

**INDEPENDENT AUDITOR'S MANAGEMENT
REPORT ON ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND
PERFORMANCE**

GRAY CHARTER SCHOOL

JUNE 30, 2015

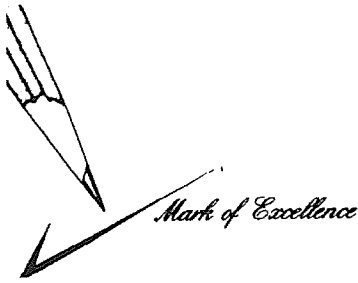
ILORI CPA LLC

CERTIFIED PUBLIC ACCOUNTANT AND MANAGEMENT CONSULTANT

**INDEPENDENT AUDITOR’S MANAGEMENT REPORT
ON ADMINISTRATIVE FINDINGS
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GRAY CHARTER SCHOOL
COUNTY OF ESSEX**

TABLE OF CONTENTS

	<u>PAGE NO.</u>
Independent Auditor’s Report	1
Scope of Audit	2
Administrative Practices and Procedures	
Insurance	2
Official Bonds.....	2
Financial Planning, Accounting and Reporting	
Examination of Claims	2
Payroll Account	3
Reserve for Encumbrances and Accounts Payable	4
Classification of Expenditures	4
. General Classifications	4
. Administrative Classification	4
Board Secretary’s Reports	5
Treasurer’s Records	5
Elementary and Secondary Education Act/Improving America’s School Act as Reauthorized by the No Child Left Behind Act of 2001	5
Other Special Federal and/or State Projects	6
T.P.A.F. Reimbursement	6
School Purchasing Programs	
Contracts and Agreements Requiring Advertisement for Bids.....	6-7
School Food Service	8
Student Body Activities.....	N/A
Enrollment Count and Submission to the Department/Charter School Aid	9
Facilities and Capital Assets.....	9
Miscellaneous.....	N/A
Follow-up on Prior Year Findings	10
Acknowledgment	10
Schedule of Meal Count Activity.....	N/A
Schedule of Audited Enrollments	11-12
Tax Identification Number 22-3626543	



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INDEPENDENT AUDITOR'S REPORT

Honorable President and Members of
Board of Trustees
Gray Charter School
County of Essex, New Jersey

We have audited, in accordance with generally accepted audit standards and *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the Board of trustees of Gray Charter School (the "Charter School") in the County of Essex in the State of New Jersey for the year ended June 30, 2015, and have issued our report thereon, dated December 10, 2015.

As part of our audit, we performed procedures required by the State of 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 School's management, Board of Trustees and the New Jersey Department of Education. However, this report is a matter of public record and its distribution is not limited.

ILORI CPA LLC

KunleIlori

Kunle B. Ilori CPA
Licensed Public School Accountant
No. 20CS00233100

ILORI CPA LLC

Newark, New Jersey
December 10, 2015

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GRAY CHARTER SCHOOL
COUNTY OF ESSEX**

Scope of Audit

The audit covered the financial transactions of Board Secretary/School Business Administrator and the Treasurer of School Moneys, the activities of the Board of Trustees, and the records of the various funds under the auspices of the Board of Trustees. Additional items discovered during our audit are also stated in this report.

Administrative Practices and Procedures

Insurance

Fire insurance coverage was carried in the amounts as detailed on Exhibit J-13, Insurance Schedule contained in the charter school's CAFR.

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

<u>Name</u>	<u>Position</u>	<u>Amount</u>
Karen Milteer	Business Administrator	\$ 148,000

Our review of insurance policies disclosed that the Charter School maintains fidelity insurance on officers in certain financial position such as the School Business Administrator and the Board Treasurer

Tuition Charges

A review of the financial statements indicated that the Charter School charged no tuition for any student attending the school.

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.

