

M.E.T.S. CHARTER SCHOOL
AUDITORS' MANAGEMENT REPORT ON
ADMINISTRATIVE FINDINGS - FINANCIAL,
COMPLIANCE AND PERFORMANCE
FISCAL YEAR ENDED JUNE 30, 2016

M.E.T.S. CHARTER SCHOOL
AUDITORS' MANAGEMENT REPORT ON ADMINISTRATIVE
FINDINGS - FINANCIAL,
COMPLIANCE AND PERFORMANCE
FISCAL YEAR ENDED JUNE 30, 2016
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November 11, 2016

The Honorable President and Members
 of the Board of Trustees
 M.E.T.S. Charter School
 Jersey City, NJ

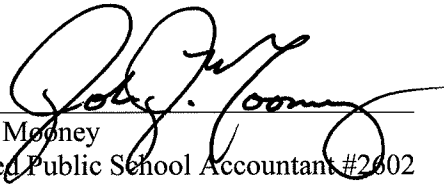
We have audited, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Board of Trustees of M.E.T.S. Charter School for the fiscal year ended June 30, 2016, and have issued our report thereon dated November 11, 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 November 11, 2016, on the financial statements of the Board.

We will review the status of the comments, if any, during our next audit engagement. We have already discussed the comments, recommendations 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 and suggestions.

This report is intended solely for the information and use of M.E.T.S. Charter School's Board of Trustees, the management, and the New Jersey Department of Education. However, this report is a matter of public record and its distribution is not limited.

NISIVOC CIA LLP
 NISIVOC CIA LLP


 John J. Mooney
 Licensed Public School Accountant #2602
 Certified Public Accountant

M.E.T.S. CHARTER SCHOOL
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 the Assistant Board Secretary, the activities of the Charter School, the records of the various funds under the auspices of the Charter School.

Administrative Practices and Procedures

Insurance

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

Officials in Office and Surety Bonds

<u>Name</u>	<u>Position</u>	<u>Coverage</u>
Robert T. Clark	Business Administrator	\$ 150,000

There is a Public Employees' Faithful Performance Blanket Position Bond through the New Jersey Schools Insurance Group covering all other employees with multiple coverage of \$100,000. Surety Bond coverage was not obtained for the Treasurer of School Moneys as required by Statute. However, Lerch Vinci & Higgins LLP performed the treasurer functions and they have an insurance policy for their firm.

Tuition Charges

A review of the financial statements indicated that the Charter School charged no tuition for any student attending the charter school.

Financial Planning, Accounting and Reporting

Examination of Claims

An examination of claims paid on a test basis, during the period under review indicated discrepancies with respect to signatures, certification or supporting documentation, except as noted herein.

Finding:

During our testing of the disbursements, some purchase orders selected could not be located and others were lacking all required signatures.

Recommendation:

It is recommended that all purchase orders be available for review and all required signatures are obtained on purchase orders.

Management's Response:

The Charter School will ensure that all purchase orders be available for review and all required signatures are obtained on purchase orders.

M.E.T.S. CHARTER SCHOOL
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE
AND PERFORMANCE
FISCAL YEAR ENDED JUNE 30, 2016

Financial Planning, Accounting and Reporting (Cont'd)

Payroll Account and Position Control Roster

The net salaries of employees of the Charter School 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 Director and were certified by the President of the Board, the Board Secretary/Business Administrator, and the Director.

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

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

Finding:

- 1) During our testing of employee health benefits withholdings, we found that these deductions were not properly calculated.
- 2) During our audit, we noted that the Charter School's unemployment compensation insurance is funded under the "benefit reimbursement method". However, the Charter School did not have a separate trust fund for the unemployment compensation insurance withholdings. The Charter School is planning to change to the "contributory method" starting January 1, 2017 and therefore a formal recommendation is not deemed necessary at this time.

Recommendation:

- 1) It is recommended that every effort be made to ensure that employee health benefits withholdings are properly calculated.

Management's Response:

- 1) The Charter School will ensure that employee health benefits withholdings are properly calculated.

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

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. 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.

M.E.T.S. CHARTER SCHOOL
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE
AND PERFORMANCE
FISCAL YEAR ENDED JUNE 30, 2016

Financial Planning, Accounting and Reporting (Cont'd)

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 have no comments except as noted herein.

