

**RAHWAY SCHOOL DISTRICT
AUDITOR'S MANAGEMENT REPORT ON
ADMINISTRATIVE FINDINGS -
FINANCIAL, COMPLIANCE AND PERFORMANCE
JUNE 30, 2016**

**RAHWAY SCHOOL DISTRICT
TABLE OF CONTENTS**

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

	<u>Page No.</u>
Auditor's Management Report	1
Scope of Audit	2
Administrative Practices and Procedures	2
Financial Planning, Accounting and Reporting	2-3
School Purchasing Programs	4
School Food Service	4-5
Student Activity Funds/Athletic Association/Scholarships	5
Application for State School Aid	6
Pupil Transportation	6
Facilities and Capital Assets	6
Suggestions to Management	6
Schedule of Meal Count Activity – Not Applicable	7
Net Cash Resource Schedule – Not Applicable	8
Schedule of Audited Enrollments	9-11
Excess Surplus Calculation	12
Recommendations	13-14
Acknowledgment	14



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Honorable President and Members
of the Board of Trustees
Rahway School District
Rahway, 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 basic financial statements of the Rahway School District as of and for the fiscal year ended June 30, 2016, and have issued our report thereon dated November 30, 2016.

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


LERCH, VINCI & HIGGINS, LLP
Certified Public Accountants
Public School Accountants

Dieter P. Lerch
Public School Accountant
PSA Number CS00756

Fair Lawn, New Jersey
November 30, 2016

**RAHWAY SCHOOL DISTRICT
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Scope of Audit

The audit covered the financial transactions of the School Business Administrator, Board Secretary, 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 the Insurance Schedule (Exhibit J-20) contained in the District's Comprehensive Annual Financial Report (the "CAFR").

Official Bonds

<u>Name</u>	<u>Position</u>	<u>Amount</u>
Albert DiGiorgio	School Business Administrator	\$ 50,000

There is a Public Employees' Faithful Performance Blanket Position Bond with Selective Insurance covering all other employees with coverage of \$250,000.

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 supporting documentation.

Payroll Account

The net salaries and payroll deductions and employer's share of payroll taxes of all employees of the Board were deposited in the Payroll Account.

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

Salary withholdings were promptly remitted to the proper agencies, including health benefits withholding due to the General Fund.

The required certification (E-CERT1) of compliance with requirements for income tax on compensation of administrators (superintendent, assistant superintendents and business administrator) to the NJ Department of Treasury was filed.

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. 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.

**RAHWAY SCHOOL DISTRICT
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Financial Planning, Accounting and Reporting (Continued)

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-8.2. As a result of the procedures performed, no additional procedures were deemed necessary to test the propriety of expenditure classification

Board Secretary's Records

The financial records, books of account and minutes maintained by the Board Secretary were in excellent condition.

Acknowledgment of the Board's receipt of the monthly financial reports was included in the minutes.

Bids received were summarized in the minutes (N.J.S.A. 18A:18A-21).

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

Our examination of the E.S.E.A./NCLB 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.

Other Special Federal and/or State Projects

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

Our examination 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 contained herein represent a true statement of the financial position pertaining to the aforementioned special projects.

T.P.A.F. Reimbursements

Our audit procedures included a test of the semi-monthly reimbursement forms 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 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 90 day grant liquidation period required by the Office of Grants Management. The expenditure was reviewed subsequent to the reimbursement and no exceptions were noted.

**RAHWAY SCHOOL DISTRICT
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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:18A-3(a) are \$40,000 (with a qualified purchasing agent) and \$29,000 (without a qualified purchasing agent), respectively. The law regulating bidding for public school student transportation contracts under NJSA 18:39-3 is currently \$18,800. The Board has approved a resolution designating the Business Administrator as a Qualified Purchasing Agent.

The district 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 Board 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.

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

Finding (CAFR Finding 2016-001) – Our audit indicated that several payments to vendors performing contracted maintenance and electrical services were made without the solicitation of bids or quotes.

Recommendation – The District solicit bids or quotes, as applicable, prior to the use of vendors for the performance of contracted maintenance and electrical services.

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 N.J.S.A. 18A:18A-10, therefore, the extent of such purchases could not reasonably be ascertained. Our examination did reveal, however, that purchases were made 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, program expenditures exceeded \$100,000 in federal and/or state support. Accordingly, we inquired of school management, or appropriate personnel, as to whether the SFA had any Child Nutrition Program reimbursement overclaims or underclaims and 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 service fund were reviewed. The financial accounts, meal count records and eligibility applications were reviewed on a test-check basis.

