

WARREN COUNTY SPECIAL SERVICES
SCHOOL DISTRICT
COUNTY OF WARREN
AUDITORS' MANAGEMENT REPORT ON
ADMINISTRATIVE FINDINGS - FINANCIAL,
COMPLIANCE AND PERFORMANCE
FISCAL YEAR ENDED JUNE 30, 2015

WARREN COUNTY SPECIAL SERVICES SCHOOL DISTRICT
COUNTY OF WARREN
AUDITORS' MANAGEMENT REPORT ON ADMINISTRATIVE
FINDINGS - FINANCIAL
COMPLIANCE AND PERFORMANCE
FISCAL YEAR ENDED JUNE 30, 2015
TABLE OF CONTENTS

	Page
Cover Letter	1
General Comments:	2
Scope of Audit	2
Administrative Practices and Procedures:	2
Insurance	2
Officials in Office and Surety Bonds	2
Tuition Charges	2
Financial Planning, Accounting and Reporting:	2
Examination of Claims	2
Payroll Account and Position Control Roster	2
Reserve for Encumbrances and Accounts Payable	3
Classification of Expenditures	3
Board Secretary's Records	3
Treasurer's Records	3
No Child Left Behind (N.C.L.B.)	3
Other Special Federal and/or State Projects	4
T.P.A.F. Reimbursement	4
School Purchasing Programs:	4
Contracts and Agreements Requiring Advertisement for Bids	5
School Food Service Fund (Not Applicable)	
Student Body Activities	6
Application for State School Aid	6
Pupil Transportation	6
Facilities and Capital Assets	6
Enterprise Funds	6
Management Suggestions	7
Status of Prior Year's Findings/Recommendations	8
Schedule of Meal Count Activity (Not Applicable)	
Schedule of Net Cash Resources (Not Applicable)	
Schedule of Audited Enrollments	9
Excess Surplus Calculation (Not Applicable)	
Summary of Recommendations	15



Mount Arlington Corporate Center
200 Valley Road, Suite 300
Mt. Arlington, NJ 07856
973-328-1825 | 973-328-0507 Fax
Lawrence Business Center
11 Lawrence Road
Newton, NJ 07860
973-383-6699 | 973-383-6555 Fax

December 8, 2015

The Honorable President and Members
of the Board of Education
Warren County Special Services School District
County of Warren, New Jersey

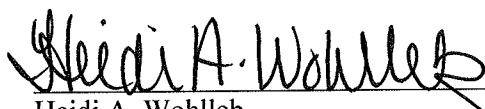
We have audited, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States, the component unit financial statements of the Board of Education of the Warren County Special Services School District in the County of Warren for the fiscal year ended June 30, 2015, and have issued our report thereon dated December 8, 2015.

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 letter does not affect our report dated December 8, 2015, on the financial statements of the Board.

We will review the status of the comments during our next audit engagement. We have already discussed these comments and suggestions with various management personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended for the information of the Warren County Special Services School District's management and the New Jersey Department of Education. However, this report is a matter of public record and its distribution is not limited.

NISIVOCCIA LLP


Heidi A. Wohlleb
Licensed Public School Accountant #2140
Certified Public Accountant

WARREN COUNTY SPECIAL SERVICES SCHOOL DISTRICT
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE
FISCAL YEAR ENDED JUNE 30, 2015

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, the records of the various funds under the auspices of the Board of Education.

Administrative Practices and Procedures

Insurance

Multi-peril insurance coverage was carried in the amounts as detailed on Exhibit J-20, Insurance Schedule contained in the district's CAFR.

Officials in Office and Surety Bonds

<u>Name</u>	<u>Position</u>	<u>Coverage</u>
Abigail E. Kutz	Treasurer of School Monies	\$ 166,000
Raelene Catterson	Business Administrator/Board Secretary	130,000

Tuition Charges

A comparison of tentative tuition charges and actual certified tuition charges was made. The actual costs were different than estimated costs. The Board made a proper adjustment to the billings to sending districts for the change in per pupil costs in accordance with N.J.A.C. 6A:23A-3.1(f)3.

