

School District of the Chathams
County of Morris, New Jersey
MANAGEMENT REPORT ON ADMINISTRATIVE FINDINGS—
FINANCIAL, COMPLIANCE AND PERFORMANCE
June 30, 2013

Auditors' 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, 2013, and have issued our report thereon dated November 8, 2013.

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 dark ink that reads 'Scott A. Clelland'.

Scott A. Clelland
Licensed Public School Accountant
No. 1049

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

WISS & COMPANY, LLP

Iselin, New Jersey
November 8, 2013

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*)

<u>Name</u>	<u>Position</u>	<u>Amount</u>
Peter Daquila	Business Administrator/Board Secretary	\$300,000
Patricia Mackenzie	Assistant Business Administrator	\$150,000
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.

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.

ADMINISTRATIVE FINDINGS – FINANCIAL, COMPLIANCE AND PERFORMANCE

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 0.03% overall was noted and no additional procedures were deemed necessary to test the propriety of expenditure classification. However, the following exception was noted:

Finding

During our testing of staff travel expenses, several items selected for testing were not related to staff travel. Budget object category 580 is to be used solely for staff travel and should not include in-house webinar fees and expenditures for books.

Recommendation

We suggest the District ensure that all items charged to budget object category 580 are for staff travel, in accordance with *Uniform Minimum Chart of Accounts for New Jersey Public Schools*.

Board Secretary's Records

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

ADMINISTRATIVE FINDINGS – FINANCIAL, COMPLIANCE AND PERFORMANCE

Treasurer's Records

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

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 instances of noncompliance that are required to be reported in accordance with OMB Circular A-133.

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.

ADMINISTRATIVE FINDINGS – FINANCIAL, COMPLIANCE AND PERFORMANCE

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.

Procedures were performed on a test basis, to indicate if any 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*, as amended.

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

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 has not been met. The FSMC reduced the District's June 2013 invoice to meet the contractual provision.

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.

ADMINISTRATIVE FINDINGS – FINANCIAL, COMPLIANCE AND PERFORMANCE

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.

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 15, 2012 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.

ADMINISTRATIVE FINDINGS – FINANCIAL, COMPLIANCE AND PERFORMANCE

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 2012-2013 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 2012-2013 school year. We noted no exceptions in our review of transportation related purchases of goods and services.

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.

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 2013 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

EXCESS SURPLUS CALCULATION

JUNE 30, 2013

SECTION 1 - Regular District

B. 2% Calculation of Excess Surplus

2012-13 Total General Fund Expenditures per the CAFR, Ex. C-1	\$ 61,116,828 (B)
Increased by:	
Transfer from Capital Outlay to Capital Projects Fund	\$ - (B1a)
Transfer from Capital Reserve to Capital Projects Fund	\$ - (B1b)
Transfer from General Fund to SRF for PreK-Regular	\$ - (B1c)
Transfer from General Fund to SRF for PreK-Inclusion	\$ - (B1d)
Decreased by:	
On-Behalf TPAF Pension & Social Security	\$ 5,349,182 (B2a)
Assets Acquired Under Capital Leases	\$ - (B2b)
Adjusted 2012-13 General Fund Expenditures [(B) + (B1s) - (B2s)]	\$ 55,767,646 (B3)
2% of Adjusted 2012-13 General Fund Expenditures [(B3) times .02]	\$ 1,115,353 (B4)
Enter Greater of (B4) or \$250,000	\$ 1,115,353 (B5)
Increased by: Allowable Adjustment*	\$ 41,817 (K)
Maximum Unassigned/Undesignated/Unreserved Fund Balance [(B5) + (K)]	\$ 1,157,170 (M)

SECTION 2

Total General Fund - Fund Balances at 6-30-13 (Per CAFR Budgetary Comparison Schedule C-1)	\$ 8,221,030 (C)
Decreased by:	
Year End Encumbrances	\$ 465,868 (C1)
Legally Restricted - Designated for Subsequent Year's Expenditures	\$ - (C2)
Legally Restricted - Excess Surplus - Designated for Subsequent Year's Expenditures**	\$ 289,471 (C3)
Other Restricted Fund Balances****	\$ 6,031,771 (C4)
Assigned Fund Balance - Unreserved - Designated for Subsequent Year's Expenditures	\$ - (C5)
Total Unassigned Fund Balance [(C)-(C1)-(C2)-(C3)-(C4)-(C5)]	\$ 1,433,920 (U1)

SCHOOL DISTRICT OF THE CHATHAMS

EXCESS SURPLUS CALCULATION

JUNE 30, 2013

SECTION 3

Restricted Fund Balance - Excess Surplus ***

[(U1)-(M)] IF NEGATIVE ENTER -0-

\$ 276,750 (E)

Recapitulation of Excess Surplus as of June 30, 2013

Reserved Excess Surplus - Designated for Subsequent Year's
Expenditures **

\$ 289,471 (C3)

Reserved Excess Surplus *** [(E)]

\$ 276,750 (E)

Total [(C3)+(E)]

\$ 566,221 (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, Additional Nonpublic School Transportation Aid and recognized current year School Bus Advertising Revenue. 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

\$ - (J1)

Additional Nonpublic School Transportation Aid

\$ 41,817 (J2)

Current Year School Bus Advertising Revenue Recognized

\$ - (J3)

Total Adjustments [(H)+(I)+(J1)+(J2)+(J3)]

\$ 41,817 (K)

- ** This amount represents the June 30, 2012 Excess Surplus (C3 above) and must be included in the Audit Summary Worksheet Line 90031.

- *** Amount must agree to the June 30, 2013 CAFR and the sum of the two lines must agree to Audit Summary Worksheet Line 90030.

- **** Amount for Other Restricted 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 Division of Administration and Finance prior to September 30.

SCHOOL DISTRICT OF THE CHATHAMS

EXCESS SURPLUS CALCULATION

JUNE 30, 2013

Detail of Other Restricted Fund Balance

Statutory restrictions:	
Approved unspent separate proposal	\$ -
Sale/lease-back reserve	\$ -
Capital reserve	\$ 6,031,771
Emergency reserve	\$ -
Maintenance reserve	\$ -
Tuition reserve	\$ -
Other state/government mandated reserve	\$ -
[Other Restricted Fund Balance not noted above]****	\$ -
Total Other Restricted Fund Balance	\$ 6,031,771 (C4)