Finding *

The Charter School lacks the appropriate evidence or documentation to support that all public funds are expended only by warrant/checks that are signed by both the president and secretary of the Board of Trustees. Additionally, the school has a signature stamp of the board president

Recommendation

We recommend that all public funds are to be expended only by warrantor checks signed by both the president and secretary of the Board of Trustees. Additionally, the school should develop controls over the use of the board president's signature stamp.

**INDEPENDENT AUDITOR'S MANAGEMENT REPORT
ON ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE
GRAY CHARTER SCHOOL
COUNTY OF ESSEX**

Financial Planning, Accounting and Reporting – Continued
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. The Charter School uses an outside payroll service for all payroll tax payments. During our review of payroll, we noted the following

Finding

Withholdings from employees for their portion of the health benefits premiums as required by N.J.S.A. 18A:16-17 was not computed correctly.

Recommendation

The employees withholdings for their portion of the health benefit premiums be computed correctly as required by N.J.S.A. 18A:-16-17.

Finding:

Our procedures uncovered excessive funding of agency accounts as of the fiscal year ended June 30, 2015.

Recommendation:

The school should refrain from excessive funding of the agency accounts. The exact amount with a little allowance of \$1,000 might be sufficient for the accounts.

Finding:

The earning records were not adequately maintained, our review of the payroll register disclosed that reconciliation of payroll to general ledger was not performed.

Recommendation:

The Board secretary should reconcile payroll register to the general ledger on a monthly basis for accuracy and completeness of the payroll process. This approach will lend credibility to the payroll process as problems will be resolved in a timely manner.

Reserve for Encumbrances and Accounts Payable

A review of outstanding purchase orders was made as of June 30, 2015, for proper classification of purchase orders as Reserve for Encumbrances and Accounts Payable. We noted no exceptions.

**INDEPENDENT AUDITOR'S MANAGEMENT REPORT
ON ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE
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COUNTY OF ESSEX**

Travel

The charter school has a travel policy that is consistent and complies with NJSA 18A:11. There was no travel event that was up to \$5,000 or more which would require approval of the County superintendent of Education.

A. General Classification Findings

Classification of Expenditures

During our test of transactions it was noted that the charter school misclassified a lot of proprietary fund expenditures as general fund expenditures. A lot of audit adjustments were made to reflect the true balance of the proprietary fund. The coding of expenditures was tested for proper classification in accordance with the N.J.A.C. 6A:23-2.2(g) and line item details as described in the Budget Summary Key as part of our test of transactions of randomly selected expenditure items. As a result of the procedures performed, no transaction errors were noted and no additional procedures were deemed necessary to test the propriety of expenditure classification.

B. Administration classification findings

During our test of transactions it was noted that the charter school properly classify the Tuition aid to different categories as provided by the state such as Security aid, special education, preschool aid and state share.

Financial Planning, Accounting and Reporting

Charter school accounting system reference accounting manual titled *The Uniform Chart of Accounts (Handbook 2R2) for New Jersey Public Schools* for guidance in transaction postings.

Board Secretary's Records

Our review of the financial and accounting records maintained by the business office disclosed no instances of noncompliance. The Board acknowledged the receipt of the monthly financial reports in the minutes. In addition, procurement for goods and services are approved by the Board in the form of resolutions.

**INDEPENDENT AUDITOR'S MANAGEMENT REPORT
ON ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE
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Treasurer's Records

The school does not maintain position of treasurer school of moneys; rather the business office and the executive office handles all cash transactions and bank account reconciliations.

Board Secretary's Records- continued

Finding:

During our test of transactions it was noted that the charter school commingled substantial part of food program activities with general fund contrary to the fund accounting requirements consequently, a lot of adjustments were made to the general fund for fair presentation.

Recommendation:

We recommend that the school refrain from commingling of enterprise funds with general fund. In addition, appropriate transfer of food program funds should be done upon receipt of reimbursement of from the Department of Education. This process will alleviate the discrepancies on enterprise funds. Significant effort was expended to identify some of the problems in order to make adjusting entries. Each bank account should be reconciled to its set of general ledger.

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

The E.S.E.A/N.C.L.B 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 and VI of the Elementary and Secondary Act as amended and reauthorized.

