

School District of the Chathams
County of Morris, New Jersey
MANAGEMENT REPORT ON ADMINISTRATIVE FINDINGS—
FINANCIAL, COMPLIANCE AND PERFORMANCE
June 30, 2012

Auditor's Management Report on Administrative Findings–
Financial, Compliance and Performance

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INDEPENDENT AUDITORS' REPORT

Honorable President and Members
of the Board of Education
School District of the Chathams
County of Morris, New Jersey

We have audited, in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Board of Education of the School District of the Chathams in the County of Morris for the year ended June 30, 2012, and have issued our report thereon dated November 27, 2012.

As part of our audit, we performed procedures required by the New Jersey Department of Education, and the findings and results thereof are disclosed on the following pages, as listed in the accompanying table of contents.

This report is intended solely for the information of the School District of the Chathams management and Board members and the New Jersey Department of Education. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads 'Scott A. Clelland'.

Scott A. Clelland
Licensed Public School Accountant
No. 1049

A handwritten signature in black ink that reads 'Wiss & Company'.

WISS & COMPANY, LLP

Iselin, New Jersey
November 27, 2012

ADMINISTRATIVE FINDINGS – FINANCIAL, COMPLIANCE AND PERFORMANCE

Scope of Audit

The audit covered the financial transactions of the Board Secretary/School Business Administrator and Treasurer of School Moneys, the activities of the Board of Education and the records of the various funds under the auspices of the Board of Education.

Administrative Practices and Procedures

Insurance

Fire insurance coverage was carried in the amounts as detailed on J-20, Insurance Schedule contained in the District's CAFR.

Official Bonds (*N.J.S.A.* 18A:17-26, 18A:17-32, 18A:13-13)

Name	Position	Amount
Peter Daquila	Business Administrator/Board Secretary	\$300,000
Kristin Kosky	Assistant Business Administrator 7/1/2011 through 3/31/2012)	\$ 50,000
Annette M. Wells	Treasurer of School Moneys	\$325,000

There is a Public Employees' Faithful Blanket Position Bond covering all other employees with coverage of \$100,000.

Tuition Charges

A comparison of tentative tuition charges and actual certified tuition charges was made. The District made a proper adjustment to the billings to sending Districts for the increase or decrease in per pupil costs in accordance with *N.J.A.C. 6A:23A-17.1(f)3*.

Financial Planning, Accounting and Reporting

Examination of Claims

An examination of claims paid during the period indicated no exceptions with respect to signatures, certification or supporting documentation.

ADMINISTRATIVE FINDINGS – FINANCIAL, COMPLIANCE AND PERFORMANCE

Payroll Account

The net salaries of all employees of the Board were deposited in the payroll account. Employees' payroll deductions and employer's share of fringe benefits were deposited in the payroll agency account.

All payrolls tested were approved by the Superintendent and were certified by the President of the Board and the Board Secretary/Business Administrator.

Salary withholdings were promptly remitted to the proper agencies, including health benefits withholding due to the general fund.

Payrolls were delivered to the Treasurer of School Monies with a warrant made to her order for the full amount of each payroll.

Our review of the payroll accounts did not reveal any exceptions.

Reserve for Encumbrances and Accounts Payable

A review of outstanding issued purchase orders was made as of June 30 for proper classification of orders as reserve for encumbrances and accounts payable and no exceptions were noted.

Classification of Expenditures

The coding of expenditures was tested for proper classification in accordance with *N.J.A.C. 6A:23A-16.2(f)* as part of our test of transactions of randomly selected expenditure items. We also reviewed the coding of all expenditures included in our compliance and single audit testing procedures. In addition to randomly selecting a test sample, our sample selected targeted administrative coding classifications to determine overall reliability and compliance with *N.J.A.C. 6A:23A-8.3*. As a result of the procedures performed, a transaction error rate of 0% overall was noted and no additional procedures were deemed necessary to test the propriety of expenditure classification.

Board Secretary's Records

Our review of the financial and accounting records maintained by the Board Secretary identified did not disclose any exceptions.

