

**MERIT PREPARATORY  
CHARTER SCHOOL**

**Auditors' Management Report  
On  
Administrative Findings  
Financial, Compliance  
And Performance  
June 30, 2015**

**MERIT PREPARATORY CHARTER SCHOOL**

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## **Report of Independent Auditors**

Honorable President and  
Members of the Board of Trustees  
Merit Preparatory Charter School  
County of Essex, 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 Trustees of Merit Preparatory Charter School in the County of Essex, for the year ended June 30, 2015, and have issued our report thereon dated November 24, 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 report is intended for the information of the Merit Preparatory Charter School Board of Trustee's management and the New Jersey Department of Education. However, this report is a matter of public record and its distribution is not limited.

*Olugbenga Olabintan, CPA*

November 24, 2015  
Newark, New Jersey

OLUGBENGA OLABINTAN  
Certified Public Accountant/Consultant



Olugbenga Olabintan, CPA  
Licensed Public School Accountant  
No. 20CS00230200

**MERIT PREPARATORY CHARTER SCHOOL**  
**Auditors' Management Report On Administrative Findings**  
**Financial, Compliance and Performance**  
**For the Year Ended June 30, 2015**

**Scope of Audit**

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

**Administrative Practices and Procedures**

**Insurance**

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

There is a Public Employee's Faithful Performance Blanket Position Bond Policy covering all other employees with multiple coverage of \$25,000.

School Leaders Errors and Omissions Liability insurance was carried for all members of the Board of Trustees with coverage for each wrongful act of \$1,000,000

**Tuition Charges**

A review of the financial statements indicated that the charter school charged no tuition for any student attending the Charter School. And there is no evidence that the Charter School was engaged in the before/after school program during the year.

**Financial Planning, Accounting and Reporting**

**Examination of Claims**

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

**Payroll Account**

The net salaries of all employees of the Charter School 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 were approved by the designee in the Charter School and were certified by the President of the Board of Trustees, the School Business Administrator and the Principal/Director.

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

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Payrolls were delivered to the School Business Administrator/Board Secretary who then made cash transfers from the Operating account to the separate bank accounts for net payroll and the withholdings.

**Employee Certification**

***Finding # 2015-001 – Test of Employees Personnel Folders***

During our test of personnel information, we selected 15 employees and noted the following:

- One (1) employee did not have the required federal Form I-9 on file, also ten (10) of the fourteen Form I-9 on file were not signed by the employer.
- Six (6) employees did not have the required Mantoux physical examination results on file.

**Recommendation:**

We recommend that all documentation be maintained on file. This policy helps to protect the interest of the Charter School

***Management Response:***

Management agrees and will ensure compliance going forward.

**Reserve for Encumbrances and Accounts Payable**

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

**Classification of Expenditures**

The coding of expenditures was tested for proper classification in accordance with NJAC 6A:23-2.2(g) 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 selection specifically targeted administrative coding classifications to determine overall reliability and compliance with N.J.A.C 6A:23 A-8.3. As a result of the procedures performed, no transaction error rate was noted.

**Board Secretary's Records**

We reviewed the financial and accounting records maintained by the Business Office and no exceptions were noted.

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**Treasurer's Records**

Our review of the treasurer's records disclosed that the Charter School is in compliance with the State requirements. All cash accounts were reconciled monthly and reporting requirements were met on time.

Elementary and Secondary Education Act (E.S.E.A) / Improving America's Schools Act (IASA) as reauthorized by the No Child Left Behind Act of 2001.

The E.S.E.A financial exhibits are contained within the Special Revenue Section of the CAFR. This section of the CAFR documents the financial position pertaining to the projects under Titles I through VI of the Elementary and Secondary Education Act as amended.

The study of compliance for E.S.E.A did not indicate any areas of noncompliance and/or questionable costs.

**Other Special Federal and/or State Projects**

The Charter School'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.

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 – federal and state.

**T.P.A.F. Reimbursement**

Our audit procedures included a test of the biweekly reimbursements filed with the Department of Education for Charter School employees who are members of the Teachers Pension and Annuity Fund.

**School Purchasing Programs**

**Contracts and Agreements Requiring Advertising for Bids**

Effective July 1, 2010 and thereafter the bid thresholds in accordance with N.J.S.A 18A: 18A-3 (as amended) and 18A:39-3 is \$36,000 (with a Qualified Purchasing Agent) and \$26,000 (without a Qualified Purchasing Agent), respectively. The law requiring bidding for public student transportation contract under N.J.S.A. 18A:39-3 is currently \$17,200.

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The Charter School Board of Trustees 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.

Based on the results of our examination, we did not note any individual payments, contracts, or agreements 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 18A18A-4, amended.

Resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services" per N.J.S.A 18A:A8A-5.

In as much as the system of records did not provide for an accumulation of payments for categories for the performance of any work or goods or services, the results of such accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed.

The system of records did not provide for an accumulation of purchases for which the Charter School 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.

**School Food Service**

The financial transactions and statistical records of the Charter School food services were maintained in satisfactory condition. The financial accounts, meal count records and eligibility applications were reviewed on a test-check basis.

The number of meals claimed for reimbursement was verified against sales and meal count records. As part of the claims review process the Edit Check Worksheet was completed. We noted that meals claimed agreed with meal count records. No exceptions noted. We also noted that the reimbursement claims were submitted/certified in a timely manner. Applications for free and reduced price meals were reviewed for completeness and accuracy. 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 class by class basis. No exceptions noted. The free and reduced price meals and free milk policy is uniformly administered throughout the Charter school. The required verification procedures for free and reduced price applications were completed and available for review.

Expenditures were separately recorded as food, labor and other costs. Vendor invoices were reviewed and cost verified.

**MERIT PREPARATORY CHARTER SCHOOL**  
**Auditors' Management Report On Administrative Findings**  
**Financial, Compliance and Performance**  
**For the Year Ended June 30, 2015**

The cash disbursement 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-month average expenditures.

Cash receipts and bank records were reviewed for timely deposit. No exceptions noted.

The Charter School uses a food service management company. We noted that the Charter School deposited and expended food program monies in accordance with N.J.S.A 18A:17-34, and 19-1 through 19-4.1.

Food Distribution Program commodities were not received and therefore no inventory were maintained.

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

***Finding 2015-002:***

We noted that the Enterprise Fund - Child Nutrition Program incurred a deficit of \$112,357 for the year ended June 30, 2015. The deficit was funded by a transfer from the General Fund. Similar deficits were incurred in the prior years ended June 30, 2014 and 2013, respectively which were also funded by transfers from the General Fund. We also noted that several months of reimbursements were withheld by the New Jersey Department of Agriculture pending the submission of a form by the Charter School. This led to a significant food program receivable as of June 30, 2015. Management represents that most of the receivable amounts have been received since July 2015.

***Recommendation:***

We recommend that the Board should consider comparison shopping for the food vendors with a view to exploring ways of reducing deficits.

***Management Response:***

Management agrees with the recommendation and will ensure that child nutrition program maintains a positive balance.

**Student Body Activities**

Our audit did not reveal any student body activities during the fiscal year ended June 30, 2015.



**MERIT PREPARATORY CHARTER SCHOOL**  
**Auditors' Management Report On Administrative Findings**  
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**For the Year Ended June 30, 2015**

**Enrollment Counts and Submission to the Department**

Our audit procedures included test of information reported on the October 15th, and the last day of school for on-roll, special education, bilingual and low income. We also performed a review of the Charter School procedures related to its completion.

***Findings 2015-003 – Enrollment Counts***

- There is no evidence that the Charter School had written procedures for the proper maintenance and recording of student enrollment data.
- During our testing of the enrollment counts we noted that four (4) students classified as Special Education and provided with services were not reported on the New Jersey DOENET. Also three (3) students reported on New Jersey DOENET as Special Education students were not identified as such by the Charter School.

***Recommendation:***

We recommend that the Charter School should prepare written procedures detailing the process for the two enrollment counts. The written procedures should describe how the count was taken, who was responsible for compiling the data, completing the enrollment count submission, and detailing the various assigned responsibilities for collection of the data and the follow up procedures to identify student information to be corrected in the subsequent count.

A supervisory review of the worksheet containing student's data should be performed before the information is entered in New Jersey DOENET.

***Management Response:***

Management agrees with the recommendation.

**Follow-up on Prior Year's Findings**

In accordance with government auditing standards, our procedures included a review of all prior year recommendations. The prior year's findings were corrected except the following:

- Discrepancies in the required employees folders documentations.
- Deficit in the food program funded by transfers from the General Fund.
- Discrepancies in the enrollment counts information between the New Jersey DOENET reports and the Charter School's underlying records.

