqueness of existing arrangements and relationships between funding agencies and entities, it is imperative that charter schools and their private examiners confirm in advance, the type and scope of audit necessary to satisfy all parties involved.

Per IC 5-11-1-7, private examiners allowed engagements by the State Examiner are subject to the direction of the State Examiner. Private examiners allowed engagements for services under IC 5-11 are agents of the State Examiner and are limited to the following powers unless additional authority is granted in writing by the State Examiner.

Private examiners are entitled to examine any books, papers, documents, or electronically stored information for the purpose of making an examination. Private examiners are entitled access in the presence of the custodian or the custodian's deputy to the cash drawers and cash in the custody of the officer. Private examiners may during business hours, examine the public accounts in any depository that has public funds in its custody.

IC 5-11-5-1(d) requires a private examiner, acting as an agent of the State Examiner, who determines during an examination under IC 5-11 that (1) a substantial amount of public funds have been misappropriated or diverted and (2) that the private examiner has a reasonable belief that the malfeasance or misfeasance that resulted in the misappropriations or diversion of the public funds was committed by the officer or an employee of the office, to report the determination to the State Examiner. These reports shall be sent by email to [charterschools@sboa.in.gov](mailto:charterschools@sboa.in.gov) immediately upon the conclusion by the private examiner that these conditions have been met.

Except as required by IC 5-11-5-1(b) and IC 5-11-5-1(d), it is unlawful for any private examiner, before an examination report is made public by the State Examiner's filing, to make any disclosure of the result of any examination of any public account, except to the State Examiner or if directed to give publicity to the examination report by the State Examiner or by any court.

Communication of audit status, findings, Audit Results and Comments, financial statements, and notes between the private examiner and charter school management (executive director and those running the charter school on a day-to-day basis), and governance (charter school board and organizer) is appropriate and necessary. It is important for the private examiner to remind management and governance that any discussions between the private examiner and management or governance is not public information or for public disclosure until the report has been filed and publicly released.

### **Audit Frequency and Completion**

Audit frequency of charter schools is subject to requirements set forth by the Department of Education, the charter school's sponsor, the needs of the charter school and in accordance with IC 5-11-1-25. In order to comply with U.S. Department of Education requirements for states that administer the federal Public Charter School Program (PCSP) grant, the Indiana Department of Education requires all Indiana charter schools to undergo an independent audit on an annual basis.

Audits performed by private examiners are to be completed and all required reports issued within 180 days after the close of the audit period. Any requests for an extension of time must be made by emailing the State Board of Accounts at [charterschools@sboa.in.gov](mailto:charterschools@sboa.in.gov). The request shall include the reason an extension is needed and the amount of extra time being requested. Extensions may be granted by the State Board of Accounts for up to an additional 60 days. Requests for extension must be received no later than 30 days prior to the report deadline indicated above to be considered for approval. Extensions are not automatic; any request for an extension may be rejected by the State Board of Accounts. Any extension approval shall be in the form of a written response. Any charter school that does not have an audit completed and reports submitted by the deadline or request an extension as indicated above will have their audit completed by the State Board of Accounts. If the audit requires the issuance of financial statements on a Generally Accepted Accounting Principles (GAAP) basis and/or the performance of a federal audit in accordance with either Office of Management and Budget (OMB) Circular A133 or (Uniform Guidance) then the cost of the audit will be based on the current full cost per hour audit cost charged to other governmental units.

### **Request for Proposal and Contract Requirements**

Per IC 5-11-1-24 the charter school may not request proposals for performing an examination unless the request for proposals has been submitted to and approved, by the State Board of Accounts. Request for proposals must contain at least the required wording for contracts stated below and shall be submitted by email to [charterschools@sboa.in.gov](mailto:charterschools@sboa.in.gov). If no request for proposal is received by April 15<sup>th</sup>, the charter school will be contacted regarding the audit.

The request for proposal must include all of the following:

To be considered for the audit services, the private examiner selected must:

- a. Be a certified public accountant (CPA) and/or CPA firm licensed to practice in the State of Indiana.
- b. Meet applicable requirements of the Government Auditing Standards issued by the Comptroller General of the United States (Yellow Book) or the American Institute of Certified Public Accountants (AICPA).
- c. Have no record of performing substandard audits.
- d. Understand the role of the State Board of Accounts in the audit process and that they are acting as an agent for the State Examiner.
- e. Provide their most recent external peer review report; any letter of comment; and any corrective action plan.

Upon completion of our review of the request for proposal, we will issue a written approval or rejection of the request for proposal and our reason for any modifications or rejection.

If the charter school is using the same private examiner used in the prior audit, a request for proposal is not required unless the scope of the examination has changed. The examiner is still required to submit audit contracts and reports for our review.

To obtain approval for a private examiner to audit under IC 5-11, the audit contract must be submitted to the State Board of Accounts, prior to signing. Contracts with no reference to or acknowledgment of the responsibility of the State Board of Accounts in this process via reference to State Examiner Directive 2015-2 will be rejected.

The approval of the audit contract by the State Board of Accounts is not an assertion that the audit will satisfy federal funding agencies or other reporting requirements. The approval is based on limited knowledge of the overall audit requirements and **is not** to be used as a substitute for thorough planning by the private examiner and charter school. The State Examiner does not take any responsibility for the audit work completed by the private examiner or the opinion issued. We will work with the private examiner to provide appropriate audit services, but the ultimate responsibility for audit work remains with the private examiner.

#### Audit Requirements:

1. The audit will be conducted in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards (if applicable).
2. The audit will be performed in accordance with guidelines established by the State Board of Accounts and, if applicable, Uniform Guidance.
3. The audit will address items of noncompliance as they pertain to the auditee and as addressed in the Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools.
4. The State Examiner will be notified immediately if there is a misappropriation of funds that is suspected to be the result of malfeasance, misfeasance, or nonfeasance discovered during the course of the private examiner's work. Notification shall be by email to [charterschools@sboa.in.gov](mailto:charterschools@sboa.in.gov).
5. The State Board of Accounts will be notified of the date, time, and place the results of the audit will be discussed with charter school officials (exit conference) at least 5 business days prior to the meeting by email to [charterschools@sboa.in.gov](mailto:charterschools@sboa.in.gov).
6. The State Board of Accounts will receive a copy of the financial audit report, as well as any separate communication to the entity's management, such as a management letter, in an unlocked pdf, Microsoft Word, or Microsoft Excel file. These files will be emailed to [charterschools@sboa.in.gov](mailto:charterschools@sboa.in.gov) within 10 business days of the report being issued.

7. The State Board of Accounts will receive a copy of the supplemental audit report in an unlocked pdf, Microsoft Word, or Microsoft Excel file. These files will be emailed to [charterschools@sboa.in.gov](mailto:charterschools@sboa.in.gov) within 10 business days of the report being completed by the private examiner. This report will not be issued until reviewed by the State Board of Accounts.
8. All documentation used to support the financial and supplemental audit reports will be available for review by the State Board of Accounts at the State Examiner's discretion.

### **Auditing Standards to be Applied**

Audits performed in compliance with these guidelines must be conducted in accordance with auditing standards generally accepted in the United States of America. Revisions to these standards are to be incorporated at their earliest effective date, as established by the AICPA.

Charter schools that receive and expend federal awards are subject to the provisions of the Single Audit Act, as amended by the Single Audit Act Amendments of 1996. If the charter school is subject to a Single Audit in compliance with Uniform Guidance, then the audit must also be performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Revisions to these standards are to be incorporated at their earliest effective date, as established by the Comptroller General of the United States.

### **Audit Reports**

#### *Financial Audit Report*

The financial report must contain the financial statements of the charter school and the private examiner's opinion thereon. The financial statements may be prepared by the auditee on the GAAP basis or one of the following other comprehensive bases of accounting: a) modified cash basis or b) cash basis. If the charter school is required to have a Single Audit, the report must include a Schedule of Expenditures of Federal Awards. The Schedule of Expenditures of Federal Awards must meet the requirements as set out in Uniform Guidance, and it must be in the format outlined in Exhibit D.