Treasurer's Records

Our review of the financial and accounting records maintained by the Treasurer revealed the following exception:

Finding:

During our testing of the bank reconciliations for the payroll accounts, we noted that the summer payroll checks for all four summer pay periods were printed and signed on the same date prior to year-end, and were listed as outstanding checks on the bank

ADMINISTRATIVE FINDINGS – FINANCIAL, COMPLIANCE AND PERFORMANCE

reconciliation. However, these checks were held until the actual pay dates for these four periods, at which time they were distributed to employees.

Recommendation:

While we recognize that the District's accounting system requires the summer payroll checks to be printed prior to the fiscal year end, we suggest that the Treasurer record an offsetting reconciling item on the bank reconciliation in order to ensure proper presentation of cash and liability balances at year-end.

Unemployment Compensation Insurance Trust Fund

The District has adopted the direct reimbursement method and has established an Unemployment Compensation Insurance Trust Fund. The financial transactions of this fund are reported in the Fiduciary Fund. No exceptions were noted.

Elementary and Secondary Education Act (E.S.E.A.)/Improving America's Schools Act (I.A.S.A.), as reauthorized by the No Child Left Behind (N.C.L.B.) Act of 2001

The E.S.E.A./N.C.L.B. financial exhibits are contained within the Special Revenue Section of the Comprehensive Annual Financial Report (CAFR). This section of the CAFR documents the financial position pertaining to the projects under the NCLB.

The study of compliance for E.S.E.A. indicated no areas of noncompliance and/or questionable costs.

Other Special Federal and/or State Projects

The District's special projects were approved as listed on Schedules A (K-3) and B (K-4) located in the CAFR.

Our audit of the federal and state funds on a test basis indicated that obligations and expenditures were incurred during the fiscal year or project period for which the project was approved.

The financial exhibits are contained within the Special Revenue section of the CAFR. This section of the CAFR documents the financial position pertaining to the aforementioned special projects. The study of compliance for the special projects indicated no areas of noncompliance. However, we noted the following:

Finding:

The District did meet the maintenance of effort requirement for its IDEIA grant program. However, we noted that certain amounts reported on the maintenance of effort worksheet did not match the District's approved 2011/2012 budget.

Recommendation:

We suggest that management review the amounts being reported in the maintenance of effort worksheet and ensure agreement with the budget, before final submission is made to the State.

ADMINISTRATIVE FINDINGS – FINANCIAL, COMPLIANCE AND PERFORMANCE

T.P.A.F. Reimbursement

Our audit procedures included a test of the biweekly reimbursement forms filed with the Department of Education for District employees who are members of the Teachers Pension and Annuity Fund. No exceptions were noted.

Nonpublic State Aid

Our review of the Nonpublic State Aid completion reports disclosed no exceptions.

School Purchasing Programs

Contracts and Agreements Requiring Advertisement for Bids

Effective July 1, 2010 and thereafter, the bid thresholds in accordance with *N.J.S.A.* 18A:18A-2 and *18A:18A-3(a)* are \$36,000 with a Qualified Purchasing Agent and \$26,000 without a Qualified Purchasing Agent, respectively. The law regulating the bidding for public school transportation contracts under *N.J.S.A.* 18A-39-3 is currently \$17,200. The District by resolution has appointed the School Business Administrator as a Qualified Purchasing Agent increasing the legal bid threshold to \$36,000.

The District board of education has the responsibility of determining whether the expenditures in any category will exceed the statutory thresholds within the contract year. Where question arises as to whether any contract or agreement might result in violation of the statute, the Solicitor's opinion should be sought before a commitment is made.

The results of our examination, performed on a test basis, indicated no exceptions in which individual payments, contracts, or agreements were made for the performance of any work or goods or services, in excess of the statutory thresholds where there had been no advertising for bids in accordance with the provision of *N.J.S.A.* 18A:18A-4, amended. However, we noted the following:

Finding:

During our testing of Local Public School Contracts law, we noted one instance in which the District made payments to a vendor in excess of the awarded bid amount, without a Board approved change order.

