

BOARD OF EDUCATION
SALEM COUNTY SPECIAL SERVICES SCHOOL DISTRICT
COUNTY OF SALEM
AUDITOR'S MANAGEMENT REPORT ON
ADMINISTRATIVE FINDINGS-
FINANCIAL, COMPLIANCE AND PERFORMANCE
FOR THE FISCAL YEAR ENDED
JUNE 30, 2016

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November 28, 2016

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

Honorable President and
Members of the Board of Education
Salem County Special Services School District
County of Salem
Woodstown, 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 Salem County Special Services School District in the County of Salem for the year ended June 30, 2016, and have issued our report thereon dated November 28, 2016.

As part of our audit, we performed procedures required by the District of Administration and Finance, 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 issued in conjunction with the Comprehensive Annual Financial Report of the Board of Education of the Salem County Special Services School District for the fiscal year ending June 30, 2016 and is intended for the information of the School District's management and the New Jersey Department of Education. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

NIGHTLINGER, COLAVITA & VOLPA, P.A.



Raymond Colavita, C.P.A., R.M.A.
Licensed Public School Accountant
No. 915

ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING

Scope of Audit

The audit covered the financial transactions of the Board Secretary/School Business Administrator, the activities of the Board of Education, the records of the Student Activity Fund, Food Service with other Enterprise Funds, Special Revenue Fund and other 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)

<u>Name</u>	<u>Position</u>	<u>Amount</u>
John Bolil	School Bus. Administrator / Board Secretary	\$ 10,000
Dr. Frank Badessa	Treasurer of School Monies	\$ 150,000

There is a Blanket Employee Dishonesty Bond with New Jersey School Boards Assn. Insurance Group, covering all employees with coverage of \$100,000.

Finding 2016-1 (CAFR Finding 2016-1)

The Treasurer's surety bond coverage, for the 2015-16 School Year, did not meet the minimum amount required by N.J.A.C. 6A:23A-16.4.

Recommendation

The District should increase the Treasurer's surety bond to a minimum of \$160,000.

Tuition Charges

A comparison of tentative charges and actual certified tuition charges was made and the actual costs were different than estimated cost. The district made proper adjustments to the 2014-15 billings to sending districts in the amount of \$320,709 for the net increases and decreases in per pupil costs in accordance with N.J.A.C. 6A:23A-17.1(f)3.

District Internal Control Policies

District boards of education and administration are responsible for developing internal controls policies and procedures and maintaining a strong internal control environment. NJAC 6A:23A-6.4 requires that the district's internal control policies include specific requirements at NJAC 6A:23A-6.5 through 6.13. Internal control policies were found in accordance with NJAC 6A:23A.

Financial Planning, Accounting and Reporting

Examination of Claims

An examination of claims paid during the period under did not indicate any discrepancies with respect to signatures, certification, itemization or supporting documentation, with the exception of the following:

Finding 2016-2 (CAFR Finding 2016-2)

During the test of expenditures, an unrecorded liability of \$28,774 was noted for Other Purchased Services.

Recommendation

Procedures to record expenditures should be reviewed and revised, in order to assure that all expenditures, per fund, are recorded prior to closing out the year-end reports.

Certification of Income Tax Compliance

The required certification (E-CERT1) of compliance with requirements for income tax on compensation of administrators (Superintendent and Business Administrator) to the N.J. Department of Treasury appeared to be filed by the March 15 due date.

Payroll Account

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 School Business Administrator/Board Secretary.

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

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

Minutes

The monthly minutes of the Board were generally well prepared.

Budget transfers were noted in the minutes.

Financial Planning, Accounting and Reporting (continued)

Reserve for Encumbrances and Accounts Payable

A review of outstanding issued purchase orders was made as of June 30, 2016 for proper classification of orders as reserve for encumbrances and accounts payable, and it was determined that no blanket purchase orders were included in the balance of the reserves for encumbrances. This was accomplished through a review of unpaid purchase orders included on the balance as accounts payable for proprietary and to determine that goods were received and services rendered as of June 30, 2016.

