

**HIGHLANDS SCHOOL DISTRICT**

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

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2016**

**HIGHLANDS SCHOOL DISTRICT  
AUDITOR'S MANAGEMENT REPORT ON  
ADMINISTRATIVE FINDINGS  
FINANCIAL, COMPLIANCE AND PERFORMANCE**

**TABLE OF CONTENTS**

	<u>Page No.</u>
Report of Independent Auditors	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 and Position Control Roster	2
Reserve for Encumbrances and Accounts Payable	2
Classification of Expenditures	3
General Classifications	3
Administrative Classifications	3
Board Secretary's Records	3
Treasurer's Records	3
Elementary and Secondary Education Act/Improving America's Schools Act as reauthorized by the No Child Left Behind Act of 2001	3
Other Special Federal and/or State Projects	3
T.P.A.F. Reimbursement	3
School Purchasing Programs	
Contracts and Agreements Requiring Advertisement for Bids	4
School Food Service	4
Student Body Activities	5
Application for State School Aid	5
Pupil Transportation	5
Follow-up on Prior Years' Findings	5
Acknowledgment	5
Schedule of Audited Enrollments	6 to 8
Excess Surplus Calculation	9 to 10

# ALVINO & SHECHTER, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

110 Fortunato Place

Neptune, New Jersey 07753-3767

VINCENT J. ALVINO, CPA, PSA  
ALLEN B. SHECHTER, CPA, RMA, PSA

Phone: (732) 922-4222  
Fax: (732) 922-4533

Member

American Institute of Certified Public Accountants  
New Jersey Society of Certified Public Accountants  
PCPS of the AICPA Division of CPA Firms

## REPORT OF INDEPENDENT AUDITORS

Honorable President and  
Members of the Board of Education  
Highlands School District  
County of Monmouth, 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 Education of the Highlands School District in the County of Monmouth for the year ended June 30, 2016, and have issued our report thereon dated November 14, 2016.

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 Highlands Board of Education's management and the New Jersey Department of Education. However, this report is a matter of public record and its distribution is not limited.



Licensed Public School Accountant

No. 2183

ALVINO & SHECHTER, L.L.C.

November 14, 2016

## **ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE**

### **SCOPE OF AUDIT**

The audit covered the financial transactions of the Board Secretary/School Business Administrator and Treasurer of School Monies, 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**

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

#### **Official Bonds (N.J.S.A.18A:17-26, 18A:17-32, 18A:13-13)**

<b><u>Name</u></b>	<b><u>Position</u></b>	<b><u>Amount</u></b>
Christopher J. Mullins	Board Secretary/School Business Administrator	\$200,000.00
Lorraine C. Gallagher	Treasurer	\$200,000.00

There is a Public Employees' Faithful Performance Blanket Position Bond with Selective Insurance Company covering all other employees with multiple coverage of \$25,000.00.

### **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 and Employee Position Control Roster**

The net salaries of all 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.

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

Salary withholdings were promptly remitted to the proper agencies.

Payrolls were delivered to the treasurer of school monies with a warrant made to her order for the full amount of each payroll.

An inquiry and subsequent review of the Position Control Roster found no inconsistencies between the payroll records, employee benefit records (e.g. pension reports and health benefit coverage reports), the general ledger accounts to where wages are posted (administrative versus instruction), and the Position Control Roster.

#### **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 reserves 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: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:23A-2.4. As a result of the procedures performed no errors were noted and no additional procedures were deemed necessary to test the propriety of expenditure classification and administrative classification.

### A. General Classification Findings

None

### B. Administrative Classification Findings

None

## **Board Secretary's Records**

The records of the Board Secretary were properly maintained during the fiscal year ended June 30, 2016 and were in agreement with the records of the Treasurer.

## **Treasurer's Records**

The records of the Treasurer were properly maintained during the fiscal year ended June 30, 2016 and were in agreement with the records of the Board Secretary.

## **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./NCLB 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 and VI of the Elementary and Secondary Education Act as amended and reauthorized.

The study of compliance for E.S.E.A. indicated no areas of noncompliance and/or questionable costs.

## **Other Special Federal and/or State 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.

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 areas of noncompliance.

