

**INDEPENDENT AUDITORS MANAGEMENT
REPORT ON ADMINISTRATIVE FINDINGS**

**FINANCIAL, COMPLIANCE AND
PERFORMANCE**

**THE PAULO FREIRE CHARTER SCHOOL
COUNTY OF ESSEX**

JUNE 30, 2016

**GALLEROS KOH LLP
CERTIFIED PUBLIC ACCOUNTANTS**

**THE PAULO FREIRE CHARTER SCHOOL
COUNTY OF ESSEX, NEW JERSEY**

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INDEPENDENT AUDITORS' REPORT

Honorable President and
Members of Board of Trustees
The Paulo Freire Charter School
County of Essex, 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 Trustees of the Paulo Freire Charter School (the "Charter School") in the County of Essex, State of New Jersey for the year ended June 30, 2016, and have issued our report thereon dated November 17, 2016.

As part of our audit, we performed procedures required by the New Jersey Department of Education, and the findings and results thereof are disclosed on the following pages, as listed in the accompanying table of contents.

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

Leonora Galleros, CPA
Licensed Public School Accountant
No. No. 20CS002239400

November 17, 2016
Cream Ridge, New Jersey

**THE PAULO FREIRE CHARTER SCHOOL
COUNTY OF ESSEX, NEW JERSEY**

**ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE**

Scope of Audit

The audit covered the financial transactions of the Board Secretary/School Business Administrator and the Treasurer of School Moneys, the activities of the Board of Trustees of the Paulo Freire Charter School (the "Charter School"), and the records of the various funds under the auspices of the Board of Trustees.

Insurance

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

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

<u>Name</u>	<u>Position</u>	<u>Amount</u>
Gail Long	School Business Administrator	\$ 50,000
James Bond	Treasurer	\$ 155,000

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 during the period under review we noted that claims were approved by designated individuals, certified and supporting documents were maintained. However, we noted the following exceptions:

Finding 2016-001*

In our review of cash disbursements and various transactions comprising certain expenditure amounts, we noted the following:

- a. There were seventeen (17) purchase orders that have the same date as the invoices/receipts or check dates.
- b. There were three (3) claims that did not have supporting documents such as approved purchase orders, invoices and/or purchase requisitions.

**THE PAULO FREIRE CHARTER SCHOOL
COUNTY OF ESSEX, NEW JERSEY**

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

Financial Planning, Accounting, and Reporting – Continued

Finding 2016-001* – Continued

- c. There were two (2) claims that did not have vendor declaration.
- d. Sampled reimbursement for expenses and/or liquidation of advances of Executive Officers did not have sign-offs by a board member.

Recommendation

We recommend a review of purchasing, reimbursements, and travel policies and procedures for adherence.

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 designee of the Charter School and were certified by the President of the Board and the Chief Executive Officer. In addition, salary withholdings were remitted to the proper agencies.

Finding 2016-002

In our review of payroll transactions and the related personnel files, we noted the following exceptions:

- No signed contract on file for an employee
- No proof of required certifications for five employees

Recommendation

We recommend that personnel files should be reviewed for completeness. Required certifications for certain positions be obtained and/or maintained on file.

Reserve for Encumbrances and Accounts Payable

A review of outstanding purchase orders was made as of June 30, 2016, for proper classification of purchase orders as Reserved for Encumbrances or Accounts Payable. No exception was noted in this area.

**THE PAULO FREIRE CHARTER SCHOOL
COUNTY OF ESSEX, NEW JERSEY**

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

Financial Planning, Accounting, and Reporting – Continued

Finding 2016-003

Payments were made which exceeded original approved purchase order amounts.

Recommendation

The School Business Administrator should review the payments and purchase orders to ensure that all payments are properly authorized and consistent with the N.J.A.C. 6A:23A-6.10(a)

Travel Policy

A travel policy was adopted in 2012 as required by *N.J.A.C. 6A:23A A-6.13* and *N.J.S.A. 18A:11-12*.

Finding 2016-004*

In our review of supporting documents related to travels and conferences, we noted five out-of-town travels for conferences with costs exceeding \$ 5,000 per travel that were Board approved, but prior approval from the Executive County Superintendent was not obtained as required under N.J.A.C. 6A:23A-5.9. Also, we noted an in-state travel expense approved with provision for lodging.

Recommendation

Where a travel event has a total cost that exceeds \$5,000, regardless of the number of attendees, or where more than five individuals from the Charter School are to attend a travel event out-of-State, the Charter School should obtain a prior written approval of the Executive County Superintendent at least 10 working days in advance of a travel event.

Classification of Expenditures

The coding of expenditures was tested for proper classification in accordance with N.J.A.C. 6A:23-2.2(g) and line item details as described in the Budget Summary Key as part of our test of transactions of judgmentally selected expenditure items.

We also reviewed coding of all expenditures included in our Compliance and Single Audit testing procedures. In addition to the selected expenditures items, we specifically targeted administrative coding classifications to determine overall reliability and compliance with N.J.A.C. 6A:23-8.2. As a result of the procedures performed, a minimal transaction error rate of 0.017% was noted and no additional procedures were deemed necessary to test the propriety of expenditure classifications.