Unemployment Compensation Insurance Trust Fund

The Board has adopted the direct reimbursement method and has established an Unemployment Compensation Insurance Trust Fund.

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, a transaction error rate of 0.0% was noted and no additional procedures were deemed necessary to test the propriety of expenditure classification.

- A. **General Classification Findings** - NONE

- B. **Administrative Classification Findings** - NONE

Board Secretary's Records

The financial records, books of accounts maintained by the Secretary were in satisfactory condition.

The general fixed asset amounts, reflected in the financial statements, were determined, as part of the audit based on the report of an outside vendor.

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

Financial Planning, Accounting and Reporting (continued)

Board Secretary's Records (continued)

Monthly financial certificates of the Board Secretary and Board of Education for positive line item account status certifications (N.J.A.C. 6:2-2.13) were performed. Budgetary line item account transfers were approved monthly to cover any anticipated deficits.

Finding 2016-3 (CAFR Finding 2016-4)

During the course of our audit, it was determined that the District budget did contain adequate provisions for the various purchases made through a capital lease. As a result, the Capital Outlay section of the budget was overexpended.

Recommendation

The Board Office should monitor the issuance and payment of purchase orders that would cause an overexpenditure in any line item account charged, prior to the Board approving a requested transfer of appropriations to cover such orders.

Purchase orders were charged to the appropriate line item accounts in accordance with the State prescribed **Uniform Minimum Chart of Accounts (2R2) for New Jersey Public School.**

Treasurer's Designee Records

The Treasurer Designee prepared cash reconciliations for the general operating account, payroll account and payroll agency account per N.J.S.A.18A:17-9.

All cash receipts were promptly deposited. (N.J.S.A.18A:17-34, 18A:17-9.1)

The Treasurer's records were in agreement with the records of the Board Secretary.

The Treasurer's report was filed with the Board Secretary's report.

Finding 2016-4

The June 30, 2016 Treasurer's report was not in agreement with Board Secretary's report.

No recommendation is warranted, as this was the result of an inadvertent double posting of a year-end cash transfer within the District's accounting software program. As such, this was considered an isolated and unintentional error.

Financial Planning, Accounting and Reporting (continued)

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 (NCLB)

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 Titles I and Title VI of the Elementary and Secondary Education Act as amended and reauthorized.

Our audit of the E.S.E.A. funds, on a test basis, indicated that there were no E.S.E.A. projects maintained by the District during the fiscal year under audit.

As no E.S.E.A. projects were maintained during the year, there were 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 special projects indicated no areas of noncompliance.

T.P.A.F. Reimbursement

Our audit procedures included a test of the biweekly 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.

TPAF 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.

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 are available on the website: http://www.state.nj.us/dca/divisions/dlgs/programs/ps_contract.html.

School Purchasing Programs (Continued)

Contracts and Agreements Requiring Advertisement for Bids (Continued)

The current statute is posted on the New Jersey Legislature website at: http://lis.njleg.state.nj.us/cgi-bin/om_isapi.dll?clientID=1319801&depth=2&expandheadings=off&headingswithhits=on&infobase=statutes.nfo&softpage=TOC_Frame_pg42

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 N.J.S.A. 18A:39-3 is currently \$18,800 for 2015-16.

The District 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.

Based on the results of our examination, we did not note any individual payments, contracts, or agreements made for the performance of any work or goods or services, in excess of the statutory thresholds where there had been no advertising for bids in accordance with the provisions of N.J.S.A. 18A:18A-4, amended. The review of contracts and agreements did not disclose any areas of statutory noncompliance.

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. No exceptions were noted in purchases through vendors approved for state contract.

The review of contracts and agreements did not disclose any areas of statutory noncompliance.