Treasurer's Records

In planning and performing our audit of the financial statements of the Charter School 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 procedure 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 of the No Child Left Behind Act.

Other Special Federal and/or State Projects

The Charter School'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.

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 the 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.

M.E.T.S. CHARTER SCHOOL
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE
AND PERFORMANCE
FISCAL YEAR ENDED JUNE 30, 2016

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 Trustees 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.

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. None were noted. 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 Charter School 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.

M.E.T.S. CHARTER SCHOOL
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE
AND PERFORMANCE
FISCAL YEAR ENDED JUNE 30, 2016

School Purchasing Programs (Cont'd)

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

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 provision of *N.J.S.A. 18A:18A-4*.

School Food Service

The Charter School does not participate in the Child Nutrition Program or receive related federal or state awards. The Jersey City Board of Education maintained the financial transactions and statistical records for the Charter School's food service. The Jersey City Board of Education is responsible for the reporting requirements of the Charter Schools's food service program as an integral part of its Comprehensive Annual Financial Report (CAFR). However, we reviewed the application for eligibility requirements of the program and noted no exceptions.

Student Body Activities

In planning and performing our audit of the financial statements of the Charter School, 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 below.

Finding:

During our testing of the Student Activity account, we found that there were invoices that could not be paid because there were not sufficient funds to make these payments.

Recommendation:

It is recommended that sufficient funds are available prior to making purchases in the student activity account.

Management's Response:

The Charter School will make sure there are sufficient funds are available before making purchases in the student activity account.

Enrollment Counts and Submission to the Department

Our audit procedures included a test of information reported on the enrollment count reports for October 15, 2015 and the last day of school for on-roll, bilingual and low income students and a review of the Charter School's procedures related to its completion. The information on the enrollment reports agreed to the Charter School's workpapers without exception. The information included on the workpapers was verified on a test basis with two exceptions for bilingual students. The results of our procedures are presented in the Schedule of Audited Enrollments.

M.E.T.S. CHARTER SCHOOL
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE
AND PERFORMANCE
FISCAL YEAR ENDED JUNE 30, 2016

Facilities and Capital Assets

Our procedures included a review of the capital assets of the Charter School.

Finding:

During our review of capital, assets, we found that assets were not properly tagged, accounted for, and properly recorded on the appraisal report. There were multiple items grouped together in the appraisal report that on an individual basis would not be more than the \$2,000 threshold. A GASB 34 compliant appraisal report is necessary to be in compliance with Generally Accepted Government Auditing Standards.

Recommendation:

It is recommended that capital assets are properly tagged and accounted for, and the appraisal report meets GASB 34 Compliance.

Management Response:

The Charter School will have a new Capital Asset appraisal performed and have all assets properly tagged and accounted for.

Miscellaneous

Travel

Travel regulations require each Charter School to adopt a formal policy and procedure pertaining to travel and expense reimbursement for its employees and board members. The regulations include requirements for the Charter School to establish a maximum travel amount for the year and to ensure that the maximum amount is not exceeded. The regulations also require that all travel must be preapproved by the Board of Trustees and head Director and that a brief report detailing the key issues addressed at the travel event must be submitted after the travel event has occurred.

Our review of the travel policies and records revealed that the Charter School is in general compliance with the travel regulations, except as noted below.

Finding:

We found that the Charter School did not obtain post travel reports from all employees prior to reimbursing expenses for non-regular business travel.

Recommendation:

It is recommended that the Charter School obtain post travel reports prior to reimbursing employees for non-regular business travel.

Management Response:

The Charter school will obtain post travel reports prior to reimbursing employees for non-regular business travel.

M.E.T.S. CHARTER SCHOOL
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE
AND PERFORMANCE
FISCAL YEAR ENDED JUNE 30, 2016

Management Suggestions

Surety Bond Coverage

Surety bond coverage for the Business Administrator/Board Secretary is \$150,000. We suggest that the Charter School increase this coverage to \$200,000.

E-CERT1 Review

During our review of the E-CERT1, it was found that the administrator contracts provided for payment of unused sick leave upon separation. Per state statute, unused sick leave is to be paid out upon retirement only. It is suggested that all contracts are reviewed prior to renewal to ensure that unused sick leave is payable at retirement only.

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.

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 Charter School consider options to test and protect the Charter School from cyber-crime.

