

NEW JERSEY ADMINISTRATIVE CODE

5:31-1.1 Scope

This chapter shall constitute the rules governing the preparation, introduction, approval, adoption and execution after adoption of any budget by a local authority, the accounting principles and policies for such authorities, the administration of financial affairs of such authorities, the annual audit of the financial statements of such authorities, and financial reporting practices of such authorities under the Local Authorities Fiscal Control Law, L.1983, c.313.

5:31-1.2 Definitions

The following words and terms as used in this chapter, shall have the following meanings, unless the context clearly indicated otherwise.

"Act" means the Local Authorities Fiscal Control Law, L.1983, c.313 (N.J.S.A. 40A:5A-1 et seq.).

"Authority" means a body, public and corporate, created by one or more municipalities or counties pursuant to any law authorizing that creation, which law provides that the public body so created has at least the following powers:

1. To adopt and use a corporate seal;
2. To sue and be sued;
3. To acquire and hold real or personal property for its purposes; and
4. To provide for and secure the payment of its bonds or other obligations, or to provide for the assessment of a tax on real property within its district, or to impose charges for the use of its facilities, or any combination thereof; but shall not include any public body for which Federal or State fiscal controls differing from those imposed by the Act, have been explicitly established by law, but only to the extent of that difference.

"Audit" means an examination of the financial statements of an authority in accordance with generally accepted auditing standards as promulgated by the American Institute of Certified Public Accountants by the independent auditor or by the Division of Local Government Services engaged by the authority, in the manner more specifically described by these regulations.

"Audit report" means the report on the results and findings of the audit by the independent auditor or by the Division of Local Government Services engaged by the authority.

"Budget" means the budget of an authority.

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"Capital budget" means the first year of a capital program.

"Capital program" means a projected, multi-year plan and schedule for capital projects, which shall set forth among other things all prospective financing sources including, but not limited to, proceeds of bond sales, grants and budget appropriations.

"Capital project" means any of the following activities or undertakings which an authority is empowered to bond for, with an estimated useful life of five years or more and a prospective individual or (when added to the cost of other such items as are listed below) cumulative cost in any year of \$25,000 or more, regardless of the financing sources:

1. Acquisition and/or development of land;
2. Acquisition of equipment, furnishings or other personal property;
3. Acquisition, construction, improvement and/or renovation of buildings, roads, utilities, structures improvements or public works;
4. Any other matter for which an authority is empowered to issue bonds.

"Director" means the Director of the Division of Local Government Services in the Department of Community Affairs.

"Division" means the Division of Local Government Services in the Department of Community Affairs.

"Full membership" means the number of members of the governing body when all seats are filled.

"Governing body" means the Board having control of the finances of an authority.

"Financing agreement" means an agreement of a local unit or units intended to provide security for an issue of obligations of an authority, including, but not limited to, a contract providing for payments by a local unit or units with respect to use, services or provision of the project, facility or public improvement of an authority or payments for debt service therefor.

"Local Finance Board" means the Local Finance Board in the Division of Local Government Services in the Department of Community Affairs.

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"Local unit or units" means a county or municipality which created or joined in the creation of an authority, or which proposes to create or join in the creation thereof, or which has entered or proposes to enter into a financing agreement with an authority.

"Operations" means all activities of an authority conducted in accordance with N.J.S.A. 40A:5A-1 et seq. and any other legislation governing the affairs of the authority.

"Project financing" means the financing by an authority of a facility for the benefit of the inhabitants of a local unit or units and includes payment for the design and plan for the facility.

"Security agreement" means a bond resolution of an authority, or a trust indenture to be executed by an authority, or other similar proceeding or document.