Recommendation:

We suggest that management review bid specifications and bid awards to ensure that the Board approved award amount is adequate to cover the services or goods required.

Resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services" per *N.J.S.A.* 18A:18A-5. However, we noted the following:

ADMINISTRATIVE FINDINGS – FINANCIAL, COMPLIANCE AND PERFORMANCE

Finding:

During our testing of professional services contracts, we noted one instance in which the District made payments to a professional service vendor without a written contract or agreement in place.

Recommendation:

We suggest that management ensure that a signed contract or agreement is in place prior to a vendor providing any services to the District.

School Food Service

The financial transactions and statistical records of the school food service fund were reviewed on a test basis and appear to be maintained in satisfactory condition. The financial accounts, meal count records and eligibility applications were reviewed on a test-check basis. No exceptions were noted.

Cash receipts and bank records were reviewed on a test basis for timely deposit, without exception.

The District utilizes a food service management company (FSMC) and is depositing and expending program monies in accordance with *N.J.S.A. 18A:17-34*, and *19-1* through *19-4.1*. Provisions of the FSMC contract / addendum were reviewed and audited. The FSMC contract includes an operating results provision which guarantees that the food service program will operate with a profit of \$50,000. The operating results provision was met.

Expenditures were separately recorded as food, labor and other costs. Vendor invoices were reviewed and costs verified on a test check basis. Inventory records on food supply items were currently maintained and properly applied in determining the cost of food and supplies used. No exceptions were noted.

The cash disbursements records reflected expenditures for program related goods and services. The appropriate revenue and expenditure records were maintained in order to substantiate the non-profit status of the school food service. Net cash resources did not exceed three months average expenditures.

The number of meals claimed for reimbursement was compared to sales and meal count records on a test check basis. As part of the claims review process the Edit Check Worksheet was completed. Reimbursement claims tested were submitted/certified in a timely manner.

Applications for free and reduced price meals were reviewed for completeness and accuracy on a test check basis. The number of free and reduced price meals claimed as served was compared to the number of valid applications on file, times the number of operating days, on a school by school basis. The free and reduced price meal policy is uniformly administered throughout the school system. The required verification procedures for free and reduced price applications were completed and available for review. No exceptions were noted.

ADMINISTRATIVE FINDINGS – FINANCIAL, COMPLIANCE AND PERFORMANCE

Timesheets were reviewed and labor costs verified on a test basis. Payroll records were maintained on all School Food Service employees authorized by the District. No exceptions were noted.

Food donation commodities were received and a separate inventory was maintained on a first-in, first-out basis. No exceptions were noted.

Exhibits reflecting Child Nutrition Program operations are included in the section entitled Enterprise Funds, Section B of the CAFR.

Student Body Activities

Our audit procedures included a test of items selected from cash receipts and disbursements for the student activity accounts and noted no exceptions.

Application for State School Aid

Our audit procedures included a test of information reported in the October 14, 2011 Application for State School Aid (A.S.S.A.) for on-roll, private schools for the handicapped, low-income and bilingual. We also performed a review of the District procedures related to its completion. The information on the A.S.S.A. was compared to the District workpapers with no exceptions. The information that was included on the workpapers was verified as presented in the Schedule of Audited Enrollments. The results of our procedures are presented in the Schedule of Audited Enrollments.

The District maintained workpapers on the prescribed state forms or their equivalent.

The District has adequate written procedures for the recording of student enrollment data.

Pupil Transportation

Our audit procedures included a test of on-roll status reported in the 2011-2012 District Report of Transported Resident Students (“DRTRS”). The information that was included on the DRTRS was verified to the DRTRS Eligibility Summary Report without exception. The results of our procedures are presented in the Schedule of Audited Enrollments.

Our procedures also included a review of transportation related contracts and purchases. Based on our review, the District complied with proper bidding procedures and award of contracts. The District did not purchase any buses during the 2011-2012 school year. We noted no exceptions in our review of transportation related purchases of goods and services.