If the financial statements are prepared on a basis of accounting that would not require the charter school to report on the face of the financial statements or in a written note disclosure information concerning outstanding debt, capital assets, or receivables and payables, the report is required to include a Schedule of Long-Term Debt, a Schedule of Capital Assets, and a Schedule of Receivables and Payables as Supplementary Information.

If a Single Audit is required, two additional reports must be issued in accordance with Government Auditing Standards and Uniform Guidance:

1. Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards.
2. Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With Uniform Guidance.

The private examiner is required to comply with all other applicable reporting requirements in accordance with Uniform Guidance. The Schedule of Expenditures of Federal Awards and notes shall be presented in the format provided in Exhibit D.

The financial audit report shall include a reference to any other reports issued by the private examiner for the charter school.

### *Supplemental Report*

In addition to the findings required to be included in the financial audit report for compliance with Government Auditing Standards and Uniform Guidance, a supplemental report is required to be issued to identify noncompliance with laws, regulations, and the Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools established by the State Board of Accounts. IC 5-1-11-9(d) states that on every examination performed, inquiry shall be made as to:

- (1) The financial condition and resources of each municipality, office, institution, or entity;
- (2) Whether the laws of the State of Indiana and the Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools issued by State Board of Accounts established under the authority of IC 5-11-1-24 have been complied with. Exhibit A identifies the required minimum compliance testing. In addition to the required minimum compliance testing, the audit shall include additional compliance testing as deemed necessary for the risks identified during the examination process; and
- (3) The methods of preparation and accuracy of the accounts and reports of the charter school.

If a compliance issue is identified during the compliance review and the noncompliance is deemed by the private examiner to be in excess of the parameters set out in Exhibits A and B, a written comment must be included in a supplemental report. The written comment shall be written in accordance with Exhibit B.

The supplemental report is not required to be issued for charter schools where no instances of noncompliance were found. A supplemental report shall include a transmittal letter which references the financial audit report, any findings of noncompliance, a schedule of officials examined, and documentation of the exit conference.

The supplemental report shall also include any response from the school officials concerning the audit. Per IC 5-11-5-1, before an examination report is signed, verified, and filed, the officer of the state office, municipality, or entity examined must have an opportunity to review the supplemental report and to file a written response to that report. If a written response is filed, it shall be submitted by the entity to the private examiner and become a part of the supplement report. An example of this supplemental report is presented in Exhibit C.

### **Malfeasance, Misfeasance, or Nonfeasance**

Any fraud identified or brought to the attention of the private examiner, such as misappropriation, embezzlement or other illegal acts shall be reported by the private examiner, **immediately upon discovery**, to the State Board of Accounts via email to [charterschools@sboa.in.gov](mailto:charterschools@sboa.in.gov). The State Examiner retains the authority to and shall investigate any malfeasance, misfeasance, or nonfeasance identified by the private examiner. If the circumstances indicate that a more detailed investigation is needed than necessary under ordinary circumstances, the private examiner shall inform the organization's management and those charged with governance in writing of the need for such additional investigation and the additional compensation required as a result of the additional work needed. An amendment to the audit contract may be made by the charter school and private examiner for such additional investigation, with the written approval of the State Examiner.

### **Audit Report Distribution**

Audits performed under Uniform Guidance must have a completed Data Collection Form included in the reporting package that will be prepared by the charter school and private examiner. Within that electronic form, State Board of Accounts should be included under the "Account Maintenance" section by entering [charterschools@sboa.in.gov](mailto:charterschools@sboa.in.gov) as an additional e-mail address. The private examiner is responsible for uploading the reporting package and completing all auditor certification emails after State Board of Accounts approves the financial audit report and supplemental report for issuance.

Upon completion of the financial audit report and supplemental report on compliance if applicable, the private examiner shall send the reports to [charterschools@sboa.in.gov](mailto:charterschools@sboa.in.gov) in an unlocked pdf, Microsoft Word, or Microsoft Excel document. A copy of the draft or final Data Collection Form is also required to be sent with the reports when the charter school has contracted for an audit under Uniform Guidance. The reports will be reviewed and approval returned to the private examiner via email. The reports shall not be issued until reviewed by the State Board of Accounts and approved by the State Examiner. Therefore, the private examiner cannot disclose any information gained from the audit process prior to this approval, except as allowed under IC 5-11-5-1(b) and IC 5-11-5-1(d). When approval is received from the State Board of Accounts, the private examiner shall issue the reports to the charter school. Additionally, the private examiner is responsible, after State Board of Accounts approval, to file the report with federal awarding agencies and pass-through entities when an audit is performed in accordance with Government Auditing Standards and/or the Single Audit Act.

The financial audit report and supplemental compliance report will be posted to the State Board of Accounts public website and distributed as required by IC 5-11-5-1(a) after approval of the reports has been given to the private examiner.

Private examiners are responsible for providing copies of all separate communications containing results of work performed with the charter school's management, such as management letters to the State Board of Accounts. If a management letter or any other reports or correspondence relating to other matters involving internal controls or noncompliance are issued in connection with this audit, a copy shall be filed with the State Board of Accounts. Such management letters, reports, or correspondence shall be consistent with the findings published in the financial audit report or supplemental report (i.e., they shall not include any items that shall be disclosed in the findings found in the published financial audit report or supplemental report but were not). Submission of these separate communications shall be submitted in the form, time, and process specified above. These items will not be posted or distributed as specified above. There shall be no written communication between the private examiner and the charter school that is not shared with the State Examiner.

### **Audit Review and Acceptance**

Due to our oversight responsibility for audits performed in accordance with IC 5-11-1-9, a quality control review of a private examiner's work for sufficiency in scope and adequacy in quality may be performed at the State Examiner's discretion. In addition to a quality control review of the audit, we will evaluate findings of noncompliance for further action required of this department. The auditee will be responsible for any cost related to any review performed by the State Board of Accounts. Any reports submitted to the State Board of Accounts shall be at no cost to the State Board of Accounts.

## EXHIBIT A

### **REQUIRED COMPLIANCE TESTING**

#### **COMPLIANCE STEP: REVIEW FORM USAGE**

##### **Manual Reference: Part 2 and Part 10**

##### **PRESCRIBED FORMS**

The State Board of Accounts is charged by law with the responsibility of prescribing and installing a system of accounting and reporting which shall be uniform for every public office and every public account of the same class and contain written standards that an entity that is subject to audit must observe. The system must exhibit true accounts and detailed statements of funds collected, received, obligated and expended for or on account of the public for any and every purpose. It must show the receipt, use and disposition of all public property and the income, if any, derived from the property. It must show all sources of public income and the amounts due and received from each source. Finally it must show all receipts, vouchers, contracts, obligations, and other documents kept, or that may be required to be kept, to prove the validity of every transaction. [IC 5-11-1-2]

The system of accounting prescribed is made up of the uniform compliance guidelines and the prescribed forms. A prescribed form is one which is put into general use for all offices of the same class.

Computer hardware, software and application systems can now produce exact replicas of the forms prescribed by the State Board of Accounts. An exact replica of a prescribed form is a computerized form that incorporates all of the same information as the manual prescribed form. Prescribed form replication is the preferred approach from the State Board of Accounts' position. These exact replicas are the equivalent of the prescribed form and require no further action for the charter school to install the form within their accounting system.

The use of computer-generated prescribed forms shall be brought to the attention of the private examiner during the next regularly scheduled audit. The forms and computer system generating the forms are subject to a technical computer audit based upon the results of the risk assessment.

Units are required by law to use the forms prescribed by this department. However, if it is desirable to use a form other than the prescribed manual form, that is not an exact replica; the new form must be approved by State Board of Accounts.

All forms previously approved by sending copies to State Board of Accounts and receiving a form approval letter are approved with the conditions contained within this section.