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**For the Year Ended June 30, 2015**

Acknowledgement

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

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**For the Year Ended June 30, 2015**

**Food Service Fund**  
**Numbers For Meals Served and (Over)/Underclaim**  
**Enterprise Fund**  
**For the Year Ended June 30, 2015**

Program	Meal Category	Meals Claimed	Meals Verified	Difference	Rate	(Over) Under Claim
National School Lunch	Paid	7,889	7,889	-	\$ 0.34	\$ -
	Reduced	2,998	2,998	-	2.66	-
	Free	26,947	26,947	-	3.06	-
	Total	<u>37,834</u>	<u>37,834</u>	<u>-</u>		<u>-</u>
School Breakfast	Paid	5,709	5,709	-	0.28	-
	Reduced	2,058	2,058	-	1.63	-
	Free	19,718	19,718	-	1.93	-
	Total	<u>27,485</u>	<u>27,485</u>	<u>-</u>		<u>-</u>
National After School Snacks	Paid	-	-	-	-	-
	Reduced	-	-	-	-	-
	Free	-	-	-	-	-
	Total	<u>-</u>	<u>-</u>	<u>-</u>		<u>-</u>
Total Net (Over)/Underclaim						<u>\$ -</u>

**MERIT PREPARATORY CHARTER SCHOOL**  
**Application for Charter School Aid**  
**Schedule of Audited Enrollments**  
**Enrollment Count as of October 15, 2014**

Grades	Submission to DOE reported on Roll	Reported on Workpapers	Verified signed registration forms	Errors	Verified # of days enrolled	Errors	Special Ed &/ or Bilingual	Verified Documentation	Errors	Verified # of days of Service Provided	Errors	Low Income	Verified Documentation	Errors
Sixth	84	42	42	-	42	-	4	4	-	4	-	22	22	-
Seventh	154	77	77	-	77	-	8	6	2	6	2	75	75	-
Eight	96	48	48	-	48	-	2	3	(1)	3	(1)	42	42	-
<b>Total</b>	<b>334</b>	<b>167</b>	<b>167</b>	<b>0</b>	<b>167</b>	<b>0</b>	<b>14</b>	<b>13</b>	<b>1</b>	<b>13</b>	<b>1</b>	<b>139</b>	<b>139</b>	<b>0</b>
Percentage				0.00%		0.00%			7.14%		7.14%			0.00%

**MERIT PREPARATORY CHARTER SCHOOL**  
**Application for Charter School Aid**  
**Schedule of Audited Enrollments**  
**Enrollment Count as of Last Day of School**

Grades	Submission to DOE reported on Roll	Reported on Workpapers	Verified signed registration forms	Errors	Verified # of days enrolled	Errors	Special Ed &/ or Bilingual	Verified Documentation	Errors	Verified # of days of Service Provided	Errors	Low Income	Verified Documentation	Errors
Sixth	84	42	42	-	42	-	5	4	1	4	1	22	22	-
Seventh	154	77	77	-	77	-	3	3	-	3	-	75	75	-
Eight	96	48	48	-	48	-	4	4	-	4	-	43	43	-
<b>Total</b>	<b>334</b>	<b>167</b>	<b>167</b>	<b>0</b>	<b>167</b>	<b>0</b>	<b>12</b>	<b>11</b>	<b>1</b>	<b>11</b>	<b>1</b>	<b>140</b>	<b>140</b>	<b>0</b>
Percentage				0.00%		0.00%			8.33%		8.33%			0.00%

**MERIT PREPARATORY CHARTER SCHOOL  
NET CASH RESOURCE SCHEDULE**

Net cash resources did/did not exceed three months of expenditures  
Proprietary Funds - Food Service  
Year ended June 30, 2015

<u>Net Cash Resources:</u>		<b>Food Service B - 4/5</b>
<b>CAFR</b>	*	
	<b>Current Assets</b>	
B-4	Cash & Cash Equiv.	\$ (173,191)
B-4	Due from Other Gov'ts	100,694
B-4	Accounts Receivable	-
B-4	Investments	-
<b>CAFR</b>	<b>Current Liabilities</b>	
B-4	Less Accounts Payable	-
B-4	Less Accruals	-
B-4	Less Due to Other Funds	-
B-4	Less Deferred Revenue	-
	<b>Net Cash Resources</b>	<b><u>\$ (72,497)</u></b> (A)
 <b><u>Net Adj. Total Operating Expense:</u></b>		
B-5	Tot. Operating Exp.	249,217
B-5	Less Depreciation	-
	<b>Adj. Tot. Oper. Exp.</b>	<b><u>\$ 249,217</u></b> (B)
 <b><u>Average Monthly Operating Expense:</u></b>		
	B / 10	<b><u>\$ 24,922</u></b> (C)
 <b><u>Three times monthly Average:</u></b>		
	3 X C	<b><u>\$ 74,765</u></b> (D)

TOTAL IN BOX A	\$ (72,497)	
LESS TOTAL IN BOX D	\$ (74,765)	
NET	<b><u>\$ (147,262)</u></b>	
From above:		
<b>D is greater than A, cash does not exceed 3 X average monthly operating expenses.</b>		

\* Inventories are not to be included in total current assets.

Source: Charter School's CAFR