SUBCHAPTER 2. BUDGETS

5:31-2.1 Annual budget preparation and content

- (a) Every authority as herein defined shall prepare an annual budget for each fiscal year in which an expenditure of money is expected.
- (b) The budget shall comply with the terms of any security agreement and be prepared in compliance with these regulations.
- (c) The total budget appropriations shall not exceed total anticipated revenues reasonably expected to be realized.
- (d) Every budget shall be prefaced by a narrative explanation of its contents, entitled "budget message." Content of the budget message shall be prescribed by the Director.
- (e) Signatures required on all budget documents, budget amendments and information supporting the budget shall be hand-written signatures.
- (f) Annual budgets, capital budgets and capital programs shall be prepared on standard forms provided by the Division as promulgated by the Local Finance Board.
- (g) Operating appropriations shall be classified as to "salaries and wages" and "other expenses."
- (h) All introduced budgets, adopted budgets and budget amendments shall contain the recorded vote of the governing body.

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Amended by R.1985 d.511, effective October 21, 1985.

5:31-2.2 Capital budget and capital program

- (a) Every authority shall prepare and adopt a capital budget, in conjunction with its annual budget, for any year in which it proposes to undertake a capital project.
- (b) No authority shall adopt a security agreement unless its provisions are in agreement with a previously adopted capital budget, temporary capital budget or amended capital budget.
- (c) Every authority which adopts a capital budget shall also adopt a capital program or modify or add a year to an existing capital program, provided that no capital program shall be required if the authority has not expended more than \$25,000 annually for capital projects for the immediate previous three years. The capital program shall be submitted to the Director with the capital budget.
- (d) Any capital budget or capital program that is to be adopted shall:
 - 1. Be prepared and assembled by the officer(s) responsible for preparing the annual budget;
 - 2. Be adopted by the affirmative vote of a majority of the full membership of the governing body;
 - 3. Be treated as part of the official annual budget;
 - 4. The capital budget shall include by title all projects scheduled for startup in the current budget year, the amounts appropriated and the anticipated financing by source and amount. The capital program period shall include the budget year and five succeeding years;
- (e) The Director shall, as part of his review of each authority annual budget, determine whether a capital budget and program are required, and if so, whether it has been included in proper form. The review shall not extend to any determination as to the sufficiency or wisdom of its content. Failure to properly submit the capital budget and program may delay approval of the entire annual budget.
- (f) Except for the cost of preliminary plans, specifications and estimates, no authority shall make appropriations, authorize expenditures or adopt a security agreement for a capital project unless its provisions are in agreement with a previously adopted capital budget, temporary capital budget or amended capital budget.

Amended by R.1985 d.511, effective October 21, 1985.

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5:31-2.3 Budget introduction and adoption for other than special districts

- (a) The governing body shall introduce and approve its annual budget by resolution, passed by not less than a majority of the full membership.
- (b) The budget shall set forth all the anticipated revenues of the authority, including the following, where applicable:
 - 1. Retained earnings (fund balance) which shall not exceed the amount of working capital reduced by unrestricted assets not ordinarily convertible into cash; or the estimated year end balance of unreserved retained earnings; whichever is the lower.
 - 2. Rents, fees and other charges which are reasonably expected to be realized from users of facilities and/or services provided by the authority;
 - 3. Amounts expected to be received from local unit or units pursuant to financing agreements with respect to use, services, or provisions of a project, facility or public improvement of an authority or payments for debt service therefore;
 - 4. Interest on investments and deposits (investments, certificates of deposit, savings accounts, etc.) held for operating purposes as opposed to other purposes;
 - 5. Other income, consisting of amounts reasonably expected to be collected from regular and recurring sources;
 - 6. Amounts reasonably expected to be collected from unrestricted grants which may be used to finance budget appropriations;
 - 7. Total anticipated revenues.
- (c) The budget shall set forth all of the appropriations of the authority including the following, where applicable.
 - 1. Administrative and operating expenses including maintenance and repair of facilities and improvements;
 - 2. Provision for bond principal maturing during the budget year;
 - 3. Provision for note principal maturing during the budget year;
 - 4. Provision for future plant reconstruction and replacement, consisting of amounts determined by management to provide a reserve fund for future fund for future plant reconstruction and replacement;