**RAHWAY SCHOOL DISTRICT
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

School Food Service (Continued)

USDA Food Distribution Program commodities were received and a single inventory was maintained on a first-in, first-out basis.

Cash receipts and bank records were reviewed for timely deposit.

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 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.

Exhibits reflecting Child Nutrition Program operations are included in the section entitled Enterprise Funds (Exhibits B4-B6).

Net cash resources do not exceed three months average expenditures.

The District contracted with Pomptonian, Inc. to manage the operations of the school food service operations and deposited funds in accordance with applicable State statutes. Provisions of the FSMC contract includes an operating results provision which guarantees that the food service program will generate a minimum profit of \$75,000. The operating results provision has been met.

Student Activity Funds/Athletic Association/Scholarships

The Board has a policy, which clearly established the regulation of student activity funds.

Finding – Our audit of the district’s student activity and athletic accounts indicated the following:

- Pre –numbered receipts are not always utilized for collections.
- Disbursements from the high school account were not always supported by vendor invoices.
- A receipt ledger was not maintained for the middle school account.
- The athletic account was in a deficit position at year end.
- Athletic account payments for game services (ie – referee, scorekeeper, etc.) were not always made in the amount reflected on the fee schedule.

Recommendation – Internal controls over the student activity and athletic accounts be reviewed and enhanced.

Finding – Our audit indicated that checks disbursed from Scholarship accounts contained only one (1) authorization signature.

Recommendation – Checks disbursed from the scholarship accounts include two authorized signatures.

**RAHWAY SCHOOL DISTRICT
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Application for State School Aid

Our audit procedures included a test of information reported in the October 15, 2015 Application for State School Aid (ASSA) for on-roll, private schools for the handicapped, related services, bilingual 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 no exceptions noted. The information on the workpapers was verified with immaterial exceptions noted. The results are presented in the Schedule of Audited Enrollments.

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

The district written procedures appear to be adequate for the recording of student enrollment data, except as noted below.

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 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.

Facilities and Capital Assets

Our procedures included a review of the School Development Authority grant agreements for consistency with recording SDA revenue, transfer of local funds from the General Fund or from Capital Reserve and awarding of contracts for eligible facilities construction.

Finding – Our audit indicated that SDA grant receivables remain uncollected for capital improvement projects which appear to be substantially complete. As a result, the District's operating cash is in a deficit position.

Recommendation – Continued efforts be made to collect outstanding School Development Authority grants receivable for completed projects.

Suggestion to Management

The surety bond of the School Business Administrator/Board Secretary be increased.

**RAHWAY SCHOOL DISTRICT
FOOD SERVICE FUND
NUMBER OF MEALS SERVED AND (OVER)/UNDERCLAIM
ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Not Applicable

**RAHWAY SCHOOL DISTRICT
FOOD SERVICE FUND
NET CASH RESOURCES SCHEDULE
ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Not Applicable

**RAHWAY BOARD OF EDUCATION
APPLICATION FOR STATE SCHOOL AID
SCHEDULE OF AUDITED ENROLLMENTS
OCTOBER 15, 2015**

	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 Register 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																	
Half Day Preschool - 4 years	142		142					29		29							
Full Day Preschool - 3 years																	
Full Day Preschool - 4 years																	
Half Day Kindergarten																	
Full Day Kindergarten	220		220					87		92		5					
One	267		267					43		40		(3)					
Two	264		264					72		69		(3)					
Three	270		270					64		63		(1)					
Four	249		249					70		81		11					
Five	249		249					45		41		(4)					
Six	217		217					61		60		(1)					
Seven	242		242					242		242		-					
Eight	215		215					215		215		-					
Nine	237	1	237	1				237	1	237	1	-					
Ten	236	3	236	3				236	3	236	3	-					
Eleven	211	16	211	16				211	16	211	16	-					
Twelve	139	21	139	21	-	-		139	21	139	21	-	-				
Subtotal	3,158	41	3,158	41	-	-		1,751	41	1,755	41	4	-	-	-	-	-
Spec Ed - Elementary	237		237					28		26		(2)	10.0	8.0	8.0		
Spec Ed- Middle School	145		145					17		16		(1)	9.0	7.0	7.0		
Spec Ed - High School	166	43	166	43	-	-		19	43	19	43	-	-	27.0	20.0	20.0	-
Subtotal	548	43	548	43	-	-		64	43	61	43	(3)	-	46.0	35.0	35.0	-
Totals	3,706	84	3,706	84	-	-		1,815	84	1,816	84	1	-	46.0	35.0	35.0	-
Percentage Error					<u>0.00%</u>	<u>0.00%</u>						<u>0.06%</u>	<u>0.00%</u>				<u>0.00%</u>