Financial Planning, Accounting and Reporting

Examination of Claims

An examination of claims paid on a test basis, during the period under review did not indicate any discrepancies with respect to signatures, certification or supporting documentation.

Payroll Account and Position Control Roster

The net salaries of 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. Salary withholdings were promptly remitted to the proper agencies including health benefit withholdings due to the General Fund.

All payrolls tested were approved by the Chief School Administrator and certified by the President of the Board and the School Business Administrator and the Chief School Administrator.

Findings:

- 1) Although the results of our audit procedures revealed that the District's payroll records were maintained in a good condition and the District has made efforts to segregate some payroll duties, there is not an adequate segregation of duties with respect to the payroll duties and responsibilities as most of these duties are performed by one person, the Business Administrator. This is due to the limited number of personnel in the Business Office of the District. Accordingly, management and the Board of Education should be aware of this situation and realize that the concentration of most of the payroll duties and responsibilities with one employee, the Business Administrator, is not desirable from a control point of view.

WARREN COUNTY SPECIAL SERVICES SCHOOL DISTRICT
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE
AND PERFORMANCE
FISCAL YEAR ENDED JUNE 30, 2015
(Continued)

Financial Planning, Accounting and Reporting (Cont'd)

Payroll Account (Cont'd)

Findings (Cont'd):

- 2) The required certification (E-CERT 1) report of compliance with requirements for income tax on compensation of administrators was not filed with the NJ Department of Treasury by March 15th. However, as it was submitted subsequently, no formal recommendation is judged to be warranted.

Recommendation

It is recommended that the District review the assignment of payroll duties and responsibilities to provide for a more adequate segregation of payroll duties.

Management's Response

The District will review the finding and determine what corrective action can be taken during the fiscal year ended June 30, 2016.

Reserve for Encumbrances and Accounts Payable

A review of outstanding issued purchase orders was made on a test basis as of June 30, for proper classification of orders as reserve for encumbrances and accounts payable.

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 procedures. Overall compliance was noted.

Board Secretary's Records

In planning and performing our audit of the financial statements of the Board, we considered the condition of the Board Secretary's records for the purpose of expressing our opinion on the financial statements and not to provide specific assurance on the condition of the records. Based on these procedures, we have no comments.

Treasurer's Records

In planning and performing our audit of the financial statements of the Board, we considered the condition of the Treasurer's records for the purpose of expressing our opinion on the financial statements and not to provide specific assurance on the condition of the records. Based on these procedures, we have no comments except as noted herein.

No Child Left Behind (N.C.L.B.)

The District did not receive any No Child Left Behind funds in the current fiscal year.

WARREN COUNTY SPECIAL SERVICES SCHOOL DISTRICT
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE
AND PERFORMANCE
FISCAL YEAR ENDED JUNE 30, 2015
(Continued)

Financial Planning, Accounting and Reporting (Cont'd)

Other Special Federal and/or State Projects

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 District's Special Projects were approved as listed on Schedule A and Schedule B 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.

T.P.A.F. Reimbursement

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

T.P.A.F. Reimbursement to the State for Federal Salary Expenditures

The T.P.A.F. Reimbursement to the State for Federal Salary Expenditures was not remitted to the State of New Jersey prior to the required deadline of October 1, 2015. However, as the reimbursement form was reviewed and no exceptions were noted and there was no amount due to the State of New Jersey, no formal recommendation is judged to be warranted.