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5. Contribution to the Public Employees' Retirement System;
 6. Contribution to the Social Security System;
 7. Contribution to the Unemployment Compensation Insurance fund;
 8. Addition to the Renewal and Replacement Account;
 9. Provision for interest accruing during the fiscal year on debt issued and outstanding;
 10. Provision for deficit of the preceding fiscal year and anticipated deficit of the current fiscal year;
 11. Provision for amortization of intangible assets.
 12. Provision for uncollectible accounts.
 13. Capital outlay for property, plant and equipment acquisitions expected to be paid from the operating budget.
 14. Total appropriations.
- (d) The authority shall transmit three certified copies of the budget, to the Director at least 60 days prior to the end of the current fiscal year, together with all relevant information and documentation as prescribed in these regulations or as otherwise may be required by the Director.
- (e) The following information and documentation shall accompany the budget:
1. A computation of the projected balance of retained earnings;
 2. The schedule of rates, fees and charges in effect or proposed and computation of revenue reasonably expected to be realized;
 3. A computation of the budgeted provision for doubtful accounts, including the method utilized and the percentage to billings, compared with the most recent moving average of uncollectible accounts to billings.
 4. A computation of the amount of the budgeted provision for future plant reconstruction or replacement.
 5. Summary of applicable provisions of service agreements and computation of amount due from each local unit and total amount due under such provisions;

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6. Computation or explanation of amounts expected to be realized from other sources accompanied by copies of grant agreements or other applicable agreements, if any;
 7. Schedule of debt service (principal and interest) for the budget year and next succeeding four years;
 8. Computation of an anticipated deficit or net income for the current year.
- (f) No authority budget shall be finally adopted until the Director shall have approved the same. Final budget adoption shall be by resolution passed by a majority of the full membership of the authority governing body.
- (g) The budget shall be adopted not later than the beginning of the authority's fiscal year, except that the governing body may adopt or amend the budget at any time after the Director shall have approved the same.
1. Two certified copies of the budget as adopted, shall be transmitted to the Director within three days after adoption.
 2. One certified copy of the budget as adopted shall be transmitted to each local unit within three days after adoption.
- (h) Upon adoption, the budget shall constitute an appropriation for the purposes stated therein for the purposes of the authority.

Amended by R.1985 d.511, effective October 21, 1985.

5:31-2.4 Budget introduction and adoption for fire and other special districts

- (a) The Board of Commissioners shall introduce its annual budget by resolution, passed by not less than a majority of the full membership.
- (b) The budget shall set forth all anticipated revenues and other financing sources of the district, including the following, where applicable:
1. Surplus which shall not exceed the amount of the estimated fund balance held in cash or quick assets at the beginning of the budget year;
 2. Miscellaneous revenues which shall not be such amounts as may reasonably be expected to be realized in cash during the budget year from known and regular sources, or from sources reasonably capable of anticipating, including amounts expected to be received from municipalities appropriating money for district purposes, but not including revenues from taxes to be levied to support the district budget;

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3. Amount to be raised by taxation to support the district budget which shall be the amount to be certified to the assessor of the municipality to be assessed against the taxable property in the district. Such amount shall be equal to the amount of the total appropriations set forth in the budget minus the total amount of surplus (fund balance) and miscellaneous revenues set forth in the budget.
- (c) The budget shall set forth all of the appropriations of the district, including the following where applicable:
1. For operating appropriations the following shall be included where applicable:
 - i Administration;
 - ii Operation and maintenance of each office or agency of the district;
 - iii Reimbursement to employees of a fire district and any volunteer firemen having membership in a volunteer fire company within the fire district for expenses and losses actually incurred in the performance of their duties;
 - iv Each paid position of a fire district, along with the compensation to be paid therefore;
 - v Amounts necessary to fund any deficit, or anticipated deficit, from the preceding budget year.
 2. Capital appropriations shall include the following:
 - i Amounts necessary in the current budget year to fund or meet obligations incurred for capital purposes, including principal and interest on bonds, itemized according to purpose.
 3. Total appropriations shall be the sum of items 1 and 2 above.
- (d) The total budget appropriations shall not exceed total anticipated revenues reasonably expected to be realized.
- (e) The district shall transmit three certified copies of its budget to the Director at least 60 days prior to the annual election, together with all relevant information as prescribed in these regulations or as otherwise required by the Director.
- (f) The following information and documentation shall accompany the budget:

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1. A computation of the estimated fund balance or deficit from the preceding fiscal year;
 2. Schedule of debt service (principal and interest) for the budget year and next succeeding four years;
- (g) The budget and all relevant information shall be reviewed by the Director. If the Director finds that all requirements of law and the rules and regulations of the Local Finance Board have been met, he shall, within 21 days of his receipt of the budget, approve it; otherwise he shall within that time refuse to approve it. No district budget shall be adopted by the Commissioners until the Director shall have approved same, provided however that if the Director has not notified the Commissioners of his approval or refusal to approve the budget and the conditions on which his approval will be granted at the end of the 21 day period, the budget will be deemed to have been approved. Budget adoption shall be by resolution passed by a majority of the full membership of the commission.
1. Two certified copies of the budget as adopted shall be transmitted to the Director within seven days after adoption.
 2. One certified copy of the budget as adopted shall be transmitted to the local unit within seven days after adoption.
- (h) In the event that the adopted budget is rejected at the annual election of the district, the governing body of the local unit shall, within 30 days after the annual election prepare and adopt, by resolution passed by a majority vote of the full membership of the governing body of the local unit, the budget for the fiscal year of the district. The budget adopted by the governing body of the local unit shall be in the same line item and detail as that rejected at the annual election of the district.
- (i) Within three days after its adoption the local unit shall transmit two certified copies of the budget, as adopted by the local unit, to the Director and one certified copy of the budget, as adopted by the local unit, to the commissioners of the district.
- (j) No district budget adopted by a local unit shall become effective prior to approval by the Director.
- (k) When the annual budget is approved at the annual election of the district or finally adopted by the local unit, as the case may be, it provides legal authorization for general fund spending. Adopted budgetary accounts shall be formally integrated in the general fund ledger.

Amended by R.1985 d.511, effective October 21, 1985.

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5:31-2.5 Late approval of budget; temporary appropriations

- (a) The Director may approve any budget not filed with him within the time prescribed, provided a resolution of the authority setting forth the reasons for the delay, satisfactory to the Director, shall accompany the proposed budget.
- (b) All actions taken by the Director and authority, with respect to approval by the Director and adoption by the authority, shall be taken forthwith and as if the filing by the authority had occurred on time.
- (c) The governing body may and, if any contracts, commitments or payments are required to be made prior to the adoption of the budget, shall, by resolution adopted prior to the beginning of the fiscal year or within the first 30 days of the fiscal year make temporary appropriations to provide for the period between the beginning of the fiscal year and the adoption of the budget. The total appropriations made in accordance with the provision of this section shall not exceed the total of the appropriations made for all purposes in the budget for the preceding fiscal year.
- (d) Nothing contained in these regulations shall prevent or relieve the governing body from making appropriations for all interest and debt redemption charges maturing subsequent to the end of a fiscal year and prior to the date of adoption of the budget.
- (e) All resolutions referred to in this section shall be adopted by not less than a majority vote of the full membership of the governing body.

Amended by R.1985 d.511, effective October 21, 1985.

5:31-2.6 Budget review by Director

- (a) Upon receipt of an introduced budget, the Director shall review the budget to determine the following:
 - 1. All estimates of revenue are reasonable, accurate and correctly stated;
 - 2. Items of appropriation are properly set forth;
 - 3. In itemization, form and content, the budget will permit the comptroller function within the authority;
 - 4. The schedule of rates, fees and charges then in effect will produce sufficient revenues, together with all other anticipated revenues, to satisfy all obligations to the holders of bonds of the authority, to meet operating expenses, capital outlays, debt service requirements and to provide for such reserves, all as may be required by law, regulations or terms of contracts or agreements.