The study of the compliance for E.S.E.A.N/ N.C.L.B did not disclose exceptions regarding the compliance as the school did not participate in the Federal program for the year ended June 30, 2015.

Other Special Federal and/or State Projects

The charter school's Special Grants were approved as listed on Schedules A and B located in the CAFR. 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 non-compliance.

**INDEPENDENT AUDITOR'S MANAGEMENT REPORT
ON ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE
GRAY CHARTER SCHOOL
COUNTY OF ESSEX**

Teachers' Pension Annuity Fund (TPAF) Reimbursement

T.P.A.F. Reimbursement

Our audit procedures included a test of the biweekly FICA reimbursement forms filed with the Department of Education for charter school employees who are members of the Teachers Pension and Annuity (TPAF) Fund. No exceptions were noted in the process.

SCHOOL PURCHASING PROGRAMS

Contracts and Agreements Requiring Advertisement for Bids

N.J.S.A. 18A:18A-1 et seq. (Public School Contracts Law), the associated rules and related information on the statute, and school contracts in general is available on the website <http://www.state.nj.us/njded/pscl/index.html>

Effective July 1, 2010 and thereafter the bid threshold in accordance with N.J.S.A. 18A:18A-2 and 18A:18A-3(a) is \$36,000 (with a Qualified Purchasing Agent) and \$26,000 (without a Qualified Purchasing Agent), respectively. The Charter School's Business Administrator is a Qualified Purchasing Agent.

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 questions arise 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.

**INDEPENDENT AUDITOR'S MANAGEMENT REPORT
ON ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE
GRAY CHARTER SCHOOL
COUNTY OF ESSEX**

SCHOOL PURCHASING PROGRAMS- continued

Inasmuch 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 an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed.

Based on the results of my 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. 18A:18A-4, amended.

N.J.S.A. 18A:18A-4 states, "Every contract or agreement for the performance of any work or the furnishing or hiring of any materials or supplies, the cost or the contract price thereof is to be paid with or out of school funds, not included within the terms of N.J.S.A. 18A:18A-3, shall be made and awarded only by the board of education after public advertising for bids and bidding therefore, except as is provided otherwise in this chapter or specifically by any other law.

No work, materials or supplies shall be undertaken, acquired or furnished for a sum exceeding in the aggregate the amount set forth in, or calculated by the Governor pursuant to N.J.S.A. 18A:18A-3 except by contract or agreement."

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

In accordance with N.J.S.A. 18A: 18A-37, for all contracts that in the aggregate are less than the bid threshold but 15 percent or more of that amount, the purchasing agent shall award the award the contract after soliciting at least two competitive quotations, if practicable. The award shall be made to a vendor whose response is advantageous, price and other factors considered. The Business Administrator shall retain the record of the quotation solicitation and shall include a copy of the record with the voucher used to pay the vendor. The following exception was noted.

Finding

A second quote was not always obtained when contracts, in the aggregate, were in excess of 15 percent of the bid threshold.

Recommendation:

That the Board of Trustees should obtain quotes for purchases that exceed required threshold. The quotes should be attached to the purchase order issued.

**INDEPENDENT AUDITOR'S MANAGEMENT REPORT
ON ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE
GRAY CHARTER SCHOOL
COUNTY OF ESSEX**

SCHOOL PURCHASING PROGRAMS- continued

Finding:

Although professional services are exempt from bidding under provisions of N.J.S.A. 18A:18A-5, the school failed to place notice of award in its official newspaper or other medium for its professional services contract awards.

Recommendation

The School should place notice of award in its official newspaper or other medium for its appointment professionals.

SCHOOL FOOD SERVICE (Reimbursement basis)

The National School Lunch Program was not a major program selected for single audit purposes. 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 Charter School's 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. Applications for free and reduced price meals were reviewed for completeness and accuracy. The number of free and reduced price meals claimed was compared to the number of valid applications.