After April 1, 2014, if a unit implements, consistent with the provisions of Indiana Code and Uniform Compliance Guidelines, an automated accounting system that is to be considered for approval, the responsible official is not required to maintain the prescribed forms replaced by the automated system while awaiting the approval. New forms must be in place during at least one (1) State Board of Accounts audit and must not be an element of an audit finding or audit result and comment that is responsible or partially responsible for an exception found during an audit to be considered approved. The unit is responsible for placing on new forms the year of installation in the upper right corner. This reference should be similar to "Installed in \_\_\_\_\_ Charter School, (Year)." The charter school must maintain and present for audit a log of forms installed after April 1, 2014 with the year installed for all forms that replace forms prescribed by State Board of Accounts.

The unit agrees to comply with the following conditions, if applicable, for any new forms installed.

1. The forms and system installed are subject to review and/or recommendations during audits of the unit to ensure compliance with current statutes and uniform compliance guidelines.
2. The unit shall continue to maintain all prescribed forms not otherwise covered by an approval.

3. All transactions that occur in the accounting system must be recorded and accessible upon proper request. Transactions can be maintained electronically, with proper backups, microfilmed, or printed on hardcopy. These transactions include, but are not limited to, all input transactions, transactions that generate receipts, transactions that generate checks, master file updates, and all transactions that affect the ledgers in any way. The system must be designed so that changes to a transaction file cannot occur without being processed through an application.
4. The ability must not exist to change data after it is posted. If an error is discovered after the entry has been posted, then a separate correcting entry must be made. Both the correcting entry and the original entry must be maintained.
5. If the unit owns the source code, sufficient controls must exist to prevent unauthorized modification. If the unit does not own the source code, the vendor shall provide representatives of the State Board of Accounts with access to all computer source codes for the system upon request for audit purposes. In addition, the vendor shall provide representatives of the State Board of Accounts with a document describing the operating system used, the language that the source code is written in, the name of the compiler used, and the structure of the data files including data file names, data file descriptions, field names, and field descriptions for the system.
6. Any receipts, checks, purchase orders, or other forms that require numbering shall be either prenumbered by an outside printing supplier or numbered by the units computer system with sufficient controls installed in the system to prevent unauthorized generation of the form or duplication of numbers.
7. All receipts must be either in duplicate or recorded in a prescribed or approved register of receipts.
8. All checks must be either in duplicate or recorded in a register of checks generated by the computer.
9. Recap sheets for each deposit for deposit advices, if applicable, will be maintained indicating direct deposits. Individual wage assignment agreements will be kept on file to support direct deposit.
10. "Installed by \_\_\_\_\_ Charter School, (Year)" shall be printed, in the upper right corner, on each approved form furnished by a printing supplier and, when practical, on those printed from accounting systems at the unit. Upon the installation of a new form the form will be entered on a log for this purpose with the date of installation; and the name and number of the prescribed form replaced. The log must be available for audit.
11. The unit officials are responsible to ensure that forms and accounting systems installed comply with the uniform compliance guidelines for information technology services published in the Charter School Administrator and accounting manuals. This includes ensuring that customization of the system done by the vendor for implementation at the government is done in such a manner that the system remains compliant.
12. In the event a change is required due to the passage of a State or Federal law, the unit agrees to implement the change in a timely manner.

Although the State Board of Accounts prescribes forms, copies of the forms must be purchased from a public printer or other source.

#### Use of Prescribed Forms

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed.

#### ***Audit Procedures:***

Determine that alternate computer forms include at a minimum, the information on the prescribed form. Review prescribed form usage to determine that the charter school is using prescribed or approved forms.

## COMPLIANCE STEP: VERIFY PROPER BONDING

### ***Manual Reference: Part 8***

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 shall represent an average amount of cash or receipts on hand during a fiscal year.

### ***Audit Procedures:***

Verify that the organizer has designated an employee or employees who are responsible for handling the majority of the cash, receipts, and disbursements for the school.

Determine that the designated employees have either a cash bond or an insurance policy on their behalf. Name the individuals within the project and retain a copy of the bond for inclusion in the audit documentation. If there is no cash bond or insurance policy on the individual designated which protects the charter school from theft, fraud, errors, and omissions, an Audit Result and Comment (ARC) must be written.

Verify that the bond amount is sufficient. The bond amount shall be an average amount of cash or receipts on hand during a fiscal year or years.

## COMPLIANCE STEP – VERIFY SUBMISSION AND ACCURACY OF REQUIRED REPORTS

### ***Manual Reference: Part 9***

#### AVERAGE DAILY MEMBERSHIP (ADM)

The Organizer shall maintain records (enrollment cards, rosters, reporting forms, etc.) which substantiate the number of students claimed for ADM.

The building level administrator (Principal, Assistant Principal, etc.) who is responsible for reporting ADM to the Organizer, shall provide a written certification of ADM to properly document responsibility. The certification must at a minimum include a statement detailing the names and location of the records used (these records must be retained for public inspection and audit) to substantiate ADM claimed.

#### STUDENT INFORMATION REPORTING

Not later than the date established by the Indiana Department of Education (IDOE) for determining ADM, and after May 31 each year, the organizer shall submit to IDOE the following information of a form prescribed by IDOE: (1) The number of students enrolled in the charter school. (2) The name and address of each student. (3) The name of the school corporation in which the student has legal settlement. (4) The name of the school corporation, if any, that the student attended during the immediately preceding school year. (5) The grade level in which the student will enroll in the charter school, IC 20-24-7-2.

#### ANNUAL REPORT

Charter schools are required to file an annual report with the State Examiner not later than sixty (60) days after the close of each fiscal year, IC 5-11-1-4. In order to not duplicate efforts, the State Board of Accounts considers the combination of the two 6 month periods for each school year on the Indiana Department of Education's (IDOE) Form 9 Biannual Financial Report as the annual report for charter schools.

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 of July 1 to December 31 financial data. The July report must include current calendar year financial and other required information for the period of January 1 to June 30.

Charter schools must file Form 9 information electronically with the Office of School Finance. Questions related to Form 9 filing and other requirements can be directed to staff in the Office of School Finance at 317-232-0840 or by emailing [www.form9@doe.in.gov](mailto:www.form9@doe.in.gov).

### ***Audit Procedures:***

#### **ADM Reporting:**

1. Verify the ADM count was submitted timely.
2. Verify records have been retained to support the number of students claimed for ADM for the year(s) being audited.
3. Verify that the building level official has certified the ADM count, which contains a statement detailing the names and location of the records used.

#### **Student Information Reporting:**

1. Was the Student Information Reporting submitted timely to IDOE?

#### **Form 9 (Financial Annual Report)**

1. Verify that the Form 9 Financial Information was submitted timely with the IDOE.
2. Verify that the financial information agrees to the cash records of the charter school.
3. Verify that the financial information is presented in the manner prescribed by the State Board of Accounts.
  - a. Did the financial information contain the prescribed funds?
  - b. Did the financial information contain the prescribed receipt codes?
  - c. Did the financial information contain the prescribed expenditure codes?

## **COMPLIANCE STEP – OPEN DOOR LAW**

### ***Manual Reference: Part 9***

#### **MEETINGS OF THE CHARTER SCHOOL'S BOARD**

The Charter School's charter must specify that the charter school is subject to the requirements of IC 5-14-1.5, Public Meetings (Open door) Law. IC 20-24-4-1(a)(15)

#### **Indiana Open Door Law**

Board meetings are governed by the Open Door Law, IC 5-14-1.5. Under the Open Door Law all meetings of governing boards must be open to the public except for executive sessions.

***Audit Procedures:***

Verify that the school's charter specifies that the charter school is subject to the requirements of the Open Door Law.

Verify that the Open Door Law was observed for applicable meetings.

**COMPLIANCE STEP – CONFLICT OF INTEREST**

***Manual Reference: Part 13***

CONSULTANTS - STATUTORY CONFLICT OF INTEREST [IC 5-16-11]

***Audit Procedures:***

Review Part 13 of the charter school manual as well as IC 5-16-11 and determine that the appropriate conflict of interest statements have been filed. Conflict of Interest statements shall also be provided to the State Board of Accounts.