**RAHWAY BOARD OF EDUCATION
APPLICATION FOR STATE SCHOOL AID
SCHEDULE OF AUDITED ENROLLMENTS
OCTOBER 15, 2015**

	Low Income			Sample for Verification			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 Low Income	Reported on Workpapers as Low Income	Errors	Sample Selected from Workpapers	Verified to Application and Register	Sample Errors
Half Day Pre-School (3 Yrs)												
Half Day Pre-School (4 Yrs)												
Full Day Preschool - 3 years												
Full Day Preschool - 4 years												
Half Day Kindergarten												
Full Day Kindergarten	132.0	132.0		5.0	5.0		40.0	40.0		6.0	6.0	
One	164.0	164.0		5.0	5.0		35.0	35.0		10.0	10.0	
Two	151.0	151.0		5.0	5.0		44.0	44.0		6.0	6.0	
Three	150.0	150.0		6.0	6.0		27.0	27.0		5.0	5.0	
Four	145.0	145.0		4.0	4.0		16.0	16.0		4.0	4.0	
Five	162.0	162.0		5.0	5.0		7.0	7.0		1.0	1.0	
Six	131.0	131.0		4.0	4.0		7.0	7.0		2.0	2.0	
Seven	163.0	163.0		4.0	4.0		8.0	8.0		1.0	1.0	
Eight	121.0	121.0		4.0	4.0		8.0	8.0		1.0	1.0	
Nine	142.0	142.0		5.0	5.0		18.0	18.0		3.0	3.0	
Ten	130.0	130.0		5.0	5.0		6.0	6.0		3.0	3.0	
Eleven	120.0	120.0		4.0	4.0		5.0	5.0		2.0	2.0	
Twelve	71.0	71.0	-	3.0	3.0	-			-			-
Subtotal	1,782.0	1,782.0	-	59.0	59.0	-	221.0	221.0	-	44.0	44.0	-
Spec Ed - Elementary	146.0	146.0		5.0	5.0		9.0	9.0		1.0	1.0	
Spec Ed- Middle School	101.0	101.0		4.0	4.0		4.0	4.0		1.0	1.0	
Spec Ed - High School	110.0	110.0	-	2.0	2.0	-	-	-	-	-	-	-
Subtotal	357.0	357.0	-	11.0	11.0	-	13.0	13.0	-	2.0	2.0	-
Totals	2,139.0	2,139.0	-	70.0	70.0	-	234.0	234.0	-	46.0	46.0	-
Percentage Error			<u>0.00%</u>		<u>0.00%</u>			<u>0.00%</u>		<u>0.00%</u>		<u>0.00%</u>

	Transportation					
	Reported on DRTRS by DOE	Reported on DRTRS by District	Errors	Tested	Verified	Errors
Regular- Public Schools	190.0	190.0		18.0	18.0	
Regular - Sped.	10.0	10.0		2.0	2.0	
Transported- Non- Public	148.0	148.0		22.0	22.0	
Special Needs- Public	239.0	239.0	-	22.0	22.0	-
Totals	587.0	587.0	-	64.0	64.0	-
Percentage Error			<u>0.00%</u>		<u>0.00%</u>	