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- (b) The Director may require such documentation, records and other information, and undertake any audit or investigation, as he may deem necessary in connection with his review.
- (c) If the Director finds that all requirements of law and the rules and regulations of the Local Finance Board have been met, he shall, approve it; otherwise he shall refuse to approve it.
- (d) The Director in refusing to approve a budget:
 - 1. Shall not substitute his discretion with respect to the amount of an appropriation when that amount is not made mandatory by law or regulation.
 - 2. Shall notify the governing body of his reasons for refusing to approve and the conditions upon which approval will be granted.

Amended by R.1985 d.511, effective October 21, 1985.

5:31-2.7 Appeals

- (a) Any decision of the Director in the course of budget review, pursuant to these rules, may be appealed to the Local Finance Board in the manner generally provided by N.J.S.A. 52:27BB-15.
 - 1. The appellant must file the appeal application with the Director within 10 days of the Director's decision.
 - 2. The appellant must set forth in the application the reasons and basis for the appeal.
 - 3. The appellant must submit all documentation required to substantiate the appeal.

5:31-2.8 Budget amendments

- (a) Amendments to the budget and capital budget are permitted as follows:
 - 1. Decrease in revenue with corresponding decrease in budgeted costs;
 - 2. Reclassification of budgeted amounts among expense categories;
 - 3. Increase in budgeted costs with corresponding increases in budgeted revenues;

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4. Decrease in specific capital project costs or elimination of previously identified projects;
 5. Deferral of capital projects funding to future years;
 6. Increase in capital project costs or additional projects with identification and timing of anticipated funding sources.
- (b) All amendments to the budget shall be approved and adopted by resolution of the authority, passed by not less than a majority of the full membership. The resolution shall set forth the reasons for the amendment.
- (c) Two certified copies of the amendment and all relevant resolutions shall be transmitted to the Director within three days after adoption. One certified copy of the amendment shall be transmitted to each local unit within three days after adoption.
- (d) No proposed budget or amendment thereto shall become effective prior to approval by the Director.

SUBCHAPTER 3. CASH MANAGEMENT

5:31-3.1 Cash management plan; Legal depositories for public moneys; Receipt and deposit of funds

- (a) The governing body shall, by resolution, passed by not less than a majority of the full membership, adopt a cash management plan which shall include the designation of a depository the State of New Jersey Cash Management Fund or a public depository or depositories as defined in N.J.S.A. 17:9-41 and may permit deposits in such depository or depositories as permitted in N.J.S.A. 17:9-44.
1. The cash management plan shall be designed to assure to the extent practicable the investment of authority funds in interest bearing accounts.
 2. The cash management plan may be modified from time to time in order to reflect changes in Federal or State law or regulations.
- (b) All moneys received by the authority from any source shall within 48 hours be deposited to the credit of the authority in its legal depository.
- (c) No authority shall engage in the practice of cashing checks with public funds.

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SUBCHAPTER 7. ACCOUNTING AND AUDITING