## **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.

## **SCHOOL PURCHASING PROGRAMS**

### **Contracts and Agreements Requiring Advertisement for Bids**

The bid thresholds in accordance with N.J.S.A. 18A:18A-2 and 18A:18-3(a) are \$40,000.00 (with a Qualified Purchasing Agent) and \$29,000.00 (without a Qualified Purchasing Agent), respectively. Christopher J. Mullins has been appointed as the qualified purchasing agent pursuant to N.J.S.A. 40A:11-9(b) and therefore the bid threshold has been increased to \$40,000 per statute. The law regulating bidding for public school student transportation under N.J.S.A. 18A-39-3 is currently \$18,800.00 for 2015-16.

The board of education has the responsibility of determining whether the expenditure 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.

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 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.

### **School Food Service**

The financial transactions and statistical records of the school food service fund were reviewed. 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 was compared to the number of valid applications on file, times the number of operating days. The free and reduced price 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. No exceptions were noted.

The Board of Education entered into a food service management contract with Maschio's Food Services, Inc., to operate the cafeteria for 2015/2016 school year.

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

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. Net cash resources did not exceed three months average expenditures.

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

Food Distribution Program commodities were received and a separate inventory was maintained on a first-in, first-out basis. No exceptions were noted.

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

## **Student Body Activities**

The financial transactions of the student activity agency fund were reviewed. No exceptions were noted.

## **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 school for the handicapped, and low-income. 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 the exceptions noted in our findings below. 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 maintained workpapers on the prescribed state forms or their equivalent.

The district written procedures for the recording of student enrollment data should be amended as noted in the recommendation.

### **Finding 2016-1 AMR:**

There were errors on information reported on the A.S.S.A. as compared to the workpapers.

- A. There were some differences in the reported on roll full time students between grade levels. However, the total number of on roll full time students was not affected for regular or special education students.
- B. There were some differences in the reported resident low income students between grade levels and in the number of special education students.

### **Recommendation:**

The District should prepare written procedures for verifying the numbers reported on the A.S.S.A. as compared to the workpapers, including specifying who is responsible for the accuracy of the numbers.

## **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 without exception. 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. No exceptions were noted in our review of transportation related purchases of goods and service.

## **Follow-up on Prior Years' Findings**

In accordance with government auditing standards, our procedures included a review of all prior year recommendations including findings. Corrective action was not taken on the only prior years' finding, which is repeated in this year's recommendations noted as current year finding 2016-1 AMR:

The district should prepare written procedures for verifying the numbers reported on the A.S.S.A. as compared to the workpapers, including specifying who is responsible for the accuracy of the numbers.

## **Acknowledgment**

We received the complete cooperation of all the officials of the school district and we greatly appreciate the courtesies extended to us.

**HIGHLANDS SCHOOL DISTRICT**

**SCHEDULE OF AUDITED ENROLLMENTS**

**APPLICATION FOR STATE SCHOOL AID SUMMARY  
ENROLLMENT AS OF OCTOBER 15, 2015**

9

	2016-2017 Application for State School Aid						Sample for Verification						Private Schools for Disabled			
	Reported on A.S.S.A. 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 Veri-fication	Sample Verified	Sample Errors
	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared				
Half Day Preschool	20		19		(1)		19		19							
Full Day Preschool																
Half Day Kindergarten																
Full Day Kindergarten	34		35		1		35		35							
One	15		14		(1)		14		14							
Two	21		20		(1)		20		20							
Three	18		20		2		20		20							
Four	15		15				15		15							
Five	17		17				17		17							
Six	14		14				14		14							
Seven																
Eight																
Nine																
Ten																
Eleven																
Twelve																
Post-Graduate																
Adult H.S. (15+CR.)																
Adult H.S. (1-14 CR.)																
Subtotal	154	0	154	0	0	0	154	0	154	0	0	0	0	0	0	0
Special Ed - Elementary	29		28		(1)		28		28				1	1	1	
Special Ed - Middle School	9		10		1		10		10							
Special Ed - High School																
Subtotal	38	0	38	0	0	0	38	0	38	0	0	0	1	1	1	0
Co. Voc. - Regular																
Co. Voc. Ft. Post Sec.																
Totals	192	0	192	0	0	0	192	0	192	0	0	0	1	1	1	0
Percentage Error					0.00%	0.00%					0.00%	0.00%				0.00%