**COMPLIANCE STEP – MONTHLY RECONCILEMENTS MAINTAINED**

***Manual Reference: Part 8***

All financial records must be kept up-to-date and reconciled monthly.

***Audit Procedure:***

Determine if the charter school is reconciling their accounts monthly. Failure to comply with this requirement results in a mandatory ARC.

**COMPLIANCE STEP – GENERAL TESTING OVER CASH BALANCES**

***Manual Reference: Various References from Part 10***

Overdrawn Funds

The fund balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which shall be investigated by the charter school.

***Audit Procedures:***

Determine if the charter school has any overdrawn fund balances which are not due to awaiting reimbursement on a reimbursement grant. If there are any such funds, report in an ARC.

Determine that the charter school is routinely seeking reimbursement for those funds which are funded by reimbursement grants. If not, a comment shall be included.

## COMPLIANCE STEP: REVIEW OF CAPITAL ASSETS

### **Manual Reference: Part 15**

#### 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.

#### Land

The records of each charter school shall reflect land owned, its location, its acquisition date and the cost (purchase price). If the purchase price is not available, appraised value may be used.

#### Buildings

A capital asset account for buildings shall reflect the location of each building and the cost value (being the purchase or construction cost) and the cost of improvements, if applicable. If a building is acquired by gift, the account shall reflect its appraised value at the time of acquisition.

#### Improvements Other Than Buildings

A capital asset account shall reflect the acquisition value of permanent improvements, other than buildings, which have been added to the land. Examples of such improvements are fences, retaining walls, sidewalks, gutters, tunnels and bridges. The improvements shall be valued at the purchase or construction cost.

#### Equipment

Tangible property of a permanent nature (other than land, buildings and improvements) shall be inventoried. Examples include machinery, trucks, cars, furniture, typewriters, adding machines, calculators, bookkeeping machines, data processing equipment, desks, safes, cabinets, books, etc. The value of such items shall be carried in the inventory at the purchase cost. The charter school shall establish a capitalization policy that sets a dollar amount as a threshold to be used in determining which equipment items will be recorded.

#### Construction Work In Progress

Where construction work has not been completed in the current reporting calendar year, the cost of the project shall be carried as "construction work in progress." When the project is completed, it will be placed on the inventory applicable to the assigned asset accounts.

### **Manual Reference: Part 10**

#### Asset Ownership

Assets purchased by a charter school must be titled appropriately in the name of the charter school.

#### ***Audit Procedures:***

Determine that the charter school has maintained an up to date capital asset inventory.

Verify that the charter school maintained its capital asset inventory on a prescribed or approved form.

Verify that all assets purchased by the charter school were titled in the name of the charter school.

## COMPLIANCE STEP: *RECEIPTS AND DEPOSITS*

### ***Manual Reference: Part 8***

#### RECEIPTS AND DEPOSIT

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.

### ***Manual Reference: Various from Part 10***

#### Fees

Fees shall only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions.

#### Fund Sources and Uses

Sources and uses of funds shall be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement.

#### ***Audit Procedures:***

Select receipts of public funds (See Required Amount Testing) and perform the following:

Were receipts issued at the time of transaction, when cash or check was received?

Were daily deposits made?

Determine if the classification on the receipt (i.e., cash, check, etc.) agrees with the actual amounts of cash, checks, etc., shown on the deposit slip to insure deposits are made in the same form received. Further review is required if discrepancies exist (i.e., check for cash substitution).

Determine that the collection is properly receipted into the proper fund based on the source of the collection.

If any receipts selected are fees established by the charter school board, determine that the fees are collected in accordance with a fee schedule adopted by the charter school board.

#### ***Required Amount of Testing:***

A minimum of 25 receipts shall be tested when no deviations are expected to be found. This would be a charter school with a planned or supported assessed level of control risk as low.

A minimum of 40 receipts shall be tested when 1 deviation is expected to be found. This would be a charter school with a planned or supported assessed level of control risk as moderate.

A minimum of 60 receipts shall be tested when three or more deviations are expected to be found. This would be a charter school with a planned or supported assessed level of control risk as high.

An ARC is mandatory if there is a 10 percent or greater error rate with any one of the attributes tested.

## COMPLIANCE STEP: VENDOR DISBURSEMENTS – COMPLIANCE TESTING

### **Manual References: Part 8 and Part 2**

#### PURCHASING AND EXPENDITURES

The charter school must establish procedures for the initiation, approval, and use of purchase requisitions and purchase orders. The procedures must include limits on approval of purchase orders after the purchase to emergency situations and all blanket purchases must have a fixed monetary limit. Upon receipt of the goods or services a charter school employee must verify the condition, quantity, and quality of the goods or services prior to payment of the invoice/bill/contract. Supporting documentation, such as invoices, shall be compared to purchase orders to ensure the prices, quantities, etc. are correct prior to payment.

#### PURCHASE ORDER (General Form 98)

The Purchase Order (General Form 98) form in triplicate is prescribed for the placing of orders for school supplies, materials, goods and equipment. The original (with a claim blank) is forwarded to the vendor, the duplicate is filed in the ordering department or school to be used as a receiving copy and the triplicate is retained in the file of the business office as a public record. The purchase order shall show the amount of the purchase, if known, or if not known an estimate shall be made. The actual or estimated amount shall be posted as an encumbrance to the Ledger of Appropriations, Allotments, Encumbrances, Disbursements and Balances (Form 512) in the "Value of Purchase Orders Encumbered" column and added to the amount in the "Value of Purchase Orders Outstanding" column of the Expenditure Account concerned and carried in accumulated totals to the corresponding column of the program account.

#### ACCOUNTS PAYABLE VOUCHER (FORM 523)

The Accounts Payable Voucher (Form 523) is designed to replace Claim Form 505. The form 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.

### **Manual References: Various from Part 10**

#### Advance Payments

Compensation and any other payments for goods and services shall not be paid in advance of receipt of the goods or services unless specifically authorized by statute. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee.

#### Cash Disbursements

Disbursements, other than properly authorized petty cash disbursements, shall be by check or warrant, not by cash or other methods unless specifically authorized by statute, federal or state rule.

#### Contracts

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.

#### Donations

Public funds must not be donated or given to other organizations, individuals, or charter schools unless specifically authorized by statute.

### Expense Reimbursement Itemization

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.

### Personal Expenses

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.

### Penalties, Interest, and Other Charges

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.

### Sales Tax

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 shall 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.

Lodging for individuals in hotels and motels is not exempt from state sales tax. Therefore, reimbursements for lodging in approved travel status may include state sales tax. However, it shall be kept in mind that claims for all such reimbursements must be supported by a fully itemized receipt showing date(s) of lodging, the name(s) of the person(s) occupying the room and the amount paid.

Governmental funds generally are exempt from the payment of sales tax on qualifying purchases. Respective tax agencies shall always be contacted concerning tax exemptions and payments.

### ***Audit Procedures:***

For selected vendor checks or Electronic Fund Transfers (EFTs) (see required minimum testing) perform the following:

- a. Determine if the voucher or attached invoice is adequately itemized.
- b. Check math accuracy.
- c. Determine if certified by the employee designated.
- d. Determine if approved by the approving board.
- e. If payment for a contractual service, is there a written contract? Retain written contract in the audit documentation. Compare to contract price, if applicable.
- f. Compare accounts payable voucher amount to supporting documentation and check amount, if applicable. Supporting documentation must be detailed, not just a statement or credit card slip.

- g. Determine that sales tax was not paid inappropriately; note that sales tax can be reimbursed for nonexempt purchases, including lodging.
- h. Verify that payment was not made in advance.
- i. Verify that payment was made timely, not incurring any late fees. If any penalties or interest are paid due to untimely payment, an ARC is required to be written detailing the amount of penalties and interest paid.
- j. Verify that payment was not made by cash.
- k. Determine that payment was not a donation.
- l. Determine that expense was not a personal expense, but was attributable to the operation of the charter school.