Independent Contractors vs. Employees

The District should consider reviewing the status of "Independent Contractors" utilized by the Charter School 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.

Deferred Compensation Plans

The Charter School has a fiduciary responsibility to its employees related to the deferred compensation plans offered by the Charter School. The Charter School 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 Charter School's fiduciary responsibilities.

Status of Prior Year's Findings/Recommendations

There were not any prior year findings.

M.E.T.S. CHARTER SCHOOL
SCHEDULE OF MEAL COUNT ACTIVITY
FOOD SERVICE FUND
ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(MEMORANDUM ONLY)

NOT APPLICABLE

M.E.T.S. CHARTER SCHOOL
SCHEDULE OF NET CASH RESOURCES
FOOD SERVICE FUND
ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(MEMORANDUM ONLY)

NOT APPLICABLE

M.E.T.S. CHARTER SCHOOL
SCHEDULE OF AUDITED ENROLLMENTS
APPLICATION FOR CHARTER SCHOOL AID
ENROLLMENT COUNT AS OF OCTOBER 15, 2015

Grades	Submission to DOE Reported on Roll	Reported on Workpapers	Errors	Sample Selected	Verified Signed Registration Forms	Errors	Verified # Days Enrolled	Errors
Grade Six	44	44		22	22		22	
Grade Seven	62	62		31	31		31	
Grade Eight	76	76		38	38		38	
Grade Nine	88	88		44	44		44	
Grade Ten	78	78		39	39		39	
Grade Eleven	81	81		41	41		41	
Grade Twelve	63	63		32	32		32	
Totals	492	492	- 0 -	247	247	- 0 -	247	- 0 -
Percentage Error			0%			0%		0%

Grades	Low Income	Sample Selected	Verified Documentation	Errors	Bilingual	Sample Selected	Verified Documentation	Errors
Grade Six	31	2	2					
Grade Seven	54	4	4		6	3	2	1
Grade Eight	56	4	4					
Grade Nine	66	4	4					
Grade Ten	55	4	4		1	1		1
Grade Eleven	61	4	4					
Grade Twelve	43	3	3					
Totals	366	25	25	- 0 -	7	4	2	2
Percentage Error				0%				50.00%

M.E.T.S. CHARTER SCHOOL
SCHEDULE OF AUDITED ENROLLMENTS
APPLICATION FOR CHARTER SCHOOL AID
ENROLLMENT COUNT AS OF LAST DAY OF SCHOOL YEAR 2016

Grades	Submission to DOE Reported on Roll	Reported on Workpapers	Errors	Sample Selected	Verified Signed Registration Forms	Errors	Verified # Days Enrolled	Errors
Grade Six	47.0	47.0		24	24		24	
Grade Seven	67.0	67.0		34	34		34	
Grade Eight	76.0	76.0		38	38		38	
Grade Nine	108.0	108.0		54	54		54	
Grade Ten	83.0	83.0		42	42		42	
Grade Eleven	81.0	81.0		41	41		41	
Grade Twelve	66.0	66.0		33	33		33	
Totals	528	528	- 0 -	266	266	- 0 -	266	- 0 -
Percentage Error			0%			0%		0%

Grades	Low Income	Sample Selected	Verified Documentation	Errors	Bilingual	Sample Selected	Verified Documentation	Errors
Grade Six	31	2	2					
Grade Seven	54	4	4		6	3	1	2
Grade Eight	56	4	4					
Grade Nine	70	4	4					
Grade Ten	53	4	4		1			
Grade Eleven	57	4	4					
Grade Twelve	45	3	3					
Totals	366	25	25	- 0 -	7	3	1	2
Percentage Error				0%				33.33%

M.E.T.S. CHARTER SCHOOL
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
 - A) All purchase orders be available for review and all required signatures are obtained on purchase orders.
 - B) The employee health benefits withholdings are properly calculated.
3. School Purchasing Program
None
4. School Food Service
None
5. Student Body Activities
 - A) Sufficient funds are available prior to making purchases in the student activity account.
6. Enrollment Counts and Submission to the Department
None
7. Capital Assets
 - A) Capital assets are properly tagged and accounted for, and the appraisal report meets GASB 34 Compliance.
8. Miscellaneous
 - A) The Charter school obtain post travel reports prior to reimbursing employees for non-regular business travel.
9. Status of Prior Year's Findings/Recommendations
There were not any prior year findings.