SCHEDULE OF AUDITED ENROLLMENTS

HIGHLANDS SCHOOL DISTRICT  
 APPLICATION FOR STATE SCHOOL AID SUMMARY  
 ENROLLMENT AS OF OCTOBER 15, 2015

	Resident Low Income			Sample for Verification			Resident LEP Low Income			Sample for Verification		
	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												
Full Day Preschool												
Half Day Kindergarten												
Full Day Kindergarten	11	12	1	12	12							
One	9	8	(1)	8	8							
Two	6	7	1	7	7							
Three	9	10	1	10	10		2	2		2	2	
Four	12	12		12	12		1	1		1	1	
Five	8	10	2	10	10							
Six	4	5	1	5	5							
Seven												
Eight												
Nine												
Ten												
Eleven												
Twelve												
Post-Graduate												
Adult H.S. (15+CR.)												
Adult H.S. (1-14 CR.)												
Subtotal	59	64	5	64	64		3	3	0	3	3	0
Special Ed - Elementary	11	11		11	11		2	2		2	2	
Special Ed - Middle	8	7	(1)	7	7		1	1		1	1	
Special Ed - High												
Subtotal	19	18	(1)	18	18	0	3	3	0	3	3	0
Co. Voc. - Regular												
Co. Voc. Ft. Post Sec.												
Totals	78	82	4	82	82	0	6	6	0	6	6	0
Percentage Error			(5.13%)			0.00%			0.00%			0.00%

Transportation

	Reported on DRTRS by DOE/county	Reported on DRTRS by District	Errors	Tested	Verified	Errors		
Reg - Public Schools, col. 1	0	0		0	0			
Reg -SpEd, col. 4	0	0		0	0			
Transported - Non-Public, col. 3	36	36		36	36			
Special Ed Spec, col. 6	12	12		12	12			
Totals	48	48	0	48	48	0		
Percentage Error			0.00%			0.00%		

	Reported	Recalculated
Reg Avg.(Mileage) = Regular Including Grade PK students (Part A)	4.8	4.8
Reg Avg.(Mileage) = Regular Excluding Grade PK students (Part A)	4.8	4.8
Spec Avg. = Special Ed with Special Needs	2.6	2.6

HIGHLANDS SCHOOL DISTRICT

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						
Full Day Preschool						
Half Day Kindergarten						
Full Day Kindergarten						
One						
Two						
Three	1	1		1	1	
Four						
Five						
Six						
Seven						
Eight						
Nine						
Ten						
Eleven						
Twelve						
Post-Graduate						
Adult H.S. (15+CR.)						
Adult H.S. (1-14 CR.)						
Subtotal	<u>1</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>0</u>
Special Ed - Elementary						
Special Ed - High						
Subtotal	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Co. Voc. - Regular						
Co. Voc. Ft. Post Sec.						
Totals	<u>1</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>0</u>
Percentage Error			<u>0.00%</u>			<u>0.00%</u>

**EXCESS SURPLUS CALCULATION**

**REGULAR DISTRICT**

**SECTION 1**

**A. 2% Calculation of Excess Surplus**

2015-2016 Total General Fund Expenditures per the CAFR, Ex. C-1	\$ <u>4,062,589.65</u> (B)
Increased by Applicable Operating Transfers:	
Transfer from Capital Outlay to Capital Projects Fund	\$ _____(B1a)
Transfer from Capital Reserve to Capital Projects Fund	\$ _____(B1b)
Transfer from General Fund to SRF for Pre K - Regular	\$ _____(B1c)
Transfer from General Fund to SRF for Pre K - Inclusion	\$ _____(B1d)
Decreased by:	
On-Behalf TPAF Pension & Social Security	\$ <u>387,566.97</u> (B2a)
Assets Acquired Under Capital Leases	\$ <u>41,882.64</u> (B2b)
Adjusted 2015-2016 General Fund Expenditures [(B)+(B1s)-(B2s)]	\$ <u>3,633,140.04</u> (B3)
2% of Adjusted 2015-2016 General Fund Expenditures [(B3) times .02]	\$ <u>72,662.80</u> (B4)
Enter Greater of (B4) or \$250,000	\$ <u>250,000.00</u> (B5)
Increased by: Allowable Adjustment*	\$ <u>13,756.00</u> (K)
Maximum Unrestricted/Unassigned Fund Balance [(B5)+(K)]	\$ <u>263,756.00</u> (M)

