

Auditor's Management Report

for the

*Borough of Hawthorne
School District*

in the

*County of Passaic
New Jersey*

for the

*Fiscal Year Ended
June 30, 2016*

**AUDITOR'S MANAGEMENT REPORT ON ADMINISTRATIVE
FINDINGS – FINANCIAL AND COMPLIANCE**

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Tax ID Number 22-6001974



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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Honorable President and Members
of the Board of Trustees
Hawthorne Board of Education
Hawthorne, New Jersey 07506

We have audited, in accordance with U.S. generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States, the basic financial statements of the Borough of Hawthorne School District in the County of Passaic for the year ended June 30, 2016, and have issued our report dated October 5, 2016

As part of our audit, we performed procedures required by the New Jersey Department of Education, and the findings and results are disclosed on the following pages, as listed in the accompanying table of contents.

This report is intended solely for the information of the Borough of Hawthorne School District, County of Passaic, New Jersey, the New Jersey Department of Education and federal and state audit awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.


CERTIFIED PUBLIC ACCOUNTANTS


PUBLIC SCHOOL ACCOUNTANT NO. 948

October 5, 2016

Independent Auditor's Management Report of Administrative Findings – Financial and Compliance

Scope of Audit

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

Administrative Practices and Procedures

Insurance

Fire insurance coverage was carried in the amounts as detailed on the Insurance Schedule (Exhibit J-20) contained in the District's Comprehensive Annual Financial Report (CAFR).

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

<u>Name</u>	<u>Position</u>	<u>Amount of Bonds</u>
Gertrude Engle	Business Administrator/Board Secretary	\$250,000.00

There is a Public Employees' Blanket Position Bond with Selective Insurance Company covering all other employees with multiple coverage of \$100,000.

Financial Planning, Accounting and Reporting

Examination of Claims

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

Payroll Accounts

The net salaries of all employees of the Board were deposited in the Net Payroll Account. Employees' payroll deductions and employer's share of fringe benefits were deposited in the Payroll Agency Account.

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

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

Payrolls were delivered to the secretary of the board with a warrant made to her order for the full amount of each payroll.

Independent Auditor's Management Report of Administrative Findings – Financial and Compliance

Financial Planning, Accounting and Reporting (Continued)

Position Control Roster

The Position Control Roster was reviewed and compared to payroll records, employee benefit records and charges made to the general ledger to ensure proper and consistent financial reporting and that employee benefits are only offered to current employees.

Reserve for Encumbrances and Accounts Payable

A review of outstanding issued purchase orders was made as of June 30, for goods not yet received or services not yet rendered and it was determined that no blanket purchase orders were included in the balance of the reserve for encumbrances. Also, unpaid purchase orders included in the balance of accounts payable were reviewed for propriety and to determine that goods were received and services were rendered, as of June 30.

Classification of Expenditures

The coding of expenditures was tested for proper classification in accordance with N.J.A.C. 6A:23A-16.2(f) as part of our test of transactions of randomly selected expenditure items. We also reviewed the coding of all expenditures included in our compliance and single audit testing procedures. In addition to randomly selecting a test sample, our sample selection specifically targeted administrative coding classifications to determine overall reliability and compliance with N.J.A.C. 6A:23A-8.3. As a result of the procedures performed, no errors were noted and no additional procedures were deemed necessary to the test the propriety of expenditure classification.

Board Secretary's Records

The records maintained by the Board Secretary were in agreement with the records maintained by the Treasurer.

Treasurer's Records

The records maintained by the Treasurer were in satisfactory condition and were in agreement with the records maintained by the Board Secretary/Business Administrator.

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./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 Title I, Title II and Title III of the Elementary and Secondary Education Act as amended and reauthorized.

**Independent Auditor's Management Report of Administrative
Findings – Financial and Compliance**

Other Special Federal and/or State Projects

The District's Special Projects were approved as listed on Exhibits K-3 and K-4 located in the CAFR.

