

VERNON TOWNSHIP BOARD OF EDUCATION
COUNTY OF SUSSEX
AUDITORS' MANAGEMENT REPORT ON
ADMINISTRATIVE FINDINGS - FINANCIAL,
COMPLIANCE AND PERFORMANCE
FISCAL YEAR ENDED JUNE 30, 2016

VERNON TOWNSHIP BOARD OF EDUCATION
COUNTY OF SUSSEX
AUDITORS' MANAGEMENT REPORT ON ADMINISTRATIVE
FINDINGS - FINANCIAL,
COMPLIANCE AND PERFORMANCE
FISCAL YEAR ENDED JUNE 30, 2016
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September 21, 2016

The Honorable President and Members
of the Board of Education
Vernon Township Board of Education
County of Sussex, 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 financial statements of the Board of Education of the Vernon Township Board of Education in the County of Sussex for the fiscal year ended June 30, 2016, and have issued our report thereon dated September 21, 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 letter does not affect our report dated September 21, 2016, on the financial statements of the Board.

We will review the status of the comments during our next audit engagement. We have already discussed these comments and suggestions with various management personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations, if any.

This report is intended for the information of the Vernon Township 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.

NISIVOCCIA LLP

A handwritten signature in cursive script, appearing to read "Raymond G. Sannelli", is written over a horizontal line.

Raymond G. Sannelli
Licensed Public School Accountant #864
Certified Public Accountant

VERNON TOWNSHIP BOARD OF EDUCATION
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE
AND PERFORMANCE
FISCAL YEAR ENDED JUNE 30, 2016

Scope of Audit

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

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

Officials in Office and Surety Bonds

There is a Blanket Employee Dishonesty Bond with the School Alliance Insurance Fund covering all other employees with multiple coverage of \$500,000.

<u>Name</u>	<u>Position</u>	<u>Coverage</u>
Nesta Jones	Treasurer	\$ 500,000
Steven A. Kepnes	Business Administrator	500,000

Tuition Charges

A comparison of tentative tuition charges and actual certified tuition charges was made. The actual costs were less than estimated costs. The Board made a proper adjustment to the billings to sending districts for the change in per pupil costs in accordance with N.J.A.C.6:23-3.1(f)3.

Financial Planning, Accounting and Reporting

Examination of Claims

An examination of claims paid on a test basis, during the period under review did not indicate any discrepancies with respect to signatures, certification or supporting documentation.

Payroll Account

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

All payrolls were approved by the Superintendent and were certified by the President of the Board, the Board Secretary/Business Administrators and the Chief School Administrator. Payrolls were delivered to the Treasurer of School Monies with a warrant to her order for the full amount of the payroll.

The required certification (E-CERT1) of compliance with requirements for income tax on compensation of administrators (superintendent, assistant superintendents and business administrators) to the NJ Department of Treasury was filed by the March 15 due date.

VERNON TOWNSHIP BOARD OF EDUCATION
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE
AND PERFORMANCE
FISCAL YEAR ENDED JUNE 30, 2016

Financial Planning, Accounting and Reporting (Cont'd)

Reserve for Encumbrances and Accounts Payable

A review of outstanding issued purchase orders was made on a test basis as of June 30, for proper classification of orders as reserve for encumbrances and accounts payable.

Classification of Expenditures – General and Administrative

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, we reviewed 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, we found no errors and no additional procedures were deemed necessary to test the propriety of expenditure classification.

Board Secretary's Records

In planning and performing our audit of the financial statements of the Board, we considered the condition of the Board Secretary's records for the purpose of expressing our opinion on the financial statements and not to provide specific assurance on the condition of the records. Based on these procedures, we noted no exceptions.

Treasurer's Records

In planning and performing our audit of the financial statements of the Board, we considered the condition of the Treasurer's records for the purpose of expressing our opinion on the financial statements and not to provide specific assurance on the condition of the records. Based on these procedures, we have no comments except as noted herein.

No Child Left Behind (N.C.L.B.)

The N.C.L.B. financial exhibits are contained within the Special Revenue Section of the District's CAFR. This section of the CAFR documents the financial position pertaining to projects under Title I and Title II of the No Child Left Behind Consolidated Grant.