5:31-7.1 Accounting and financial reporting systems

- (a) The accounting system consists of the methods and records established to identify, assemble, analyze, classify, record, and report an entity's transactions and to maintain accountability for the related assets and liabilities.
- (b) An effective accounting system shall include a double-entry accounting for all transactions resulting in a general ledger, which shall be required for all authorities and special districts.
- (c) Any accounting system adopted pursuant to (a) and (b) above must make it possible to present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the reporting entity, in conformity with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB), 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856-5116, incorporated herein by reference, as may be amended from time to time, and demonstrate compliance with finance-related legal and contractual provisions, including applicable security and financing agreements.
- (d) GAAP as it applies to proprietary funds of state and local governments, specifically as it applies to enterprise funds shall be used to account for an authority's ongoing activities, similar to those found in the private sector, where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges and/or where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.
- (e) The financial statements of authorities shall be prepared in accordance with GAAP applicable to enterprise funds. Accordingly, revenues and expenses shall be recognized on the accrual basis. Revenues shall be recognized in the accounting period in which they are earned and become measurable; expenses shall be recognized in the period incurred, if measurable.
- (f) The financial statements of special districts shall be prepared in accordance with GAAP applicable to governmental funds of state and local governments. Accordingly, revenues and expenditures shall be recognized on the modified accrual basis. Revenues shall be recognized in the accounting period in which they become available and measurable. Expenditures shall be recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which shall be recognized when due.

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5:31-7.2 Establishment of an internal control structure

- (a) The governing body of each authority and special district is responsible for establishing and maintaining an internal control structure. An entity's internal control structure shall consist of policies and procedures established to provide reasonable assurance that specific entity objectives and proper conduct of the entity's business with full accountability for the resources made available, shall be achieved. In fulfilling this responsibility, estimates and judgments by the governing body are required to assess the expected benefits and related costs of internal control structure policies and procedures.
- (b) The objectives of an internal control structure should provide the governing body with reasonable, but not necessarily absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with the respective governing body's authorization and recorded properly to permit the preparation of financial statements in accordance with GAAP.

5:31-7.3 Determining the financial reporting entity

The definition of a financial reporting entity shall be based on the concept of financial accountability. A primary objective of authorities' and special districts' financial reporting should be to provide users of financial statements with a basis for assessing the accountability of their respective elected/appointed officials, responsible for the operations of their specially created organizations. The financial statements of the reporting entity shall provide for distinguishing between the following: primary government, component unit, joint venture, jointly governed organization, or another stand-alone government, by communicating such information to the users thereof. Such selection of the financial reporting entity shall be made by the governing body pursuant to GAAP criteria and be presented in the entity's financial statements pursuant to GAAP reporting standards.

5:31-7.4 Interim financial reporting

For both authorities and special districts, interim financial reports should be comprised principally of statements that reflect current financial position at the end of a month or quarter and compare actual financial results with budgetary estimates and limitations. Appropriate interim financial statements and reports of financial position, operating results, and other pertinent information should be prepared primarily for purposes of governing body control of financial operations, facilitate regulatory budgetary oversight, and where necessary for external reporting purposes. All such interim reports need not be prepared on a GAAP basis, unless internally required, but all such reports may be subject to audit pursuant to N.J.S.A. 40A:5A-15.

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5:31-7.5 Compliance with legal provisions

Generally both authorities and special districts are required to follow the applicable provisions of statute and at times such legal provisions may conflict with GAAP. Conflicts between legal provisions and GAAP do not require maintaining two accounting systems. Instead, the accounting system can be maintained on a legal compliance basis, but should include sufficient additional information to permit GAAP based reporting. Specifically, authorities and special districts both have a prescribed budgetary basis to demonstrate legal compliance; notwithstanding, sufficient supplemental records shall be kept to permit presentation of financial statements in conformity with GAAP.