***Required Amount of Testing:***

A minimum of 25 vendor disbursements shall be tested when no deviations are expected to be found. This would be a charter school with a planned or supported assessed level of control risk as low.

A minimum of 40 disbursements shall be tested when 1 deviation is expected to be found. This would be a charter school with a planned or supported assessed level of control risk as moderate.

A minimum of 60 receipts disbursements shall be tested when three or more deviations are expected to be found. This would be a charter school with a planned or supported assessed level of control risk as high.

An ARC is mandatory if there is a 10 percent or greater error rate with any one of the attributes tested.

<b>COMPLIANCE STEP: SPECIFIC TESTING ON TRAVEL CLAIMS</b>
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***Manual Reference: Part 8***

TRAVEL AND MEETINGS

The charter school must establish a travel policy that details the procedures for an employee to get approval to attend meetings and conferences; must detail when an employee is in travel status; must detail the procedures for employees to get reimbursement for travel expenses; and the policy must establish a reasonable mileage reimbursement rate.

If the charter school authorizes travel advances, it must have a policy identifying the individual who may receive an advance, the use and purpose of the advance, the information that is required to account for the advance, a reconciliation of actual expenses (upon return for the trip) versus amounts advanced, and the refunding of any excess money that was in advanced in a timely manner.

The charter school shall only reimburse employees for travel expenses when appropriate claims are submitted. The claims must be in writing, itemized, and supported with original receipts, and documentation that the trip was for charter school business.

The charter school must establish a policy which describes the circumstances when it is appropriate for providing food and beverages at meetings, training, and conferences sponsored by the charter school.

**Manual Reference: Part 10**

Commuting Mileage

Reimbursed mileage shall not include travel to and from the employee's home and the charter school building in which he works, unless otherwise authorized by statute.

***Audit Procedures:***

Determine if the charter school has adopted a travel policy. Obtain a copy of the travel policy in the audit documentation.

If the travel policy allows for advances, test advances provided (number to be determined by examiner) for proper handling.

Perform a test (number to be determined by examiner) of travel reimbursements to determine that appropriate claims have been submitted.

Claims are in writing.

Claims are properly itemized.

Claims are supported by original receipts.

Proper documentation was provided that the trip was for charter school business.

For mileage reimbursements, if applicable, determine that mileage does not include travel to and from the employee's home or building of employment. Also determine that the mileage rate of pay agrees to the charter school's travel policy.

**COMPLIANCE STEP – REVIEW CREDIT CARD POLICY, PROCEDURES, AND DISBURSEMENTS**

**Manual Reference: Part 10**

Credit Cards

The State Board of Accounts will not take exception to the use of credit cards by a charter school provided the following criteria are observed:

1. The charter school must authorize credit card use through an appropriate policy.
2. Issuance and use shall be handled by an employee designated by the charter school.
3. The purposes for which the credit card may be used must be specifically stated in the policy.
4. When the purpose for which the credit card has been issued has been accomplished, the card must be returned to the custody of the designated employee.
5. The designated employee must maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
6. Credit cards shall not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track expenses to provide the charter school and other administration with timely and accurate accounting information and monitoring of the accounting system.

7. Payment shall not be made on the basis of a statement or a credit card slip only. Procedures for payments shall be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee shall be the responsibility of that officer or employee.
8. If properly authorized, an annual fee may be paid.

***Audit Procedures:***

Determine if the following criteria for the use of credit cards have been observed:

- a. Charter School has appropriately adopted a credit card policy. Retain a copy of the policy in the audit documentation.
- b. Issuance and use is handled by an official or employee designated by the charter school.
- c. The purpose for which the credit card may be used is specifically stated in the policy
- d. When the purpose for which the card has been issued has been accomplished, the card is returned to the custody of the responsible official.
- e. The designated responsible official or employee maintains an accounting system or log which includes the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, and the date the card is issued and returned.
- f. Credit cards are not used to bypass the accounting system.
- g. Payment is not made on the basis of a statement or a credit card slip only. Procedures for payments are processed the same as for any other claim. Supporting documents such as paid bills and receipts are available. Any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee is the responsibility of that officer or employee.
- h. Annual fees, if applicable, must be authorized by the management of the charter school and/or organizer.
- i. Required minimum testing, select a minimum of 5 credit card payments for testing, if any interest or penalties are paid due to untimely payment, an ARC is required to be written detailing the amount of penalties and interest paid.

<b>COMPLIANCE STEP – REVIEW COMPLIANCE WITH PUBLIC WORKS LAWS</b>
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***Manual Reference: Part 16***

GENERAL PROVISIONS

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.

***Audit Procedures:***

For projects that meet the definition of public works (IC 36-1-12), test the following:

Were Specifications for the project appropriately prepared?

Was the bid sought through the proper advertisement?  
Was the bid Form 96 used?  
Was contract awarded pursuant to IC 36-1-12?  
Were financial statements provided with the bid?  
Escrow contract for retainage per IC 36-1-12-14 is intact?  
A performance bond was included with the bid documents?  
A non-collusion affidavit was provided with the bid documents?  
Any change orders were approved and not greater than 20 percent of the original contract amount?

An ARC is required to be written if there is any noncompliance identified with the public works laws.

## COMPLIANCE STEP – REVIEW PAYROLL POLICIES AND TEST FOR PAYROLL COMPLIANCE

**Manual Reference: Part 8**

### PAYROLL PROCEDURES

The charter school must establish a payroll schedule that details amounts paid annually, biweekly, hourly, etc. for all employees that are not included on a labor contract. The charter school must establish written employment policies that cover all aspects of benefits provided including sick days, vacation days, personal days, etc. The policy must cover how many days are accrued, when the days are accrued, when any unused days are lost, etc.

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. The organizer must designate an employee to review supporting documentation to ensure payments are accurate and due the employee for services rendered.

The charter school must establish a system to document and track paid leave activity. The system must be able to track the accrual of earned leave time and the use of leave time each pay period and throughout the year. The charter school must document and provide the organizer in writing all changes to pay amounts or benefits provided prior to the changes going in effect.

**Manual References: Various from Part 10**

### Advance Payments

Compensation and any other payments for goods and services shall not be paid in advance of receipt of the goods or services unless specifically authorized by statute. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee.

### Compensation

All compensation and benefits paid to employees must be included in the at-will employment agreement or letter, or labor contract or salary schedule, unless otherwise authorized by statute. All compensation and benefits paid to employees must be included in the labor contract or salary schedule unless otherwise authorized by statute. Compensation must be made in a manner that will facilitate compliance with state and federal reporting requirements.

Payments for services provided by an organization shall go directly to the organization and not to an individual employee of the organization. All payments for services must be supported by a written contract.

### Fund Sources and Uses

Sources and uses of funds shall be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement.

### Leave and Overtime Policy

Each charter school must adopt a written policy regarding the accrual and use of leave time and compensatory time and the payment of overtime. Negotiated labor contracts approved by the charter school would be considered as written policy. The policy must conform to the requirements of all state and federal regulatory agencies.

### Severance Pay

Unless specifically authorized by statute, severance pay, or other payments to employees upon separation from employment, must be supported by the written opinion of the attorney for the charter school stating that the payments are in accordance with all federal laws and regulations and state laws, as applicable.

### Suspension with Pay

Suspension with pay must be supported by the written opinion of the attorney for the charter school stating that the suspension is in accordance with all federal laws and regulations, and state laws, as applicable.