Other Special Federal and/or State Projects

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 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.

VERNON TOWNSHIP BOARD OF EDUCATION
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE
FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

Financial Planning, Accounting and Reporting (Cont'd)

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.

T.P.A.F. Reimbursement to the State for Federal Salary Expenditures

The T.P.A.F. Reimbursement to the State for Federal Salary Expenditures was remitted to the State of New Jersey prior to the required deadline of October 1, 2016. The reimbursement form was reviewed and no exceptions were noted.

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 \$17,500, 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 therefore, 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. of section 9 of P.L.1971, c. 198 the Board of Education may establish that the bid threshold may be up to \$25,000. Such authorization may be granted for each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section.

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. 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 the year in which it is made"

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 therefore, except as is provided otherwise in this chapter or specifically by any other law"

Effective July 1, 2015 and thereafter 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.

The 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 Attorney's opinion should be sought before a commitment is made.

VERNON TOWNSHIP BOARD OF EDUCATION
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE
FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

School Purchasing Programs (Cont'd)

Contracts and Agreements Requiring Advertisement for Bids (Cont'd)

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. General compliance was noted.

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.

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.

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 the appropriate school food service personnel, as to whether the SFA had any Child Nutrition Program reimbursement overclaims or underclaims. No exceptions were noted.

Additionally, 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.

Student Body Activities

In planning and performing our audit of the financial statements of the Board, we considered the condition of the records of the Student Activities Fund for the purpose of expressing our opinion on the financial statements and not to provide specific assurance on the condition of the records. Based on these procedures, we have no comments except as noted herein.

Application for State School Aid

Our audit procedures included a test of enrollments reported in the October 15, 2015 Application for State School Aid (A.S.S.A.) for on-roll, private schools for the handicapped, bilingual education, 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. The information that was included on the workpapers was verified on a test basis with no exception. The results of our procedures are presented in the Schedule of Audited Enrollments.

The District did maintain workpapers on the prescribed State forms or their equivalent.

The District has adequate written procedures for the recording of student enrollment data.

VERNON TOWNSHIP BOARD OF EDUCATION
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE
FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

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 services.

Facilities and Capital Assets

Our procedures included a review of the SDA grant agreements for consistency with recording of the revenue and awarding of contracts for eligible facilities construction. Based on these procedures, we have no comments except as noted herein.

Travel Expense and Reimbursement Policy

Travel regulations require each District to adopt a formal policy and procedure pertaining to travel and expense reimbursement for its employees and board members. The regulations require the District to establish a maximum travel amount for the year and to ensure that the maximum is not exceeded.

The regulations also require that all travel be preapproved by the Board of Education and that the approval must be itemized by event, event total cost, and individuals attending. Overall compliance was noted.

Management Suggestions:

Cyber Security

Cyber-crime has become much more prevalent in the last few years. Websites and internal networks, including personally identifiable information ("PII"), have been hacked and resulted in significant losses to organizations, both financial and reputational. We suggest that the District consider options to test and protect the District from cyber-crime.

Deferred Compensation Plans

The District has a fiduciary responsibility to its employees related to the deferred compensation plans offered by the District. The District should consider a periodic review of the benefits, features, costs, and performance of its deferred compensation plans and make that information available to employees to assist employees in making suitable choices for investing their retirement funds while fulfilling the District's fiduciary responsibilities.

Independent Contractors vs. Employees

The District should consider reviewing the status of "Independent Contractors" utilized by the District with Internal Revenue Service guidelines for determination of employment status. The IRS has been reviewing employers, including governments, to determine compliance. A proactive approach may help to minimize or eliminate potential penalties related to incorrect employment status determination.

VERNON TOWNSHIP BOARD OF EDUCATION
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE
FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

Management Suggestions (Cont'd):

Governmental Accounting Standards Board Statements:

The next Governmental Accounting Standards Board ("GASB") statement which will have a significant impact on the District will be GASB#75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, will be effective for the fiscal year ending June 30, 2018. This standard replaces GASB#45, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. It is similar to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* GASB#68 in that successful implementation of this standard will require the provision of certain key financial and non-financial information from the New Jersey Division of Pensions.

Follow-up on Prior Year Finding/Recommendation

There were no prior year audit recommendations.