School Purchasing Programs

Contracts and Agreements Requiring Advertisement for Bids

N.J.S.A. 18A:18A-3 states:

- a. "When the cost or price of any contract awarded by the purchasing agent in the aggregate, does not exceed in a contract year the total sum of \$17,500, the contract may be awarded by a purchasing agent when so authorized by resolution of the Board of Education without public advertising for bids and bidding therefore, except that the Board of Education may adopt a resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations. If the purchasing agent is qualified pursuant to subsection b. of section 9 of P.L.1971, c. 198 the Board of Education may establish that the bid threshold may be up to \$25,000. Such authorization may be granted for each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section.
- b. Commencing in the fifth year after the year in which P.L.1999, c. 440 takes effect and every five years thereafter, the Governor, in consultation with the Department of Treasury, shall adjust the threshold amount and the higher threshold amount which the Board of Education is permitted to establish as set forth in subsection a. of this section or the threshold amount resulting from any adjustment under this subsection, in direct proportion to the rise or fall of the index rate as that term is defined in N.J.S.A. 18A:18A-2, and shall round the adjustment to the nearest \$1,000. The Governor shall notify all local school districts of the adjustment no later than June 1 of every fifth year. The adjustment shall become effective on July 1 of the year in which it is made"

WARREN COUNTY SPECIAL SERVICES SCHOOL DISTRICT
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE
AND PERFORMANCE
FISCAL YEAR ENDED JUNE 30, 2015
(Continued)

School Purchasing Programs

Contracts and Agreements Requiring Advertisement for Bids (Cont'd)

N.J.S.A. 18A:18A-4 states, "Every contract for the provision or performance of any goods or services the cost of which in the aggregate exceeds the bid threshold, shall be awarded only by resolution of the Board of Education to the lowest responsible bidder after public advertising for bids and bidding therefore, except as is provided otherwise in this chapter or specifically by any other law"

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 bidding for public school student transportation contracts under *N.J.S.A.* 18A:39-3 is currently \$18,300.

The 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 Attorney's opinion should be sought before a commitment is made.

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed. No exceptions were noted.

Based upon the results of our examination, we did not note any individual payments, contracts, or agreements 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.

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

The system of records did not provide for an accumulation of purchases for which the school board used contracts entered into by the State Department of Purchase and Property pursuant to Ch. 114, P.L. 1977, therefore, the extent of such purchases could not reasonably be ascertained.

Finding:

During our testing we noted that a professional service contract was not approved in the minutes. As overall compliance was noted and since procedures have been put into place to ensure that all professional service contracts are approved in the minutes in the future, no formal recommendation is judged to be warranted.

The system of records did not provide for an accumulation of purchases for which the school board used contracts entered into by the State Department of Purchase and Property pursuant to Ch. 114, P.L. 1977, therefore, the extent of such purchases could not reasonably be ascertained.

WARREN COUNTY SPECIAL SERVICES SCHOOL DISTRICT
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE
AND PERFORMANCE
FISCAL YEAR ENDED JUNE 30, 2015
(Continued)

Student Body Activities

In planning and performing our audit of the financial statements of the Board, we considered the condition of the records of the Student Activities Fund for the purpose of expressing our opinion on the financial statements and not to provide specific assurance on the condition of the records. Based on these procedures, we have no comments except as noted herein.

Application for State School Aid

Our audit procedures included a test of information reported in the October 15, 2014 Application for State School Aid (A.S.S.A.) for on-roll, and low income students. 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 without exception. The information that was included on the workpapers was verified without exception. The results of our procedures are presented in the Schedule of Audited Enrollments.

The District's written procedures for the recording of student enrollment data appear to be adequate.

Pupil Transportation

There were no students listed as transported on the 2014-2015 District Report of Transported Resident Students (DRTRS).

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. No exceptions were noted in our review of transportation related purchases of goods and services.

Facilities and Capital Assets

The District does not have any active Schools Development Authority grants.

Enterprise Funds

The District has had a recurring deficit net position in its Personal Aides, Related Services and Life Skills Enterprise Funds that raises substantial doubt about the ability for these Enterprise Funds to continue as a going concern.

The total deficit in unrestricted net position at June 30, 2015 in the Personal Aides Enterprise Fund is \$2,084,491 which includes the net pension liability and related deferred inflows and outflows of \$2,081,886. The District had a deficit net position of \$3,095 from operations which is an improvement of the prior year's deficit net position from operations of \$21,273. The Personal Aides Enterprise Fund had an operating income for the current year of \$18,177.