Our audit of the federal and state funds on a test basis indicated that obligations and expenditures were incurred during the fiscal year or project period for which the project was approved.

The financial exhibits are contained within the Special Revenue Section of the CAFR. This section of the CAFR documents the financial position pertaining to the aforementioned special projects.

T.P.A.F. Reimbursement

Our audit procedures included a test of the semi-monthly reimbursement filed with the Department of Education for district employees who are members of the Teachers Pension and Annuity Fund.

The amount of the expenditure charged to the current year's Final Report(s) for all federal awards for the school district to reimburse the State for the TPAF/FICA payments made by the State on-behalf of the school district for those employees whose salaries are identified as being paid from federal funds was made prior to the end of the 60 day grant liquidation period required by the Office of Grants Management. The expenditure was reviewed subsequent to the reimbursement.

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 \$29,000.00, 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 therefor, 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. (pending before the Legislature as section 15 of this bill) of section 9 of P.L. 1971 c. 198 (C.40A:11-9) the board of education may establish that the bid threshold may be up to \$40,000.00. Such authorization may be granted for each contract for by a general delegation of the power to negotiate and award such contracts pursuant to this section.

**Independent Auditor's Management Report of Administrative
Findings – Financial and Compliance**

School Purchasing Programs (Continued)

Contracts and Agreements Requiring Advertisement for Bids (Continued)

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 \$1,000.00. 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 every year in which it is made. Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to paragraph (1) of subsection a. of N.J.S.A. 18A:18A-5 may be awarded for a period not exceeding 12 consecutive months."

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 therefor, except as is provided otherwise in this chapter or specifically by any other law.

The Board of Education may, by resolution, approve by the majority of the board of education and subject to subsections b. and c. of this section, disqualify a bidder who would otherwise be determined to be the lowest responsible bidder, if the board of education finds that it has had negative prior experience with the bidder."

Effective July 1, 2015, the bid threshold in accordance with N.J.S.A. 18A:18A-3(a) and (c) is \$29,000.00. In accordance with N.J.S.A. 40A:11-9 (b) the bid threshold for all purchases made by the District's qualified purchasing agent is \$40,000.00. The law regulating bidding for public school student transportation contracts under N.J.S.A. 18:39-3 is currently \$18,800.00.

The Board of Education has the responsibility of determining whether the expenditures in any category will exceed the statutory thresholds within the fiscal 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.

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.

The results of our examination indicated that no individual payments, contracts or agreements were made "for the performance of any work or the furnishing or hiring of any materials or supplies," in excess of the statutory thresholds where there had been no advertising for bids in accordance with the provisions of N.J.S.A. 18A:18A-4.

**Independent Auditor's Management Report of Administrative
Findings – Financial and Compliance**

School Purchasing Programs (Continued)

Contracts and Agreements Requiring Advertisement for Bids (Continued)

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. Our examination did reveal however, that the district made purchases through the use of state contracts.

School Food Service

The school food service program was not selected as a major federal and/or State program. However, the program expenditures exceeded \$100,000 in federal and/or State support. Accordingly, we inquired of school management, or appropriate school food service personnel, as to whether the SFA had any Child Nutrition Program reimbursement overclaims or underclaims. No exceptions were noted.

The school food service program was not selected as a major federal and/or State program. However, the program expenditures exceeded \$100,000 in federal and/or State support. Accordingly, we inquired of school management, or appropriate school food service personnel, as to whether the SFA's expenditures of school food service revenues were limited to allowable direct and indirect costs. No exceptions were noted. The financial transactions and statistical records of the 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. Reimbursement vouchers were timely filed, and meals claimed agreed with 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 as served did not exceed the number of valid applications on file, times the number of operating days, on a school by school basis. The free and reduced priced meal policy is uniformly administered throughout the school system. The required verification procedures for free and reduced price applications were completed and available for review.

Expenditures were separately recorded as food, labor and other costs. Vendor invoices were reviewed and costs verified. Inventory records on food and supply items were currently maintained and properly applied in determining the cost of food and supplies used.