5:31-7.6 Auditing procedures and scope

- (a) Each authority and special district shall conduct an annual audit for their respective fiscal year in accordance with: generally accepted auditing standards (GAAS), as promulgated by the American Institute of Certified Public Accountants (AICPA), Harborside Financial Center, 201 Plaza Three, Jersey City, NJ 07311-3881, incorporated herein by reference, as may be amended from time to time; Government Auditing Standards (often called the Yellow Book, General Accepted Government Auditing Standards, or GAGAS) issued by the Comptroller General of the United States and the United States General Accounting Office (GAO) at the United States General Accounting Office, Washington, D.C. 20548, and those audit standards having been adopted as rules by the Local Finance Board and the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that an independent auditor plan and perform an audit to obtain reasonable assurance that the financial statements of the reporting entity are free of material misstatement. These basic financial statements shall include, but not be limited to: a balance sheet and the related statements of revenues, expenses/expenditures and changes in retained earnings/fund balance and cash flows for the year then ended. Notwithstanding that such statements presented are the responsibility of the respective governing bodies involved, the independent auditor engaged to perform the audit, shall express an opinion on the financial statements taken as a whole.
- (b) Any audit performed pursuant to (a) above must include examining on a test basis and evidence supporting the amounts and disclosures in the financial statements. Any such audit must include an assessment of the accounting principles used and significant estimates made by the governing body or its administration, and must further include such additional procedures as shall be required by any security/financing agreement, as well as an evaluation of the overall financial statement presentation. Any supplementary information presented shall be subjected to the auditing procedures applied in the audit of the financial statements and an opinion rendered in relation to the financial statements taken as a whole.

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- (c) Accompanying the Independent Auditor's Report on Financial Statements and on Supplementary Information and Schedules, shall be a Report on the Internal Control Structure and a Compliance Report. Where applicable with respect to Single Audit filings, a Report on Supplementary Information Schedules of Federal and State Financial Assistance must be prepared, including any other general or specific reports as may be required by Government Auditing Standards and Federal and/or State requirements and circulars.
- (d) All authority and special district audits shall be completed and the audit reports thereon shall be filed with the governing bodies within four months after the close of the authority's fiscal year or within such shorter period specified in the authority's security or financing agreement, or in the statute authorizing the creation of the authority or special district. After expiration of the due date, the Division shall have the prerogative to perform the audit itself or to engage an independent auditor to conduct such audit. The costs of any such work, after approval by the Director, shall be billed to and paid for by the respective authority/special district.
- (e) Within five days after the audit report is filed with the authority/ special district, the auditor shall file a copy with the Director and with the governing body of each local unit having created same.
- (f) The auditor shall complete the prescribed Division audit questionnaires as prescribed in Appendix A and Appendix B, incorporated herein by reference, to be made part of the working-papers. However, the questionnaire will be subject to review by the Director. The respective questionnaire is not to be filed with the authority or special district being audited.
- (g) The synopsis of an authority/special district annual audit is required to be published by statute and shall forthwith be filed with the Division, within 10 days after publication, and shall include the following:
 - 1. A comparative balance sheet;
 - 2. A comparative statement of revenue, expenses/expenditures and changes in retained earnings/fund balance;
 - 3. A summary of recommendations; and
 - 4. Single Audit findings.
- (h) The governing body of each authority/special district, within 45 days of receipt of the annual audit shall certify by resolution that each member thereof has personally reviewed the annual audit report. Specifically, the sections of the audit report entitled Comments and Recommendations and Schedule of Findings and Questioned Costs shall be evidenced by group affidavit in the form prescribed by

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the Local Finance Board in Appendix C, incorporated herein by reference, and shall be filed forthwith to the Division.

- (i) A corrective action plan, in the form of a resolution, to be adopted by the members of the governing body with respect to comments and recommendations made in the audit, shall be filed forthwith with the Division within 45 days of receipt of the annual audit.