The total deficit in unrestricted net position at June 30, 2015 in the Related Services Enterprise Fund is \$179,113 which includes the net pension liability and related deferred inflows and outflows of \$84,401. The District had a deficit net position of \$94,712 from operations which reflects a net loss from current year's operations of \$84,392.

The Life Skills Enterprise Fund has its first full year of operation during the current fiscal year and ended the current fiscal year with a deficit in unrestricted net position of \$101,321. The District had a net loss of \$50,577 during the current fiscal year.

WARREN COUNTY SPECIAL SERVICES SCHOOL DISTRICT
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE
AND PERFORMANCE
FISCAL YEAR ENDED JUNE 30, 2015
(Continued)

Enterprise Funds (Cont'd)

Recommendation

It is recommended that the District conduct a thorough review of the operations of the Personal Aides, Related Services and Life Skills Enterprise Funds for their future viability as a going concern. If it is determined that the operations of these Enterprise Funds can continue to be viable then continuing efforts need to be made to seek ways to enhance revenue sources and curtail expenses of each of these Enterprise Funds.

Management's Response

The District has already made an effort to review how to resolve the going concern issues in these Enterprise Funds:

The District is looking at the fees charged by neighboring County Educational Services Commissions and Special Service School Districts to make the charges more in line with them. This is ongoing and will be in place for the coming school year. The District is continuing to look at areas where costs can be reduced or services can be made more efficient.

Management Suggestions

Payroll Service Provider

The Type 1 SOC 1 (Service Organization Controls Report) report obtained by the District's payroll service provider only provides a limited review of the provider's internal controls. This report does not test the provider's controls unlike a Type 2 report which tests to determine whether the service provider's controls are operating effectively. We suggest that the District require the payroll service provider to obtain a Type 2 SOC 1 report.

Single Audit

Effective for the fiscal year ended June 30, 2016, there will be significant changes to the Single Audit. These changes include the following:

- An increase in the single audit threshold
- Low risk auditee criteria
- Type A and B threshold
- Coverage requirements for major programs tested for both low risk and non-low risk auditees.

Additionally, the cost principles and administrative requirements such as A-87 have been consolidated under the *OMB Uniform Guidance: Cost Principles, Audit and Administrative Requirements for Federal Awards*. This guidance was effective December 26, 2014 for all new federal awards and for any additional funding for existing awards made after December 26, 2014.

WARREN COUNTY SPECIAL SERVICES SCHOOL DISTRICT
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE
AND PERFORMANCE
FISCAL YEAR ENDED JUNE 30, 2015
(Continued)

Management Suggestions (Cont'd)

Governmental Accounting Standards Board Statements:

The next Governmental Accounting Standards Board ("GASB") statement which will have a significant impact on the District will be GASB#75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, will be effective for the fiscal year ending June 30, 2018. This standard replaces GASB#45, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. It is similar to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* GASB#68 in that successful implementation of this standard will require the provision of certain key financial and non-financial information from the New Jersey Division of Pensions.

Deferred Compensation Plans

The District has a fiduciary responsibility to its employees related to the deferred compensation plans offered by the District. The District should consider a periodic review of the benefits, features, costs, and performance of its deferred compensation plans and make that information available to employees to assist employees in making suitable choices for investing their retirement funds while fulfilling the District's fiduciary responsibilities.

Independent Contractors vs. Employees

The District should consider reviewing the status of "Independent Contractors" utilized by the District with Internal Revenue Service guidelines for determination of employment status. The IRS has been reviewing employers, including governments, to determine compliance. A proactive approach may help to minimize or eliminate potential penalties related to incorrect employment status determination.

Status of Prior Year's Findings/Recommendations

The prior year recommendation regarding segregation of payroll duties was not resolved and remains as a current year recommendation.