### ***Audit Procedures:***

1. Verify that the charter school organizer and/or management of the charter school has appropriately established a payroll schedule or has labor contracts on file for employees.
2. Review employment policies, including leave and overtime policy; retain policies as audit documentation in the working papers.
3. For those charters that transfer money to an Education Management Organization (EMO) for employees which are paid by the EMO, verify that the charter school has adequate supporting documentation for the payroll transfer that ensures that payments are made only for services rendered at the charter school.
4. Select employees (See Required Minimum Testing) and test for the following:
  - a. The amount and rate of pay paid for the employee agrees with the payroll schedule and/or labor contract.
  - b. Attendance/Time Records were maintained for the employee.
  - c. Pay has been properly posted to the employee's earnings record.
  - d. Employee's earnings record agrees to the Form W-2 for the year.
  - e. Payment was made from the proper fund. In the case where an employee's salary is paid from multiple funds, the charter school shall keep records to ensure that the employee's time is allocated appropriately across funds for payment.
  - f. Verify that the employee is not being paid in advance of hours worked.

5. Inquire to school officials if anyone has received any severance pay or suspension with pay. If applicable, verify that a written opinion was received by the charter school attorney, stating that the payments are in accordance with all federal laws and regulations, and state laws, as applicable. This written opinion shall be received prior to providing the pay.

**Required Amount of Testing:**

A minimum of 15 employees shall be tested when no deviations are expected to be found. This would be a charter school with a planned or supported assessed level of control risk as low.

A minimum of 25 employees shall be tested when 1 deviation is expected to be found. This would be a charter school with a planned or supported assessed level of control risk as moderate.

A minimum of 40 employees shall be tested when three or more deviations are expected to be found. This would be a charter school with a planned or supported assessed level of control risk as high.

An ARC is mandatory if there is a 10 percent or greater error rate with any one of the attributes tested.

**COMPLIANCE STEP – AMOUNTS WITHHELD**

***Manual Reference: Various references from Part 10***

Federal and State Regulations

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 shall be directed to these agencies.

Penalties, Interest, and Other Charges

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.

***Audit Procedures:***

For amounts withheld perform the following:

Determine that disbursements of withholdings were to the proper authority.

Determine if any late payments and/or interest charges were assessed. If late payments and/or interest charges were assessed an ARC is required to be written detailing the amount of penalties and interest paid.

## COMPLIANCE STEP – TEXTBOOK RENTAL PROCEDURES AND USE OF TBR-2

### **Manual Reference: Part 2**

#### OFFICIAL RECEIPT - INDIVIDUAL TEXTBOOK RENTAL LIST (Form TBR-2, Revised 1997)

This form is to be pre-numbered and printed in triplicate. The form, one set for each student, is to be prepared when textbooks and related materials are issued to the student. The form provides for the date the textbooks were issued, the name of the student and the total fee collected. The completed form shall be signed by the issuing officer who could be the treasurer or someone designated by the treasurer to issue the textbooks and collect the rental fees. If the volume of transactions for grades with a fixed list (applicable to all students) of books and materials is great enough to demand it, a copy of the printed list may be attached to the TBR-2 form and the form processed with a reference to such attached list instead of further itemization.

The original of Form TBR-2 is to be given the payer (student or parent). The duplicate is to be retained by the issuing officer and the triplicate is to remain intact in the book. The duplicate, together with rental fees collected, must be transmitted daily to the treasurer. The treasurer may direct the issuing officer to deposit all fees collected each day and submit an acknowledged, duplicate deposit slip with duplicate copies of Form TBR-2. The treasurer may also require the issuing officer to submit a summary or recap sheet of all fees collected by grade or other designated categories. If this is done, the total of the summary or recap sheet must agree with the amount on the duplicate deposit sheet as well as the total of all TBR-2 forms submitted for the day. All duplicates of Form TBR-2 shall be filed alphabetically, by student last names, in the office of the treasurer for audit purposes. A separate TBR-2 shall be issued each time a payment is made.

The triplicate copy of Form TBR-2 with book list attached, if any, must be kept in the files of the issuing officer until the close of the semester. When the students return rented textbooks, the issuing officer must check the returned books to the list of those issued as shown on the copy of the files. The student shall then pay for all textbooks damaged or not returned in accordance with the policy adopted by the school officials. All money received for lost or damaged books together with the triplicate books of Form TBR-2 containing proper notations must be remitted to the treasurer. The treasurer will file the triplicate copy (complete books).

Duplicate and triplicates will remain intact in the book if the issuing officer is the treasurer.

The original copy of Form TBR-2 shall be given to the student if the student pays the fee. The copy serves as a receipt for the rental fees collected from the student. When book lists are used in lieu of itemization on the form (all students using the same books), a copy of the appropriate list shall be attached to the student's copy and one copy shall be retained for audit.

When issuing officers other than the treasurer are designated to issue books and collect rental fees, the treasurer shall issue an official receipt to the issuing officer each time the issuing officer transmits the money or submits a certified deposit slip, to cover such fees, to said treasurer. Receipts shall be issued and recorded at the time of the transaction; i.e., when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment.

### **Manual Reference: Various references from Part 10**

#### Bad Debts and Uncollectible Accounts

The charter school must have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances.

Documentation must exist for all efforts made by the charter school to collect amounts owed prior to any write-offs.

Officials or employees authorizing, directing or executing write-offs or adjustments to records which are not documented or warranted may be held personally responsible.

#### Collection of Amounts Due

Charter schools have a responsibility to collect amounts owed to the charter school pursuant to procedures authorized by statute.

#### ***Audit Procedures:***

Verify that the school is properly using Textbook Rental Form TBR 2 (1997). Verify that a new TBR-2 is being issued with each payment, if applicable.

Review procedures for collection of partial payments. Determine if a policy for bad debt or uncollectible accounts has been established as required. Retain policy in audit documentation.

Review procedures for pursuing delinquencies (policies, concern letter, small claims court, collection agencies). Has the charter school fulfilled their responsibility to collect amounts owed to the charter school?

Perform a test (number to be determined by examiner) of TBR-2 receipts at different collection points, if applicable, and determine that the classification on the receipt (i.e., cash, check, etc.) agrees with the actual amounts of cash, checks, etc., shown on the deposit slip to ensure deposits are made in the same form received. Further review is required if discrepancies exist, (i.e., check for cash substitution).

<b>COMPLIANCE STEP – REVIEW OF TEXTBOOK RENTAL, SCHOOL LUNCH FORMS, AND TEXTBOOK REIMBURSEMENT REPORT</b>
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#### ***Manual Reference: Part 2 and Part 17***

#### APPLICATION FOR FREE MEALS OR REDUCED PRICE MEALS AND OTHER BENEFITS (Form 521)

Forms used in determining eligibility are distributed by the Department of Education.

#### APPLICATION FOR FREE MILK AND OTHER BENEFITS (Form 522)

Forms used in determining eligibility are distributed by the Department of Education.

#### SCHOOL FOOD DAILY RECORD OF CASH RECEIVED (SF-2)

School Food Form SF-2, Daily Record of Cash Received, categorizes cash receipts on a daily basis and must be totaled monthly.

#### SCHOOL FOOD DAILY RECORD OF MEALS/MILK SERVED (SF-2A)

School Food Form SF-2A, Daily Record of Meals/Milk Served, records daily the number of meals/milk served and must be totaled monthly and will be a source of information for preparation of the monthly claim for federal reimbursement.

#### SCHOOL FOOD, CASH DISBURSEMENTS AND FUND BALANCE (SF-3)

School Food Form SF-3, Cash Disbursements and Fund Balance, is used to record on a daily basis the disbursements of the School Food Service Program and together with the SF-2 acts as the source information for the calculation of the fund balance as shown on the SF-3.

**Manual Reference: Part 8**

TEXTBOOK REIMBURSEMENT REPORT

Charter schools must provide accurate information to the Indiana Department of Education pertaining to the number of students that received free/reduced textbooks. If a variance occurs between the charter school records and the report provided the IDOE, then written communication must also request a determination if any increases or decreases in funding will result to the charter school because of the variance.

**Manual Reference: Part 10**

Federal and State Agencies - Compliance Requirements

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.

**Manual Reference: Part 17**

SCHOOL FOOD VERIFICATIONS OF ELIGIBILITY

We understand situations exist which could be a concern regarding charter schools test-checking the validity of information provided on the applications for free and reduced-priced meals. The results of test checks, are to be reported to the Indiana Department of Education in accordance with 7CFR 245.6(a). Some tests note a very high incidence of errors or inaccurate applications.