ADMINISTRATIVE FINDINGS – FINANCIAL, COMPLIANCE AND PERFORMANCE

Facilities and Capital Assets

Our procedures included a review of the New Jersey Schools Development Authority (“NJSDA”) grant agreements for consistency with recording NJSDA revenue, transfer of local funds from the general fund or from the capital reserve account, and awarding of contracts for eligible facilities construction. No exceptions were noted.

Other Suggestions to Management

Capital Projects

During our audit of the Capital Projects Fund, we noted several projects which were partially funded by the NJSDA are now complete. We suggest the District continue to close out all projects and property reallocate available funds when the projects are determined to be complete to the funding source where the funds were originally provided.

Follow-up on Prior Year’s Findings

In accordance with *Government Auditing Standards*, our procedures included a review of all prior year recommendations. Corrective action had been taken on all prior year findings.

There were no audit reports issued by the Office of Fiscal Accountability and Compliance (OFAC) during the 2012 fiscal year.

Acknowledgment

We received the complete cooperation of all the officials of the School District and we greatly appreciate the courtesies extended to the members of the audit team.

SCHOOL DISTRICT OF THE CHATHAMS

SCHEDULE OF AUDITED ENROLLMENTS

APPLICATION FOR STATE SCHOOL AID SUMMARY

ENROLLMENT AS OF OCTOBER 14, 2011

	2012-2013 Application for State School Aid						Sample for Verification						Private Schools for Disabled			
	Reported on A.S.S.A. On Roll		Reported on Workpapers On Roll		Errors		Sample Selected from Workpapers		Verified per Registers On Roll		Errors per Registers On Roll		Reported on A.S.S.A. as Private Schools	Sample for Verifi- cation	Sample Verified	Sample Errors
	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared				
Half Day Preschool	26		26				17		17							
Full Day Preschool																
Half Day Kindergarten	240		240				87		87							
Full Day Kindergarten																
One	285		285				78		78							
Two	306		306				112		112							
Three	317		317				103		103							
Four	292		292				292		292							
Five	264		264				264		264							
Six	272		272				272		272							
Seven	300		300				299		299							
Eight	267		267				267		267							
Nine	244		244				244		244							
Ten	239		239				239		239							
Eleven	245	1	245	1			245	1	245	1						
Twelve	240		240				240		240							
Post-Graduate																
Adult H.S. (15+CR.)																
Adult H.S. (1-14 CR.)																
Subtotal	3,537	1	3,537	1	-	-	2,759	1	2,759	1	-	-	-	-	-	-
Special Ed - Elementary	215		215				38		38				16	15	15	
Special Ed - Middle School	124		124				124		124				8	9	9	
Special Ed - High School	178	1	178	1			178	1	178	1			16	11	11	
Subtotal	517	1	517	1	-	-	340	1	340	1	-	-	40	35	35	-
Co. Voc. - Regular																
Co. Voc. Ft. Post Sec.																
Totals	4,054	2	4,054	2	-	-	3,099	2	3,099	2	-	-	40	35	35	-
Percentage Error					0.00%	0.00%					0.00%	0.00%				0.00%