Although a particular contract is exempt from the formal requirements of public advertising and competitive bidding, N.J.S.A. 18A:18A-37 requires that quotations be obtained, whenever practical, for any contract less than the bid threshold but 15% or more of that amount, except for contracts for professional services. All contracts and agreements, which are subject to quotations, shall be awarded on the basis of the lowest responsible quotation received, which is most advantageous to the Board of Education, price and other factors considered.

School Food Service

The School Food Service Program was not selected as a major Federal program. However, the program expenditures exceeded \$100,000 in Federal 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 and whether the SFA's expenditures of food service were limited to allowable direct and indirect costs. No exceptions were noted.

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

The number of meals and milks 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 claims were submitted and certified in a timely manner.

Applications for free and reduced price meals and free milks were reviewed for completeness and accuracy. The number of free and reduced price meals and free milks claimed as served for the entire school year 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 price meal and free milk policy is uniformly administered throughout the school system. The required verification procedures for free and reduced price applications were completed and available for review.

Time sheets were reviewed and labor costs verified. Payroll records were maintained on all school food service employees authorized by the Board of Education.

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

Expenditures were separately recorded as food, labor and other costs. Vendor invoices were reviewed and costs verified. Inventory records are not required to be maintained as meal cost is based on a vended meal service agreement with the District.

The cash disbursements records reflected expenditures for program related goods and services. The District, which has a vended meal service contract with Pittsgrove Board of Education 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 and the Non-Program Food Revenue tool was utilized. Net cash resources did not exceed three months average expenditures.

Food Distribution Program commodities were received and a single inventory was maintained on a first-in, first-out basis by the management service entity. No exceptions were noted.

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

Other Enterprise Funds

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

Expenditures were separately recorded based on line items deemed appropriate. Vendor invoices were available and examined.

Student Body Activities

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

All receipts were promptly deposited and a monthly report of student activity funds is being submitted to the Board.

Vouchers and supporting invoices were maintained for the student activity fund purchases. All disbursements appeared to be supported by appropriate documentation. In addition, cash receipts and disbursements books appear to be maintained in a satisfactory manner.

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 and low-income. We also performed a review of the District procedures related to its completion. The information on the ASSA was compared to the District workpapers. The information that was included on the workpapers was verified. The results of our procedures are presented in the Schedule of Audited Enrollment. There were no exceptions noted in the test of the District's ASSA report.

The District maintained workpapers on the prescribed state forms or their equivalent. The District has adequate written procedures for the recording of student enrollment data.

Pupil Transportation

The Salem County Special Services School District has no resident students. Therefore, our audit procedures did not include a test of on roll status that would normally be 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 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 services.

Facilities and Capital Assets

Our procedures included a review of the SDA grant agreements, if any, for consistency with recording SDA revenue, transfer of local funds from the general fund or from the capital reserve account, and awarding of contracts for eligible facilities construction. There were no SDA grant agreements for the fiscal year ending June 30, 2016.

Fixed asset records were updated as of June 30, 2016 through contracting with an outside vendor.

Facilities and Capital Assets (Continued)

Finding 2016-5 (CAFR Finding 2016-3)

One approved capital lease was made jointly for two related Districts, without any clear cut distribution of expenditures, as well as the receipt or redemption of lease principle.

Recommendation

In the future, receipt and or redemption of any related capital lease amounts should be clearly and separately allocated between the Districts.

Miscellaneous

The balance in the Medical Reimbursement Bank Account was analyzed and evaluated for proper disposition of the balance, in accordance with the Section 125 Flexible Spending Plan.

Finding 2016-6

As a result of various issues regarding recent audit findings, it appears that additional staffing, as well as reassignment of supervision and performance of various duties is necessary.

Recommendation

An evaluation of existing staff levels, supervisory capabilities and assignment of duties should be undertaken, in order to improve internal control, as well as segregation of duties throughout the District.

Follow-up on Prior Years' Findings

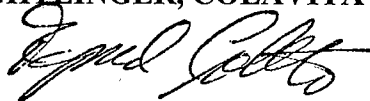
In accordance with government auditing standards, our procedures included a review of all prior year findings including recommendations. Corrective action was taken on the prior year findings and recommendations.