VERNON TOWNSHIP SCHOOL DISTRICT
SCHEDULE OF AUDITED ENROLLMENT
APPLICATION FOR STATE SCHOOL AID SUMMARY
ENROLLMENT AS OF OCTOBER 15, 2015

	2016-2017 Application for State School Aid						Sample for Verification					
	Reported on ASSA On Roll		Reported on Workpapers On Roll		Errors		Sample Selected from Workpapers		Verified per Registers On Roll		Errors	
	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared
Half Day Preschool 3 Years Old	21		21				21		21			
Half Day Preschool 4 Years Old	22		22				22		22			
Full Day Kindergarten	185		185				185		185			
Grade One	178		178				178		178			
Grade Two	192		192				192		192			
Grade Three	212		212				212		212			
Grade Four	213		213				213		213			
Grade Five	195		195				195		195			
Grade Six	206		206				206		206			
Grade Seven	219		219				219		219			
Grade Eight	195		195				195		195			
Grade Nine	204		204				204		204			
Grade Ten	206		206				206		206			
Grade Eleven	233	1	233	1			233		233			
Grade Twelve	235		235				235		235			
Subtotal	2,716	1	2,716	1			2,716		2,716			
Special Education:												
Elementary	181		181				18		18			
Middle	136		136				13		13			
High	148	1	148	1			14		14			
Subtotal	465	1	465	1			45		45			
Totals	3,181	2	3,181	2	-0-	-0-	2,761	-0-	2,761	-0-	-0-	-0-
Percentage Error					0.00%	0.00%					0.00%	0.00%

VERNON TOWNSHIP SCHOOL DISTRICT
SCHEDULE OF AUDITED ENROLLMENT
APPLICATION FOR STATE SCHOOL AID SUMMARY
ENROLLMENT AS OF OCTOBER 15, 2015

	Private Schools for Disabled			Resident Low Income						
	Reported on ASSA as Private Schools	Sample for Verficiation	Sample Verified	Sample Errors	Reported on ASSA as Low Income	Reported on Workpapers as Low Income	Errors	Sample Selected from Workpapers	Verified to Application and Register	Sample Errors
Full Day Kindergarten					22	22		2	2	
Grade One					40	40		3	3	
Grade Two					38	38		3	3	
Grade Three					58	58		5	5	
Grade Four					54	54		5	5	
Grade Five					36	36		3	3	
Grade Six					42	42		3	3	
Grade Seven					48	48		3	3	
Grade Eight					34	34		3	3	
Grade Nine					33	33		3	3	
Grade Ten					30	30		3	3	
Grade Eleven					27	27		2	2	
Grade Twelve					37	37		3	3	
Subtotal					499	499		41	41	
Special Education:										
Elementary School	4	1	1		60	59	(1)	2	2	
Middle School	6	2	2		41	42	1	1	1	
High School	18	2	2		42	42		1	1	
Subtotal	28	5	5		143	143		4	4	
Totals	28	5	5	-0-	642	642	-0-	45	45	-0-
Percentage Error				-0-%			-0-%			-0-%

VERNON TOWNSHIP SCHOOL DISTRICT
SCHEDULE OF AUDITED ENROLLMENT
APPLICATION FOR STATE SCHOOL AID SUMMARY
ENROLLMENT AS OF OCTOBER 15, 2015

	Resident LEP Low Income					Resident LEP Not Low Income					
	Reported on ASSA as LEP Low Income	Reported on Workpapers as LEP Low Income	Sample Selected from Workpapers Errors	Verified to Test Scores, Application and Register	Sample Errors	Reported on ASSA as LEP Not Low Income	Reported on Workpapers as LEP Not Low Income	Sample Selected from Workpapers Errors	Verified to Test Scores and Register	Sample Errors	
Half Day Preschool 3 Years Old											
Half Day Preschool 4 Years Old											
Full Day Kindergarten											
Grade One						1	1				
Grade Two	1	1									
Grade Three						1	1	1	1		
Grade Four											
Grade Five						1	1	1	1		
Grade Six											
Grade Seven	1	1	1	1							
Grade Eight											
Grade Nine											
Grade Ten	1	1	1	1							
Grade Eleven											
Grade Twelve											
Subtotal	<u>3</u>	<u>3</u>	<u>2</u>	<u>2</u>		<u>3</u>	<u>3</u>	<u>2</u>	<u>2</u>		
Special Education:											
Elementary School						1	1	1	1		
Middle School											
High School											
Subtotal						<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>		
Totals	<u>3</u>	<u>3</u>	<u>-0-</u>	<u>2</u>	<u>-0-</u>	<u>4</u>	<u>4</u>	<u>-0-</u>	<u>3</u>	<u>-0-</u>	
Percentage Error			<u>0.00%</u>		<u>0.00%</u>			<u>0.00%</u>		<u>0.00%</u>	