**RAHWAY BOARD OF EDUCATION
APPLICATION FOR STATE SCHOOL AID
SCHEDULE OF AUDITED ENROLLMENTS
OCTOBER 15, 2015**

	Resident LEP Not Low Income			Sample for Verification		
	Reported on A.S.S.A as Not Low Income	Reported on Workpapers as Not Low Income	Errors	Sample Selected from Workpapers	Verified to Register	Sample Errors
Half Day Pre-School (3 Yrs)						
Half Day Pre-School (4 Yrs)						
Full Day Pre-School (3 Yrs)						
Full Day Pre-School (4 Yrs)						
Half Day Kindergarten						
Full Day Kindergarten	10.0	10.0		2.0	2.0	
One	9.0	9.0		2.0	2.0	
Two	9.0	9.0		2.0	2.0	
Three	7.0	7.0		1.0	1.0	
Four	2.0	2.0		1.0	1.0	
Five				1.0	1.0	
Six				1.0	1.0	
Seven				1.0	1.0	
Eight	1.0	1.0				
Nine	2.0	2.0		1.0	1.0	
Ten	2.0	2.0				
Eleven	1.0	1.0				
Twelve			-			-
Subtotal	43.0	43.0	-	12.0	12.0	-
Spec Ed - Elementary	2.0	2.0				
Spec Ed- Middle School						
Spec Ed - High School			-			-
Subtotal	2.0	2.0	-	-	-	-
Totals	45.0	45.0	-	12.0	12.0	-
Percentage Error			<u>0.00%</u>			<u>0.00%</u>

**RAHWAY SCHOOL DISTRICT
CALCULATION OF EXCESS SURPLUS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

SECTION 1A - Two Percent (2%) - Calculation of Excess Surplus

2015-16 Total General Fund Expenditures per the CAFR (Budgetary Basis)	\$ 68,951,075
Decreased by:	
On-Behalf TPAF Pension & Social Security	<u>(7,056,611)</u>
Adjusted 2015-16 General Fund Expenditures	<u>\$ 61,894,464</u>
2% of Adjusted 2015-16 General Fund Expenditures	\$ 1,237,889
Enter Greater of \$250,000 or 2% of Adjusted Expenditures	1,237,889
Increased by:	
Allowable Adjustment*	<u>306,792</u>
Maximum Unassigned Fund Balance	<u>\$ 1,544,681</u>

SECTION 2

Total General Fund - Fund Balance at June 30, 2016	\$ 6,100,902
Decreased by:	
Year End Encumbrances	(103,930)
Capital Reserve /Maintenance Reserve	(787,146)
Excess Surplus - Designated for Subsequent Year's Expenditures	(1,479,371)
Assigned - Designated for Subsequent Year's Expenditures	<u>(1,210,037)</u>
Total Unassigned Fund Balance	<u>\$ 2,520,418</u>

SECTION 3

Restricted Fund Balance - Excess Surplus	<u>\$ 975,737</u>
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Recapitulation of Excess Surplus as of June 30, 2016

Excess Surplus, Designated for Subsequent Year's Expenditures	\$ 1,479,371
Excess Surplus	<u>975,737</u>
Total	<u>\$ 2,455,108</u>

Detail of Allowable Adjustment

Extraordinary Aid	\$ 270,931
Additional Nonpublic School Transportaton Aid	<u>35,861</u>
Total Adjustments	<u>\$ 306,792</u>

**RAHWAY SCHOOL DISTRICT
RECOMMENDATIONS**

I. Administrative Practices and Procedures

There are none.

II. Financial Planning, Accounting and Reporting

There are none.

III. School Purchasing Program

It is recommended that the District solicit bids or quotes, as applicable, prior to the use of vendors for the performance of contracted maintenance and electrical services.

IV. School Food Service

There are none.

V. Student Body Activities/Athletics/Scholarships

It is recommended that:

- * 1. Internal controls over the student activity and athletic accounts be reviewed and enhanced.
- * 2. Checks disbursed from the scholarship accounts include two authorized signatures.

VI. Application for State School Aid

There are none.

VII. Pupil Transportation

There are none.

VIII. Facilities and Capital Assets

- * It is recommended that continued efforts be made to collect outstanding School Development Authority grants receivable for completed projects.

IX. Miscellaneous

There are none.

**RAHWAY SCHOOL DISTRICT
RECOMMENDATIONS**

Follow-Up on Prior Year Findings

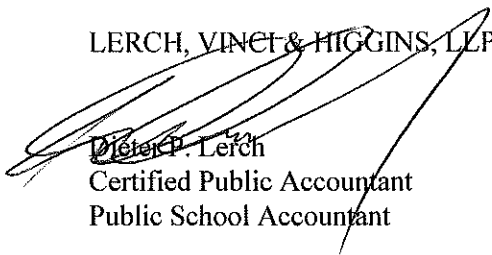
A review was performed on prior year's recommendations and corrective action was taken on all other than those denoted with an asterisk (*) above.

ACKNOWLEDGEMENT

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

Respectfully submitted,

LERCH, VINCI & HIGGINS, LLP



Dieter P. Lerch
Certified Public Accountant
Public School Accountant