**SECTION 2**

Total General Fund - Fund Balances @ 6-30-16 (Per CAFR Budgetary Comparison Schedule C-1)	\$ <u>1,297,206.50</u> (C)
Decreased by:	
Year-End Encumbrances	\$ <u>17,635.77</u> (C1)
Legally Restricted-Designated for Subsequent Year's Expenditures	\$ _____(C2)
Legally Restricted-Excess Surplus-Designated for Subsequent Year's Expenditures**	\$ <u>358,463.61</u> (C3)
Other Restricted Fund Balances****	\$ <u>178,674.00</u> (C4)
Assigned Fund Balance-Unreserved-Designated for Subsequent Year's Expenditures	\$ _____(C5)
Total Unassigned Fund Balance [(C)-(C1)-(C2)-(C3)-(C4)-(C5)]	\$ <u>742,433.12</u> (U1)

**SECTION 3**

Restricted Fund Balance-Excess Surplus\*\*\*[(U1)-(M)] IF NEGATIVE ENTER -0- \$ 478,677.12(E)

**Recapitulation of Excess Surplus as of June 30, 2016**

Restricted Excess Surplus-Designated for Subsequent Year's Expenditures**	\$ <u>358,463.61</u> (C3)
Restricted Excess Surplus***[(E)]	\$ <u>478,677.12</u> (E)
Total [(C3)+(E)]	\$ <u>837,140.73</u> (D)

Footnotes:

\* This adjustment line (as detailed below) is to be utilized for Impact Aid (when applicable), Sale and Lease-back (Refer to the Audit Program Section II, chapter 10), Extraordinary Aid, and Additional Nonpublic School Transportation Aid and recognized current year School Bus Advertising Revenue, and Family Crisis Transportation Aid.

**Detail of Allowable Adjustments**

Impact Aid	\$ _____(H)
Sales & Lease-back	\$ _____(I)
Extraordinary Aid	\$ <u>7,492.00</u> (J1)
Additional Nonpublic School Transportation Aid	\$ <u>6,264.00</u> (J2)
Current Year School Bus Advertising Revenue Recognized	\$ _____(J3)
Family Crisis Transportation Aid	\$ _____(J4)
Total Adjustments [(H)+(I)+(J1)+(J2)+(J3)+(J4)]	\$ <u>13,756.00</u> (K)

\*\* This amount represents the June 30, 2015 Excess Surplus (C3 above) and must be included in the Audit Summary Worksheet Line 90031.

\*\*\* Amounts must agree to the June 30, 2016 CAFR and must agree to Audit Summary Worksheet Line 90030.

\*\*\*\* Amount for Other Restricted Fund Balances must be detailed for each source and request for approval to use amounts other than state imposed legal restrictions in the excess surplus calculation must be submitted to the Assistant to the Commissioner for Finance prior to September 30.

**Detail of Other Restricted Fund Balance**

Statutory restrictions:	
Approved unspent separate proposal	\$ _____
Sale/lease-back reserve	\$ _____
Capital reserve	\$ <u>72,128.00</u>
Maintenance reserve	\$ <u>106,546.00</u>
Emergency Reserve	\$ _____
Tuition reserve	\$ _____
School Bus Advertising 50% Fuel Offset Reserve - current year	\$ _____
School Bus Advertising 50% Fuel Offset Reserve - prior year	\$ _____
Impact Aid General Fund Reserve (Sections 8002 and 8003)	\$ _____
Impact Aid Capital Fund Reserve (Sections 8007 and 8008)	\$ _____
Other state/government mandated reserve	\$ _____
[Other Restricted Fund Balance not noted above]****	\$ _____
Total Other Restricted Fund Balance	\$ <u>178,674.00</u> (C4)