Acknowledgment

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

Respectfully submitted,

NIGHTLINGER, COLAVITA & VOLPA, P.A.



Raymond Colavita, C.P.A., R.M.A.
Licensed Public School Accountant
No. 915

SCHEDULE OF AUDITED ENROLLMENTS

**SALEM COUNTY SPECIAL SERVICES BOARD OF EDUCATION
APPLICATION OR STATE SCHOOL AID SUMMARY
ENROLLMENT AS OF OCTOBER 15, 2015**

	2016-2017 APPLICATION FOR STATE SCHOOL AID (10/15/15 DATA)						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 Verification	Sample Verified	Sample Errors
	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared				
Six																
Seven																
Eight	1.0		1.0				1.0		1.0							
Nine	8.0		8.0				5.0		5.0							
Ten	11.0		11.0				7.0		7.0							
Eleven	4.0		4.0				2.0		2.0							
Twelve	3.0		3.0				2.0		2.0							
Subtotal	27.0	0.0	27.0	0.0	0.0	0.0	17.0	0.0	17.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Special Ed - Elementary	70.0		70.0		0.0		43.0		43.0							
Special Ed - Middle	50.0		50.0		0.0		31.0		31.0							
Special Ed - High	40.0	1.0	40.0	1.0	0.0		25.0		25.0							
Subtotal	160.0	1.0	160.0	1.0	0.0	0.0	99.0	0.0	99.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Totals	187.0	1.0	187.0	1.0	0.0	0.0	116.0	0.0	116.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Percentage Error					0.00%	0.00%				0.00%	0.00%					0.00%

SCHEDULE OF AUDITED ENROLLMENTS

**SALEM COUNTY SPECIAL SERVICES BOARD OF EDUCATION
APPLICATION OR 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
Six												
Seven												
Eight												
Nine												
Ten												
Eleven												
Twelve												
Subtotal	0	0	0	0	0	0	0	0	0	0	0	0
Special Ed - Elementary												
Special Ed - Middle												
Special Ed - High												
Subtotal	0	0	0	0	0	0	0	0	0	0	0	0
Co. Voc. - Regular												
Co. Voc. Ft. Post Sec.												
Totals	0	0	0	0	0	0	0	0	0	0	0	0
Percentage Error			<u>0.00%</u>			<u>0.00%</u>			<u>0.00%</u>			<u>0.00%</u>

TRANSPORTATION

	Reported on DRTRS by DOE/County	Reported on DRTRS by District	Errors	Tested	Verified	Errors		
							<u>Reported</u>	<u>Re-Calculated</u>
Reg. - Public Schools		0			0			
Reg. - Special Ed.		0			0			
Transported - Non-Public		0			0			
Special Needs - Public		0			0			
Totals	0	0	0	0	0	0		
Percentage Error					<u>0.00%</u>			

Avg. Mileage - Regular Including Grade PK students
Avg. Mileage - Regular Excluding Grade PK students
Avg. Mileage - Special Ed with Special Needs

SCHEDULE OF AUDITED ENROLLMENTS

SALEM COUNTY SPECIAL SERVICES BOARD OF EDUCATION
APPLICATION OR STATE SCHOOL AID SUMMARY
ENROLLMENT AS OF OCTOBER 15, 2015

	<u>Resident LEP NOT Low Income</u>			<u>Sample for Verification</u>		
	<u>Report On A.S.S.A. as NOT Low Income</u>	<u>Report 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>
Six						
Seven						
Eight						
Nine						
Ten						
Eleven						
Twelve						
Subtotal	0	0	0	0	0	0
Special Ed - Elementary						
Special Ed - Middle						
Special Ed - High						
Subtotal	0	0	0	0	0	0
Co. Voc. - Regular						
Co. Voc. Ft. Post Sec.						
Totals	0	0	0	0	0	0
Percentage Error			<u>0.00%</u>			<u>0.00%</u>