SCHEDULE OF AUDITED ENROLLMENTS

**SCHOOL DISTRICT OF THE CHATHAMS
APPLICATION FOR STATE SCHOOL AID SUMMARY
ENROLLMENT AS OF OCTOBER 14, 2011**

	Resident Low Income			Sample for Verification			Resident LEP Low Income			Sample for Verification		
	Reported on A.S.S.A. as Low Income	Reported on Workpapers as Low Income	Errors	Sample Selected from Workpapers	Verified to Application and Register	Sample Errors	Reported on A.S.S.A. as LEP low Income	Reported on Workpapers as LEP low Income	Errors	Sample Selected from Workpapers	Verified to Test Score and Register	Sample Errors
Half Day Preschool												
Full Day Preschool												
Half Day Kindergarten												
Full Day Kindergarten												
One	7	7		5	5		1	1		1	1	
Two	5	5		5	5		1	1		1	1	
Three	6	6		6	6		1	1		1	1	
Four	6	6		5	5							
Five	4	4		3	3		1	1		1	1	
Six	6	6		4	4		1	1		1	1	
Seven	7	7		6	6		2	2		2	2	
Eight	6	6		6	6		4	4		4	4	
Nine	4	4		3	3							
Ten	1	1		1	1							
Eleven	6	6		4	4		1	1		1	1	
Twelve	6	6		5	5		1	1				
Post-Graduate												
Adult H.S. (15+CR.)												
Adult H.S. (1-14 CR.)												
Subtotal	64	64	-	53	53	-	13	13	-	12	12	-
Special Ed - Elementary	6	6	-	2	2							
Special Ed - Middle	3	3		2	2							
Special Ed - High	6	6		4	4							
Subtotal	15	15	-	8	8	-	-	-	-	-	-	-
Co. Voc. - Regular												
Co. Voc. Ft. Post Sec.												
Totals	79	79	-	61	61	-	13	13	-	12	12	-
Percentage Error			0.00%			0.00%			0.00%			0.00%

	Transportation						Reported	Recalculated
	Reported on DRTRS by District	Reported on DRTRS by DOE/county	Errors	Tested	Verified	Errors		
Reg. - Public Schools, col.a	680	680		146	146		4.3	4.3
Reg -SpEd, col.4	110	110		24	24		4.3	4.3
Transported - Non-Public, col.	325	325		70	70		8.5	8.5
Special Ed Spec, col.6	72	72		15	15			
Totals	1,187	1,187	-	255	255	-		
Percentage Error					0.00%			

Reg Avg.(Mileage) = Regular Including Grade PK students (Part A)
Reg Avg.(Mileage) = Regular Excluding Grade PK students (Part B)
Spec Avg. = Special Ed with Special Needs

SCHOOL DISTRICT OF THE CHATHAMS

SCHEDULE OF AUDITED ENROLLMENTS

APPLICATION FOR STATE SCHOOL AID SUMMARY
ENROLLMENT AS OF OCTOBER 14, 2011

	<u>Resident LEP NOT Low Income</u>			<u>Sample for Verification</u>		
	<u>Reported on A.S.S.A. as NOT Low Income</u>	<u>Reported on Workpapers as NOT Low Income</u>	<u>Errors</u>	<u>Sample Selected from Workpapers</u>	<u>Verified to Application and Register</u>	<u>Sample Errors</u>
Half Day Preschool						
Full Day Preschool						
Half Day Kindergarten	2	2		2	2	
Full Day Kindergarten						
One	3	3		3	3	
Two	2	2		2	2	
Three	2	2		2	2	
Four	3	3		3	3	
Five						
Six						
Seven						
Eight	2	2		1	1	
Nine	1	1				
Ten						
Eleven	4	4		3	3	
Twelve						
Post-Graduate						
Adult H.S. (15+CR.)						
Adult H.S. (1-14 CR.)						
Subtotal	<u>19</u>	<u>19</u>	<u>-</u>	<u>16</u>	<u>16</u>	<u>-</u>
Special Ed - Elementary	2	2		2	2	
Special Ed - Middle						
Special Ed - High						
Subtotal	<u>2</u>	<u>2</u>	<u>-</u>	<u>2</u>	<u>2</u>	<u>-</u>
Co. Voc. - Regular						
Co. Voc. Ft. Post Sec.						
Totals	<u>21</u>	<u>21</u>	<u>-</u>	<u>18</u>	<u>18</u>	<u>-</u>
Percentage Error			<u>0.00%</u>			<u>0.00%</u>