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.

**Audit Procedures:**

*Review Child Nutrition Division Form Claim for Reimbursement – School Lunch Reports Required to be filed monthly:*

1. Review the *Claim for Reimbursement* state reports for timely submission and completeness (due within 60 days from the last day in the month of the claim).
2. Perform a test of actual meals served to the number of meals shown on the CND-1. The number of meals served shall be included on the SF 2, 2A, and 3 daily forms and shall reconcile to the monthly *Claim for Reimbursement*. The examiner can choose the number of *Claim for Reimbursements* to test.

*Review Forms 521 and 522 for proper eligibility determination and Textbook Reimbursement Report:*

1. Test free and reduced meals claimed on *Claim for Reimbursements* to the total number of approved applications (521 and 522) to ensure the over claiming of meal reimbursement does not exist.
2. Verify Number of Students Listed as qualified to receive free and reduced lunch to the number of free and reduced applications.
3. Use the eligibility guidelines to, test a minimum of 5 applications and ensure that the proper determinations of free, reduced, or paid categories were made.

4. Ensure the Textbook Reimbursement Report was filed timely (November 1<sup>st</sup>).
5. Test that proper verification was made by the charter school, if verification resulted in a large number of errors, did the charter school receive a written opinion from the Indiana Department of Education on the proper corrective action?

#### **COMPLIANCE STEP – REVIEW PREPAID ACCOUNTS – SCHOOL LUNCH**

***Manual Reference: Part 17***

##### SCHOOL FOOD SYSTEMS - PREPAID FOOD

Subsidiary records by student must be routinely reconciled to the cash balance and at month end. The School Food Prescribed Forms and any approved computerized Forms will be required to be maintained in the following manner to accurately account for prepaid items.

##### ***Audit Procedure:***

If the charter school allows for prepaid accounts for school lunch, ensure that the charter school has a subsidiary record by student in which it reconciles at least monthly to the cash balance of the prepaid account.

#### **COMPLIANCE STEP – REVIEW INTERNAL CONTROLS OVER EDUCATIONAL MANAGEMENT COMPANY CONTRACT AND PROCEDURES**

***Manual Reference: Part 8***

##### INTRODUCTION

Charter schools shall 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. Internal control touches all activities of the school, extending beyond the accounting and financial functions. It is important to note that even the best internal controls may breakdown due to management override, collusion, mistake, faulty judgment, or cost constraints. The following internal control related compliance guidelines provide required controls that a charter school must implement and maintain.

##### ADMINISTRATION

The charter school must establish minimum policies and procedures concerning operations.

The charter school must engage in active oversight by routinely receiving and discussing financial reports from the organizer.

The charter school administrators must be cognizant of their duties of care, loyalty, and obedience. The duty of care requires administrators to be familiar with the charter school's finances and activities and to participate regularly in its operations. Duty of loyalty requires that any conflict of interest, real or possible, always be disclosed in advance of being employed and when they arise. A charter school has a duty of obedience to insure that the school complies with applicable laws and regulations and its internal policies and procedures.

**Manual Reference: Part 10**

Internal Controls

Charter schools shall have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making.

***Audit Procedures:***

Does the charter school organizer contract with an Educational Management Company? If so, retain the contract in the audit documentation.

Review and describe in a narrative form the relationship between the Education Management Company and the charter school.

Review controls in place by the organizer and/or charter school that provides assurance that the management company is completing the duties as outlined in the contract and that the charter school is only paying for services in which the management company is providing for their specific school. Determine that the controls are effective and that the organizer has maintained control over the fiscal duties.

**COMPLIANCE STEP – REVIEW EXTRA-CURRICULAR ACTIVITIES**

IC 20-41 does not allow for charter schools to create extra-curricular accounts. All monies received and disbursed for extra-curricular activities would need to be included and processed through the charter school records.

***Audit Procedures:***

If the charter school has extra-curricular activities ensure that the money received and disbursed for those activities are accounted for in the funds of the charter school. If extra-curricular activities are accounted for in separate accounts that are not maintained on the charter school's financial records, an ARC shall be written.

**COMPLIANCE STEP – REVIEW TICKET SALE PROCEDURES**

**Manual Reference: Part 8**

ATHLETIC AND SOCIAL EVENTS

Serially pre-numbered tickets by the printing supplier shall be used for all athletic and other social activities and events for which admission is charged. Part of the pre-numbered ticket must be given to the person paying for the ticket upon admission to the event. The other part of the ticket (which shall also be pre-numbered, referred to as the stub) must be retained. All tickets (unused tickets and stubs) shall be retained for audit.

Tickets for each price group must be different colors and/or different in their series number.

Ticket sales conducted by any activity shall be accounted for as follows:

The designated charter school employee shall be responsible for the proper accounting for all tickets and must keep a record of the number purchased, the number issued for sale, and the number returned. The designee must see that proper accounting is made for the cash received from those sold. All tickets shall be pre-numbered, with a different ticket color and numerical series for each price group. When cash for ticket sales is deposited with the charter school, the charter school's receipt issued therefore must show the number of tickets issued to the seller, the number returned unsold and the balance remitted in cash. All tickets (including free or reduced) must be listed and accounted for on the SA-4 Ticket Sales Form.

***Manual Reference: Part 10***

**Deposit of Accountable Items**

Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the charter school.

The deposit ticket or attached documentation must provide a detailed listing of the deposit, which includes at a minimum, check numbers and corresponding names of the payors.

***Audit Procedures:***

If extra-curricular events are held, verify that pre-numbered tickets and ticket sale reports (Form SA-4) are used.

Ticket sale reports shall be tested (number to be determined by examiner) to ensure the following:

The charter school's receipt of monies agrees to the ticket sales reports.

Monies were deposited daily.

All tickets are accounted for on the SA-4 Ticket Sales Form.

## EXHIBIT B

### **AUDIT RESULTS AND COMMENTS**

Audit Results and Comments (ARC) are used by the State Board of Accounts as the method of transmitting, for the public record, significant comments to the management of a governmental unit and to the general public. These comments shall be limited to addressing noncompliance with state statutes, noncompliance with uniform compliance guidelines issued by the State Board of Accounts, or the detection of errors or irregularities identified by the private examiner during the audit process. An ARC shall clearly identify the detailed factual description of noncompliance. The ARC shall also include the proper criteria established by the Indiana Code and Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools used to determine the noncompliance.

These guidelines are designed to assist the private examiners in determining when to report, in a supplemental report, instances of noncompliance discovered during the audit. These are only guidelines. If a private examiner identifies any instances of noncompliance they feel, based on their professional judgment, need to be reported, they shall report those instances of noncompliance in an ARC.

The private examiner shall exercise sound professional judgment in determining if and when an issue of noncompliance rises to the level of becoming a written ARC. In instances where written ARCs are prepared, they shall be presented in a separate supplemental report. The financial audit report shall include a reference to any other reports issued for the charter school for the same audit period.

The following instances of noncompliance are considered significant enough to warrant a mandatory ARC in the supplemental report:

1. Receipts and Deposits - if there is a 10 percent or greater error rate in any one of the attributes tested.
2. Vendor Disbursements - if there is a 10 percent or greater error rate in any one of the attributes tested.
3. Payroll Disbursements - if there is a 10 percent or greater error rate in any one of the attributes tested.
4. Monthly Reconcilements - Failure to comply with this requirement.
5. Bonds - Failure to establish bonded individuals or obtain required bonds in accordance with the Uniform Compliance Guidelines.
6. Public Works - Failure to comply with the Public Works Law when applicable.
7. Penalties and interest paid on late payments.

Other instances of noncompliance noted during the audit shall be evaluated and the significance of such noncompliance shall be determined. For example, if the charter school failed to record one or more financial transaction in the records, the private examiner shall evaluate the significance of the transactions not recorded. Those instances of noncompliance determined by the private examiner to be minor issues will be communicated to management and the State Board of Accounts in a management letter. This management letter is not a public document but is a method for reporting minor issues to the charter school. Those instances of noncompliance determined by the private examiner to be significant items will be reported in an ARC in the supplemental report.