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

	Transportation					
	<u>Reported on DRTRS by DOE</u>	<u>Reported on DRTRS by District</u>	<u>Errors</u>	<u>Tested</u>	<u>Verified</u>	<u>Errors</u>
Regular - Public Schools	2,502	2,502		60	60	
Regular - Special Education	448.0	448.0		25	25	
Transported - Non Public	59	59		9	9	
AIL - Non Public	9	9		2	2	
Special Needs - Public	61.0	61.0		7	7	
Special Needs - Private	<u>27</u>	<u>27</u>		<u>3</u>	<u>3</u>	
Totals	<u>3,106</u>	<u>3,106</u>	<u>-0-</u>	<u>106</u>	<u>106</u>	<u>-0-</u>
Percentage Error			<u>0.00%</u>			<u>0.00%</u>

	<u>Reported</u>	<u>Recalculated</u>
Average Mileage - Regular Including Grade PK Students	5.9	5.9
Average Mileage - Regular Excluding Grade PK Students	5.9	5.9
Average Mileage - Special Education with Special Needs	13.6	13.6

VERNON TOWNSHIP BOARD OF EDUCATION
EXCESS SURPLUS CALCULATION
FISCAL YEAR ENDED JUNE 30, 2016

SECTION 3

Restricted Fund Balance - Excess Surplus [(U2)-(M)] IF NEGATIVE, ENTER -0- \$ 1,026,849 (E)

Recapitulation of Excess Surplus as of June 30, 2016

Restricted Excess Surplus - Designated for Subsequent Year's Expenditures \$ 1,662,874 (C3)

Restricted Excess Surplus [(E)] \$ 1,026,849 (E)

Total [(C3)+(E)] \$ 2,689,723 (D)

Detail of Allowable Adjustments

Impact Aid \$ -0- (H)

Sale and Lease Back \$ -0- (I)

Extraordinary Aid \$ -0- (J1)

Additional Nonpublic School Transportation Aid \$ 46,235 (J2)

Current Year School Bus Advertising Revenue Recognized \$ -0- (J3)

Total Adjustments ((H)+(I)+(J1)+(J2)+(J3)) \$ 46,235 (K)

Detail of Other Restricted Fund Balance

Statutory Restrictions

Approved Unspent Separate Proposal \$ -0-

Sale/Lease-Back Reserve \$ -0-

Capital Reserve \$ 812,175

Maintenance Reserve \$ 40,470

Emergency Reserve \$ -0-

Tuition Reserve \$ -0-

School Bus Advertising 50% Fuel Offset Reserve – current year \$ -0-

School Bus Advertising 50% Fuel Offset Reserve – prior year \$ -0-

Other State/Governmental Mandated Reserve \$ -0-

Other Reserved Fund Balance not Noted Above \$ -0-

Total Other Restricted Fund Balance \$ 852,645 (C4)

VERNON TOWNSHIP BOARD OF EDUCATION
SUMMARY OF RECOMMENDATIONS
FISCAL YEAR ENDED JUNE 30, 2016

It is recommended that:

1. Administrative Practices and Procedures
None
2. Financial Planning, Accounting and Reporting
None
3. School Purchasing Program
None
4. School Food Service
None
5. Student Body Activities
None
6. Application for State School Aid
None
7. Pupil Transportation
None
8. Facilities and Capital Assets
None
9. Travel Expense and Reimbursement Policy
None
10. Miscellaneous
None
11. Status of Prior Year's Findings/Recommendations
There were no prior year recommendations.