SCHOOL DISTRICT OF THE CHATHAMS

EXCESS SURPLUS CALCULATION

JUNE 30, 2012

SECTION 1 - Regular District

B. 2% Calculation of Excess Surplus

2011-12 Total General Fund Expenditures per the CAFR, Ex. C-1	\$ 59,167,023	(B)
Increased by:		
Transfer from Capital Outlay to Capital Projects Fund	\$ -	(B1a)
Transfer from Capital Reserve to Capital Projects Fund	\$ -	(B1b)
Decreased by:		
On-Behalf TPAF Pension & Social Security	\$ 4,160,092	(B2a)
Assets Acquired Under Capital Leases	\$ -	(B2b)
Adjusted 2011-12 General Fund Expenditures [(B) + (B1s) - (B2s)]	\$ 55,006,931	(B3)
2% of Adjusted 2011-12 General Fund Expenditures [(B3) times .02]	\$ 1,100,139	(B4)
Enter Greater of (B4) or \$250,000	\$ 1,100,139	(B5)
Increased by: Allowable Adjustment*	\$ 77,725	(K)
Maximum Unreserved/Undesignated Fund Balance [(B5) + (K)]	\$ 1,177,864	(M)

SECTION 2

Total General Fund - Fund Balances at 6-30-12 (Per CAFR Budgetary Comparison Schedule C-1)	\$ 5,798,261	(C)
Decreased by:		
Year End Encumbrances	\$ 617,228	(C1)
Legally Restricted - Designated for Subsequent Year's Expenditures	\$ -	(C2)
Legally Restricted - Excess Surplus - Designated for Subsequent Year's Expenditures**	\$ 271,277	(C3)
Other Restricted Fund Balances****	\$ 3,175,415	(C4)
Assigned Fund Balance - Unreserved - Designated for Subsequent Year's Expenditures	\$ 267,006	(C5)
Total Unassigned Fund Balance [(C)-(C1)-(C2)-(C3)-(C4)-(C5)]	\$ 1,467,335	(U1)

SCHOOL DISTRICT OF THE CHATHAMS

EXCESS SURPLUS CALCULATION

JUNE 30, 2012

SECTION 3

Restricted Fund Balance - Excess Surplus ***

[(U1)-(M)] IF NEGATIVE ENTER -0- \$ 289,471 (E)

Recapitulation of Excess Surplus as of June 30, 2012

Reserved Excess Surplus - Designated for Subsequent Year's

Expenditures ** \$ 271,277 (C3)

Reserved Excess Surplus *** [(E)] \$ 289,471 (E)

Total [(C3)+(E)] \$ 560,748 (D)

Footnotes:

- * This adjustment line (as detailed below) is to be utilized when applicable for Impact Aid, Sale and Lease-back (Refer to the Audit Program Section II, Chapter 10), Extraordinary Aid and Additional Nonpublic School Transportation Aid. Refer to the Audit Program Section II Chapter 10 for restrictions on the inclusion of Extraordinary Aid and Additional Nonpublic School Transportation Aid.

Detail of Allowable Adjustments

Impact Aid \$ - (H)

Sales & Lease-back \$ - (I)

Extraordinary Aid \$ 34,692 (J1)

Additional Nonpublic School Transportation Aid \$ 43,033 (J2)

Total Adjustments [(H)+(I)+(J1)+(J2)] \$ 77,725 (K)

- ** This amount represents the June 30, 2011 Excess Surplus (C3 above) and must be included in the Audit Summary Worksheet Line 90031.

- *** Amount must agree to the June 30, 2012 CAFR and the sum of the two lines must agree to Audit Summary Worksheet Line 90030.

- **** Amount for Other Reserved Fund Balances must be detailed for each source. Use in the excess surplus calculation of any legal reserve that is not state mandated or that is not legally imposed by any other type of government, such as the judicial branch of government, must have Departmental approval. District requests should be submitted to the Office of School Finance prior to September 30.

SCHOOL DISTRICT OF THE CHATHAMS

EXCESS SURPLUS CALCULATION

JUNE 30, 2012

Detail of Other Restricted Fund Balance

Statutory restrictions:

Approved unspent separate proposal \$ -

Sale/lease-back reserve \$ -

Capital reserve \$ 3,175,415

Emergency reserve \$ -

Maintenance reserve \$ -

Waiver offset reserve \$ -

Tuition reserve \$ -

Other state/government mandated reserve \$ -

[Other Restricted Fund Balance not noted above]**** \$ -

Total Other Restricted/Reserved Fund Balance \$ 3,175,415 (C4)