WARREN COUNTY SPECIAL SERVICES SCHOOL DISTRICT
SCHEDULE OF AUDITED ENROLLMENT
APPLICATION FOR STATE SCHOOL AID SUMMARY
ENROLLMENT AS OF OCTOBER 15, 2014

	2015-2016 Application for State School Aid						Sample for Verification					
	Reported on ASSA On Roll		Reported on Workpapers On Roll		Errors		Sample Selected from Workpapers		Verified per Registers On Roll		Errors per Registers on Roll	
	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared
Special Education:												
Elementary School	5		5				1		1			
Middle School	12		12				2		2			
High School	13		13				2		2			
Subtotal	30		30				5		5			
Totals	30		30		-0-	-0-	5	-0-	5	-0-	-0-	-0-
Percentage Error					0.00%	0.00%					0.00%	0.00%

WARREN COUNTY SPECIAL SERVICES SCHOOL DISTRICT
SCHEDULE OF AUDITED ENROLLMENT
APPLICATION FOR STATE SCHOOL AID SUMMARY
ENROLLMENT AS OF OCTOBER 15, 2014

	Resident Low Income					
	Reported on ASSA as Low Income	Reported on Workpapers as Low Income	Errors	Sample Selected from Workpapers	Verified to Application and Register	Sample Errors
Special Education						
Elementary School	3	3		1	1	
Middle School	5	5		2	2	
High School	5	5		2	2	
Subtotal	<u>13</u>	<u>13</u>		<u>5</u>	<u>5</u>	
Totals	<u>13</u>	<u>13</u>	<u>-0-</u>	<u>5</u>	<u>5</u>	<u>-0-</u>
Percentage Error			<u>0.00%</u>			<u>0.00%</u>

WARREN COUNTY SPECIAL SERVICES SCHOOL DISTRICT
SCHEDULE OF AUDITED ENROLLMENT
APPLICATION FOR STATE SCHOOL AID SUMMARY - PUBLIC SCHOOLS FOR THE DISABLED
ENROLLMENT AS OF OCTOBER 15, 2014

NOT APPLICABLE

WARREN COUNTY SPECIAL SERVICES SCHOOL DISTRICT
SCHEDULE OF AUDITED ENROLLMENT - LEP NOT LOW INCOME
APPLICATION FOR STATE SCHOOL AID SUMMARY
ENROLLMENT AS OF OCTOBER 15, 2014

NOT APPLICABLE

WARREN COUNTY SPECIAL SERVICES SCHOOL DISTRICT
SCHEDULE OF AUDITED ENROLLMENT - LEP LOW INCOME
APPLICATION FOR STATE SCHOOL AID SUMMARY
ENROLLMENT AS OF OCTOBER 15, 2014

NOT APPLICABLE

WARREN COUNTY SPECIAL SERVICES SCHOOL DISTRICT
SCHEDULE OF AUDITED ENROLLMENT
APPLICATION FOR STATE SCHOOL AID SUMMARY
ENROLLMENT AS OF OCTOBER 15, 2014

NOT APPLICABLE

WARREN COUNTY SPECIAL SERVICES SCHOOL DISTRICT
SUMMARY OF RECOMMENDATIONS
FISCAL YEAR ENDED JUNE 30, 2015

It is recommended that:

1. Administrative Practices and Procedures
None
2. Financial Planning, Accounting and Reporting
The District review the assignment of payroll duties and responsibilities to provide for a more adequate segregation of payroll duties.
3. School Purchasing Program
None
4. School Food Service
None
5. Student Body Activities
None
6. Application for State School Aid
None
7. Pupil Transportation
None
8. Facilities and Capital Assets
None
9. Enterprise Funds
The District conduct a thorough review of the operations of the Personal Aides, Related Services and Life Skills Enterprise Funds for their future viability as a going concern. If it is determined that the operations of these Enterprise Funds can continue to be viable then continuing efforts need to be made to seek ways to enhance revenue sources and curtail expenses of each of these Enterprise Funds.
10. Status of Prior Year's Findings/Recommendations
The prior year recommendation regarding segregation of payroll duties was not resolved and remains as a current year recommendation.