5:31-7.7 Discovery of fraud or illegal acts

- (a) The Division of Local Government Services has the prerogative to take full charge of the auditing of any authority or special district where there is any shortage, embezzlement or fraud. Where there is detection of an illegal act, shortage or irregularity, the Division shall be notified at once by means of a special confidential report. Notwithstanding, guidance on the independent auditor's responsibility for the detection of illegal acts and irregularities in an audit of financial statements is provided by generally accepted auditing standards.
- (b) Confidential report blanks shall be submitted in triplicate; one copy for filing in this Division, one copy for filing with the authority/ special district and the third copy for the auditor's files. Blanks can be procured upon request and may be secured either in advance or immediately upon the discovery of any condition requiring a special report. The special confidential report (see Appendix D, incorporated herein by reference) shall be prepared as follows:
 - 1. Section One is a preliminary report and must be filed with the Division within forty-eight hours after the discovery of any irregularity or shortage regardless of whether or not the facts have been definitely established;
 - 2. Section Two shall be filed immediately after the auditor has completed the work or after the auditor has completed the preliminary work to a point where the auditor can make a fair determination as to the amount involved. The auditor shall file supplements or preliminary reports from time to time pending the filing of section two in completed form.
 - 3. Section Three shall be filed upon final disposition of the case.
- (c) In connection with every shortage there shall be an immediate report to the Division of Local Government Services, Bureau of Authority Regulation, and the governing body. The governing body shall make immediate report to the bonding company upon presentation of the preliminary report of the auditor. It is the duty of the governing body to report the discovery of any shortage or irregularity involving public moneys to the County prosecutor serving the County in which the entity is located. The Director is not a prosecuting officer, but shall render a report to the responsible Deputy Attorney General. The independent auditor shall follow up

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these matters in each and every instance and keep the Division informed as to progress and procedure.

5:31-7.8 Audit reports and financial reporting practices for authorities and special districts

- (a) The pronouncements of the Governmental Accounting Standards Board (GASB) and Financial Accounting Standards Board (FASB) shall control with respect to the application of GAAP for authorities and special districts, except that Local Finance Board rules as set forth in the New Jersey Administrative Code, including financial oversight and Division regulatory responsibilities, including review and approval of annual budgets pursuant to statute, shall apply and supersede where applicable.
- (b) Financial reporting under GAAP requires general purpose financial statements (GPFS) and/or component unit financial statements (CUFS), as minimum acceptable presentation for governmental financial reporting purposes. The primary reporting entity focus of separately issued GPFS/CUFS should be on financial information aggregated by fund type, account group, and discretely presented component units. Such aggregated financial information presented shall constitute fair presentation in conformity with GAAP. If the governmental organization other than a primary government serves as a nucleus for its own reporting entity when it issues separate financial statements, then the reporting entity's financial statements should present the fund types and account groups as if it were a primary government (including its blended component units, which are, in substance, part of the primary government) and provide an overview of the discretely presented component units.
- (c) The following statements shall be included in the GPFS/CUFS, as applicable, for authorities/special districts as necessary for separately issued financial statements to be presented fairly in conformity with GAAP:
 - 1. Combined Balance Sheet--All Fund Types, Account Groups, and Discretely Presented Component Units;
 - 2. Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--All Governmental Fund Types and Discretely Presented Component Units;
 - 3. Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual--General and Special Revenue Fund Types (and similar governmental fund types of the primary government for which annual budgets have been legally adopted);

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4. Combined Statement of Revenues, Expenses, and Changes in Retained Earnings (or Equity)--All Proprietary Fund Types and Discretely Presented Component Units;
 5. Combined Statement of Cash Flows--All Proprietary Fund Types and Discretely Presented Component Units;
 6. Notes to the financial statements; and
 7. Required supplementary information.
- (d) Additional or alternative financial reporting presentations or formats, other than those stated in (c) above, may be necessary pursuant to State or Federal requirements or supplementary information on a specific GPFS/CUFS, as requested by the Director of the Division of Local Government Services and/or the Local Finance Board.

5:31-7.9 Audit of Federal and State grants

- (a) The auditor's reporting responsibility in audits of Federal and State financial assistance is primarily driven by four levels of auditing standards and requirements that shall apply:
1. Generally accepted auditing standards issued by the American Institute of Certified Public Accountants;
 2. Government Auditing Standards issued by the United States General Accounting Office;
 3. Single Audit Act and applicable Federal OMB Circulars;
 4. Single Audit policy for recipients of federal grants, state grants and state aid and applicable State of New Jersey OMB Circulars.
- (b) The guidance in (a) above represents a level of auditor responsibility for reporting on an entity's financial statements, internal control structure and compliance with applicable laws and regulations, when followed.