Applications for free and reduced price meals were reviewed for completeness and accuracy. The number of free and reduced price meal claimed as served was compared to the number of valid application and/or the list of directly certified students on file, times the number of operating days, on a school-by-school basis. The free and reduced price meal and free milk policy was reviewed for uniform administration throughout the Charter School. The required verification procedures for free and reduced price applications were completed and available for review.

The charter School had a contract with an outside catering firm to provide the food in the Food Service Fund for the 2014-2015.

Finding

During our review of the Food Service Program, we noted the Food Service Program has been incurring deficits from operations for the last two years. The Food Service Program at June 30, 2015 has a deficit in the unrestricted net position.

Recommendation:

That the Board of Trustees implements a plan for the Food Service Program to eliminate the deficit in its operations for the next fiscal year.

**INDEPENDENT AUDITOR'S MANAGEMENT REPORT
ON ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE
GRAY CHARTER SCHOOL
COUNTY OF ESSEX**

ENROLLMENT COUNTS AND SUBMISSIONS TO THE DEPARTMENT

Our audit procedures included a test of enrollment information reported on October 15, 2013, and the last day of school for on-roll, special education, bilingual and low income. We also performed a review of the Charter School's procedures related to its completion for the two required enrollment counts. The informational was compared to the Charter School's workpapers with exception. The results of our procedures are presented in the Schedule of Audited Enrollments.

We noted exceptions listed below:

Finding:

There were two (2) instances where the numbers of days reported to the state via Charter Enrollment System (CHE) were different to the number of days counted on the school register as disclosed in the accompanying schedule of enrollment.

Recommendation

The charter school must establish and implement procedures to ensure that the enrolled days of any student in the CHE matches the days on the school register. The Charter school must notify the school resident district of drop out where a student is absent for 10days. In addition, the Charter school should exercise better control over input into the school register to enhance accuracy and completeness of the data.

Finding:

There were several cases where the registrations of the students were not located.

Recommendation:

The school should retain the student records in a manner consistent with state policy and regulations and for statutory period mandated for the public schools.

Capital Assets

The school maintained and tracked the inventory of capital assets.

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FINANCIAL, COMPLIANCE AND PERFORMANCE
GRAY CHARTER SCHOOL
COUNTY OF ESSEX**

Follow-up on Prior Year Findings

In accordance with the Government Auditing Standards issued by the comptroller General of the United States, our procedures include review of prior year findings and recommendations in relation to the corrective action Plan undertaken by the School. Corrective Action Plan was implemented except for the repeat occurrences.

Acknowledgment

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

GRAY CHARTER SCHOOL
 APPLICATION FOR CHARTER SCHOOL AID
 ENROLLMENT COUNT AS OF JUNE 30, 2015

SCHEDULE OF AUDITED ENROLLMENTS

Grades	(State) Submission to DOE	Reported on Work Papers	Verified Signed Registration	Errors	Verified No. Days Enrolled	Errors	Special Ed And/Or Bilingual	Verified Documentation	Errors	Verified No. Days Services Provided	Errors	Low Income	Verified Documentation	Errors
Kindergarten	52	20	14	6	19	1	1	0	1	0	1	20	17	3
Grade 1	52	26	20	6	26	0	1	0	1	0	1	26	24	2
Grade 2	51	19	18	1	19	0	0	0	0	0	0	19	18	1
Grade 3	53	26	17	9	26	0	0	0	0	0	0	26	22	4
Grade 4	36	20	8	12	20	0	0	0	0	0	0	20	16	4
Grade 5	28	12	11	1	12	0	0	0	0	0	0	12	11	1
Grade 6	31	16	7	9	16	0	0	0	0	0	0	16	16	0
Grade 7	23	14	12	2	14	0	0	0	0	0	0	14	13	1
Grade 8	18	10	10	0	10	0	0	0	0	0	0	10	10	0
TOTAL	344	163	117	46	162	1	2	0	2	0	2	163	147	16

PERCENTAGE

28.22%

0.61%

100.00%

100.00%

9.82%