**Independent Auditor's Management Report of Administrative
Findings – Financial and Compliance**

School Food Service (Continued)

The cash disbursements records reflected expenditures for program related goods and services. The District is depositing and expending program monies in accordance with N.J.S.A. 18A:17-34 and 19-1 through 19-4.1. The appropriate revenue and expenditure records were maintained in order to substantiate the non-profit status of the school food service. Provisions of the FSMC contract/addendum were reviewed and audited. The FSMC contract includes an operating results provision which guarantees that the food service program will break even. The operating results provision has been met.

Net cash resources did not exceed three months average expenditures.

Time sheets were reviewed and labor costs verified. Payroll records were maintained on all School Food Service employees. No exceptions were noted.

Cash receipts and bank records were reviewed for timely deposit.

National Food Distribution Commodities were received and an inventory was maintained on a first-in, first-out basis.

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

Student Body Activities

The records for the Student Body Activities were maintained in satisfactory condition.

2016-01 Finding: We noted that a vendor was overpaid by \$500.00.

2016-01 Recommendation: That all invoices be thoroughly reviewed prior to disbursement of funds.

Application for State School Aid

Our audit procedures included a test of information reported in the October 15, 2015 Application for State School Aid (A.S.S.A.) for on-roll, private schools for the handicapped, low-income and bilingual. We also performed a review of the district procedures related to its completion. The information on the A.S.S.A. was compared to the district workpapers with minor exceptions. The information that was included on the workpapers was verified with minor exceptions. The results of our procedures are presented in the Schedule of Audited Enrollments.

The district maintained workpapers on the prescribed state forms or their equivalent.

The district had written procedures for the recording of student enrollment.

**Independent Auditor's Management Report of Administrative
Findings – Financial and Compliance**

Pupil Transportation

Our audit procedures included a test of on-roll status reported in the 2015-2016 District Report of Transported Resident Students (DRTRS). The information that was included on the DRTRS was verified to the DRTRS Eligibility Summary Report with minor exceptions. The results of our procedures are presented in the Schedule of Audited Enrollments.

Our procedures also included a review of transportation related contracts and purchases. Based on our review, the district complied with proper bidding procedures and award of contracts. The bid specifications for the purchase of buses were in compliance with applicable statutes. No exceptions were noted in our review of transportation related purchases of goods and services.

Capital Assets and Facilities

Our procedures included a review of the SDA grant agreements for consistency with recording of SDA revenue, transfer of local funds from the general or capital reserve account, and awarding of contracts for eligible facilities construction.

Follow-Up Prior Year's Audit Findings

In accordance with governmental auditing standards, our procedures included a review of all prior year recommendations. Corrective action has been taken on all prior year findings.

Independent Auditor's Management Report of Administrative Findings – Financial and Compliance

Recommendations

Administrative Practices and Procedures

None

Financial Planning, Accounting and Reporting

None

School Purchasing Program

None

School Food Service

None

Student Body Activities

2016-01 Recommendation: That all invoices be thoroughly reviewed prior to disbursement of funds.

Application for State School Aid

None

Pupil Transportation

None

Capital Assets and Facilities

None

Prior Year Audit Findings

None

**HAWTHORNE BOARD OF EDUCATION
SCHEDULE OF AUDITED ENROLLMENTS
APPLICATION FOR STATE SCHOOL AID SUMMARY
ENROLLMENT AS OF OCTOBER 15, 2015**