ARCs and their supporting documentation will be reviewed by the State Board of Accounts prior to the issuance of the supplemental report. After review, the State Board of Accounts reserves the right to perform additional audit work if deemed necessary by the State Examiner.

If a supplemental report prepared by a private examiner identifies areas of malfeasance, misfeasance, or nonfeasance that the State Examiner deems necessary to certify to the Attorney General and the County Prosecutor, the State Board of Accounts will issue a report identifying those areas of malfeasance, misfeasance, or nonfeasance. If necessary, a request for repayment will be made in that report.

#### Format of the Audit Result and Comment

ARC titles shall be clear and state the problem.

The first section of the ARC shall contain a factual and detailed description of the noncompliance. The private examiner shall include details that clearly indicate the work performed and conclusions reached to avoid any confusion on the part of the reader. All instances of noncompliance that are similar in nature shall be reported together in one ARC.

The second section shall cite and quote an applicable law or uniform compliance guideline. When quoting a uniform compliance guideline, the chapter in the manual or the volume of the bulletin must be cited. If the uniform compliance guideline refers to compliance with a regulation, contract, ordinance, attorney general's opinion, etc., the applicable portion of the authoritative material must also be quoted.

Uniform compliance guidelines manuals and applicable bulletins can be found at [www.in.gov/sboa](http://www.in.gov/sboa).

ARCs shall be organized in the supplemental report by severity. The most severe ARCs shall appear first, followed by those comments that are less severe.

Examples of previously issued ARCs can be viewed at [www.in.gov/sboa/resources/reports/audit](http://www.in.gov/sboa/resources/reports/audit).

#### Audit documentation necessary to support the Audit Result and Comment

Audit documentation is the written record of the audit procedures applied, evidence obtained and conclusions reached that support the private examiners' performance of compliance testing.

Any audit documentation used to support ARCs shall specifically state the following:

- The description of documents reviewed.
- Specific items such as the receipt number, check number, date, etc., and/or any other description that identified the document tested.
- The names of personnel inquiries were made to.
- A description of the compliance requirements tested.
- A description of the procedures used to determine the selection of items to be tested.
- The compliance attributes tested.
- The results of the testing including, but not limited to, the number of instances of noncompliance found and whether the instances of noncompliance warrant an ARC in the supplemental report.

Any instance of noncompliance shall be clearly documented by the private examiners. The audit documentation shall be detailed enough that another private examiner could reperform the same procedures and reach the same conclusion.

If the private examiner discovers fraud or other questionable transactions, a copy of the original document shall be retained.

EXHIBIT C

SUPPLEMENTAL AUDIT REPORT

OF

(Insert Name of Charter School)

(Insert Name of County Where Charter School is Located) COUNTY, INDIANA

July 1, 20XX to June 30, 20XX

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SCHOOL OFFICIALS

Office

Official

Term

(Insert Position Responsible for Financial Recording)

(Insert Position Responsible for Management of School)

President of the  
Charter School Board

TO: THE OFFICIALS OF (Insert Name of Charter School)

We have audited the records of the (Insert Name of Charter School) for the period from July 1, 20XX to June 30, 20XX, 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 (Insert Name of Charter School) for the year 20XX.

(Insert Name of CPA Firm)

(Insert Report Date)

(Insert Name of Charter School)  
(insert Name of County Where Charter School is Located) COUNTY  
AUDIT RESULTS AND COMMENTS

(Insert Name of Charter School)  
(Insert Name of County Where Charter School is Located) COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on \_\_, with \_\_, \_\_; \_\_, \_\_; and \_\_, \_\_. The officials concurred with our audit findings.

The contents of this report were discussed on \_\_, with \_\_, \_\_; \_\_, \_\_; and \_\_, \_\_.

The contents of this report were discussed on \_\_, with \_\_, \_\_; \_\_, \_\_; and \_\_, \_\_. The Official Response has been made a part of this report and may be found on page(s) \_\_.

EXHIBIT D

**REPORTING REQUIREMENTS FOR THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

First and foremost, this schedule must meet the requirements set forth in Uniform Guidance. Additionally, the schedule shall be formatted in accordance with the following requirements.

The table below shows the required order of presentation within the schedule.

FEDERAL AGENCIES:		In ascending numerical order by Agency Number (the first two digits of the CFDA number)
WITHIN THE AGENCY:	Clusters first Direct grants second Pass-through programs third Programs without CFDA numbers fourth	In ascending numerical order by Agency program number, (the last three digits of the CFDA number)
WITHIN THE PROGRAM:	Project Number order, oldest one first (First In First Out)	

Note: The amount of the awards expended is NOT a factor in the sequence of programs.

If the financial statements are prepared on the cash basis of accounting, the following requirements apply. For reimbursement grants, the schedule shall report reimbursements in the period in which the reimbursement is received. For advancement grants, the schedule shall report disbursement of federal funds in the period in which the disbursement is made.

The Uniform Guidance removes the previous flexibility to report the following items in the Notes to the Schedule of Expenditures of Federal Awards. They are now required to be presented on the face of the Schedule of Expenditures of Federal Awards.

- a. Total amounts provided to subrecipients from each federal program.
- b. The total federal awards expended for loan or loan guarantee programs.
- c. Noncash awards (for example free rent, food commodities, and donated property and the value of insurance in effect).

The Uniform Guidance requires that the Schedule of Expenditures of Federal Awards include a total for each cluster of programs.

This schedule shall be accompanied by Notes to the Schedule of Expenditures of Federal Awards to support the schedule in accordance with the requirements of Uniform Guidance. These notes shall include the following:

- a. Basis of presentation note. This note shall disclose the basis of presentation of the schedule.
- b. Summary of Significant Accounting Principles note. This note shall disclose when and how amounts are recognized on the schedule.
- c. Loans outstanding note. This note shall disclose the amount of any loans outstanding when there are continuing compliance requirements associated with the loan.

- d. Information about whether or not the auditee elected to use the 10-percent de minimus indirect cost rate.
- e. Amount of insurance in effect during the year note. This note shall disclose amounts of insurance in effect associated with a federal program.

Below is an example of the required format for the Schedule of Expenditures of Federal Awards and notes. It is suggested that appropriately labelled columns be added if the entity has amounts provided to subrecipients, federal awards expended for loan or loan guarantee programs, or noncash awards to report.

NAME of CHARTER SCHOOL  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended June 30, 20XX

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 20XX
<u>ENTER FEDERAL GRANTOR AGENCY HERE</u>			
Enter pass-through entity or type "Direct grant"			
Enter cluster in this cell (If no clusters, delete this column and row)			
Enter program in this cell			\$ -
Enter project in this cell			-
			-
			-
			-
			-
Total for program			-
Enter program in this cell			-
Enter project in this cell			-
			-
			-
			-
Total for program			-
Enter program in this cell			-
Enter project in this cell			-
			-
			-
			-
Total for program			-
Total for cluster (If this is not a cluster delete this and above row.)			-
Enter pass-through entity or type "Direct grant"			
Enter program in this cell			-
Enter project in this cell			-
			-
			-
			-
Total for program			-
Total for federal grantor agency			-
<u>ENTER FEDERAL GRANTOR AGENCY HERE</u>			
Enter pass-through entity or type "Direct grant"			
Enter cluster in this cell (If no clusters, delete this column and row)			
Enter program in this cell			-
Enter project in this cell			-
			-
			-
			-
Total for program			-



**Note 4. Amount of Insurance in Effect During the Year**

The *Name of Charter School* had the following amounts of insurance in effect during the year for the year(s) ending June 30, 20XX. These amounts of insurance in effect are also included in the federal expenditures presented in the schedule.

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>20XX</u>	<u>20XX</u>
		\$	\$

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EXHIBIT E