	2016-17 Application for State School Aid (10/15/15 data)						Sample for Verification						Private School for Disabled			
	Reported as on Roll		Reported on Workpapers on Roll		Errors		Sample Selected from Workpapers		Verified per Registers on Roll		Errors per Registers on Roll		Reported on A.S.S.A. as Private Schools	Sample for Verifi- cation	Sample Verified	Sample Errors
	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared				
Half Day Preschool 3 years old																
Half Day Preschool 4 years old																
Half Day Kindergarten																
Full Day Kindergarten	147		147				18		18							
One	160		160				20		20							
Two	160		160				20		20							
Three	139		139				17		17							
Four	163		163				20		20							
Five	118		118				15		15							
Six	164		164				20		20							
Seven	135		135				16		16							
Eight	167		167				21		21							
Nine	143		143				17		17							
Ten	143		143				17		17							
Eleven	137		137				17		17							
Twelve	134		134				16		16							
Post-Graduate																
Adult H.S. (15+ CR.)																
Adult H.S. (1-14 CR.)																
Subtotal	1910		1910				234		234							
Sp. Ed. - Elementary	191		191				23		23			7	6	6		
Sp. Ed. - Middle School	118		118				14		14			4	3	3		
Sp. Ed. - High School	105		105				13		13			10	9	9		
Subtotal	414		414				50		50			21	18	18		
Co. Voc. - Regular																
Co. Voc. Ft. Post Sec.																
Totals	2324		2324				284		284			21	18	18		
Percentage Error							<u>0%</u>	<u>0%</u>			<u>0%</u>	<u>0%</u>			<u>0%</u>	

**HAWTHORNE BOARD OF EDUCATION
SCHEDULE OF AUDITED ENROLLMENTS
APPLICATION FOR STATE SCHOOL AID SUMMARY
ENROLLMENT AS OF OCTOBER 15, 2015**

	<u>Resident Low Income</u>			<u>Sample for Verification</u>			<u>Resident LEP Low Income</u>			<u>Sample for Verification</u>		
	Reported on A.S.S.A. as Low Income	Reported on Workpapers as Low Income	Errors	Sample Selected from Workpapers	Verified to Application and Register	Sample Errors	Reported on A.S.S.A. as LEP low Income	Reported on Workpapers as LEP low Income	Errors	Sample Selected from Workpapers	Verified to Test Score and Register	Sample Errors
Half Day Preschool 3 years old												
Half Day Preschool 4 years old												
Half Day Kindergarten												
Full Day Kindergarten	39	39		13	13		5	5		4	4	
One	37	37		12	12		5	5		3	3	
Two	37	37		12	12		4	4		4	4	
Three	43	43		14	14		3	3		3	3	
Four	39	39		13	13							
Five	25	25		8	8		1	1		1	1	
Six	45	45		15	15		1	1		1	1	
Seven	32	32		10	10		1	1		1	1	
Eight	42	42		14	14		4	4		3	3	
Nine	36	36		12	12		4	4		4	4	
Ten	32	32		10	10		1	1		1	1	
Eleven	29	29		9	9							
Twelve	18	18		6	6							
Post-Graduate												
Adult H.S. (15+CR.)												
Adult H.S. (1-14 CR.)												
Subtotal	454	454		148	148		29	29		25	25	
Special Ed - Elementary	75	75		24	24		1	1		1	1	
Special Ed - Middle	33	33		11	11							
Special Ed - High	42	42		14	14							
Subtotal	150	150		49	49		1	1		1	1	
Totals	604	604		197	197		30	30		26	26	
Percentage Error			0%			0%			0%			0%

Transportation

	Reported on DRTRS by DOE/county	Reported on DRTRS by District	Errors	Tested	Verified	Errors			
							District Reported	County Re-Calculated	
Reg. - Public Schools, col. 1	113	113		45	45				
AIL - Non-Public	110	110		44	44				
Reg - SpEd, col. 4	4	4		2	2				
Transported - Non-Public, col. 3	103	103		41	41				
Special Ed Spec, col. 6	163	163		65	65				
Totals	493	493		197	197				
Percentage Error			0%			0%			
							Avg. Mileage - Regular Including Grade PK students	4.7	4.7
							Avg. Mileage - Regular Excluding Grade PK students	4.7	4.7
							Avg. Mileage - Special Ed with Special Needs	3.1	3.1

HAWTHORNE BOARD OF EDUCATION
SCHEDULE OF AUDITED ENROLLMENTS
APPLICATION FOR STATE SCHOOL AID SUMMARY
ENROLLMENT AS OF OCTOBER 15, 2015

	<u>Resident LEP NOT Low Income</u>			<u>Sample for Verification</u>		
	<u>Reported on A.S.S.A. as NOT Low Income</u>	<u>Reported on Workpapers as NOT Low Income</u>	<u>Errors</u>	<u>Sample Selected from Workpapers</u>	<u>Verified to Application and Register</u>	<u>Sample Errors</u>
Half Day Preschool 3 years old						
Half Day Preschool 4 years old						
Half Day Kindergarten						
Full Day Kindergarten	1	1		1	1	
One	3	3		3	3	
Two	1	1		1	1	
Three	1	1		1	1	
Four	2	2		1	1	
Five						
Six	1	1		1	1	
Seven						
Eight	2	2		2	2	
Nine	2	2		1	1	
Ten						
Eleven	2	2		2	2	
Twelve	1	1		1	1	
Post-Graduate						
Adult H.S. (15+CR.)						
Adult H.S. (1-14 CR.)						
Subtotal	<u>16</u>	<u>16</u>	<u></u>	<u>14</u>	<u>14</u>	<u></u>
Special Ed - Elementary						
Special Ed - Middle						
Special Ed - High						
Subtotal	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>
Co. Voc. - Regular						
Co. Voc. Ft. Post Sec.						
Totals	<u>16</u>	<u>16</u>	<u></u>	<u>14</u>	<u>14</u>	<u></u>
Percentage Error			<u>0%</u>			<u>0%</u>

HAWTHORNE SCHOOL DISTRICT

SCHEDULE OF CALCULATION OF EXCESS SURPLUS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

REGULAR DISTRICT

237,554.29

SECTION 1

2% Calculation of Excess Surplus

2015 - 2016 Total General Fund Expenditures per the CAFR, Ex. C-1	\$	<u>40,350,376.75</u>	
Decreased by:			
On-Behalf TPAF Pension & Social Security	\$	<u>3,643,317.78</u>	
Adjusted 2015 - 2016 General Fund Expenditures			\$ <u>36,707,058.97</u>
2% of Adjusted 2015 - 2016 General Fund Expenditures			\$ <u>734,141.18</u>
Greater of Line Above or \$250,000.00			\$ <u>734,141.18</u>
Increased by: Allowable Adjustment			\$ <u>151,798.18</u>
Maximum Unreserved/Undesignated Fund Balance			\$ <u><u>885,939.36</u></u>

SECTION 2

Total General Fund - Fund Balances @ 6-30-16	\$	<u>3,042,414.15</u>	
Decreased by:			
Year-End Encumbrances	\$	<u>951,236.48</u>	
Legally Restricted-Excess Surplus-Designated for Subsequent Year's Expenditures	\$	<u>82,315.98</u>	
Other Restricted Fund Balances	\$	<u>950,000.00</u>	
Assigned Fund Balance - Unreserved-Designated for Subsequent Year's Expenditures	\$	<u>17,684.02</u>	
Total Unassigned Fund Balance			\$ <u>1,041,177.67</u>

SECTION 3

Restricted Fund Balance-Excess Surplus	\$	<u>155,238.31</u>	
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Recapitulation of Excess Surplus as of June 30, 2016

Reserved Excess Surplus - Designated for Subsequent Year's Expenditures	\$	<u>82,315.98</u>	
Reserved Excess Surplus			\$ <u>155,238.31</u>
Total Excess Surplus			\$ <u><u>237,554.29</u></u>

Detail of Allowable Adjustments

Extraordinary Aid	\$	93,451.00	
Semi Reimbursement	\$	39,207.18	
Additional Non-Public School Transportation Aid	\$	<u>19,140.00</u>	
			\$ <u><u>151,798.18</u></u>

Detail of Other Restricted Fund Balance:

Capital Reserve	\$	600,000.00	
Maintenance Reserve			<u>350,000.00</u>
			\$ <u><u>950,000.00</u></u>