**THE PAULO FREIRE CHARTER SCHOOL
COUNTY OF ESSEX, NEW JERSEY**

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

Financial Planning, Accounting, and Reporting – Continued

Finding 2016-005

During the audit, we noted that there were student body disbursements that were recorded in General Fund.

Recommendation

The Charter School should record student activity fund transactions separately.

Board Secretary's Records

We reviewed the Board Secretary's financial and accounting records maintained by the Business Office and noted that monthly reports are provided to the Board for review and approval. We did note exceptions as follows:

Finding 2016-006*

In our review of the Charter School's instructional expense ratio to the total expenditures, we noted that it is below the 60% minimum threshold.

Recommendation

We recommend that the Charter School minimize its support and administrative expenses to improve its instructional expense ratio to total expenditures.

Finding 2016-007*

Interfund receivables and payables are not periodically reconciled.

Recommendation

We recommend that reconciliation of interfund and withholding accounts should be completed periodically and reconciled at year-end.

Finding 2016-008

At June 30, 2016, we noted certain expenditure line items that exceeded the approved final budget.

Recommendation

We recommend that expenditure lines be reviewed by year-end and budget modifications be made to avoid any over expended lines.

**THE PAULO FREIRE CHARTER SCHOOL
COUNTY OF ESSEX, NEW JERSEY**

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

Financial Planning, Accounting, and Reporting – Continued

Treasurer's Records

Monthly reports and reconciliation of accounts were prepared and were presented to the Board. The following exception was noted.

Finding No. 2016-009*

The Treasurer did not render a report in a timely manner during fiscal year 2015-2016.

Recommendation

Each month, the Treasurer should determine cash balances by performing cash reconciliations for the general operating account, payroll account, and the payroll agency account (N.J.S.A. 18A:17-9).

Finding No. 2016-010

The Treasurer's records were not in agreement with the records of the Board Secretary. The Treasurer's record did not indicate the items that needs to be adjusted in the Board Secretary's report which pertain to transfer of funds made for receipt of food service funds from general fund cash account to food service cash account. A proposed adjusting journal entry was made to correct the cash balance to agree with the Treasurer's report amounts.

Recommendation

The Treasurer should reconcile his cash records with the reconciled bank statements and the cash records of the Board Secretary.

Elementary and Secondary Education Act (ESEA)/ Improving America's Schools Act (IASA) as reauthorized by the No Child Left Behind Act of 2001

The ESEA/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 IV of the Elementary and Secondary Education Act as amended and reauthorized.

Other Special Federal and/or State Projects

The Charter School's special projects were approved as listed on Schedules A and B 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 PAULO FREIRE CHARTER SCHOOL
COUNTY OF ESSEX, NEW JERSEY**

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

Financial Planning, Accounting, and Reporting - Continued

Teachers' Pension Annuity Fund (TPAF) Reimbursement

Our audit procedures included a test of the electronic reimbursements filed with the Department of Education for Charter School employees who are members of the Teacher's Pension Annuity Fund. We noted the exception below:

Finding 2016-011

During our audit, we noted that the amount reimbursed by the State for TPAF Social Security was lower than the amount reported in the payroll reports by \$13,899 for the period July to December 2015. We also noted that TPAF reimbursement were only processed/submitted every six months.

Recommendation

We recommend that payroll reports should be reviewed timely to make sure that the TPAF social security reimbursement per the payroll records are correct. We also recommend that reimbursements and review of the payroll records be performed more timely.

TPAF Reimbursement to the State for Federal Salary Expenditures

The Charter School had reimbursed the State for 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 (or charter school or renaissance school project) for those employees whose salaries are identified as being paid from federal funds.

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

The District Board of Education/Charter School 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 solicitor's opinion should be sought before a commitment is made.

**THE PAULO FREIRE CHARTER SCHOOL
COUNTY OF ESSEX, NEW JERSEY**

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

School Purchasing Programs – Continued

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

School Food Service

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

Charter School Enrollment System/Charter School Aid

Our audit procedures included tests of information reported on October 15th and the last day of the school year for enrolled, special education, bilingual and low income students. We also performed a review of the Charter School's procedures related to its completion.

Finding 2015-012*

In our review of enrollment information as reported in State's system and as per school records, we noted the following:

- a. There were three (3) students with missing birth certificate and proof of address.
- b. One (1) student was reported with full Average Daily Enrollment (ADE) in the June 2016 CHE, however, actual attendance was only 0.39 ADE.
- c. One (1) student was reported with 0.4 ADE in the June 2016 CHE; however, actual attendance was 0.96 ADE.

Recommendation

We recommend that the Charter School reviews the CHE entries and agree to student information on file. Reconciliation and review procedures of information should also be conducted on a periodic basis.

**THE PAULO FREIRE CHARTER SCHOOL
COUNTY OF ESSEX, NEW JERSEY**

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

Charter School Enrollment System/Charter School Aid - Continued

Finding 2016-013*

In our review of records and reports related to the Food Service Program, we noted that entries in the Charter School Enrollment (CHE) System of the New Jersey Department of Education did not agree to information on verified applications and supporting documents as follows:

- a. There were eight (8) students classified under “free” category in CHE and in Master Eligibility List (MEL) that did not have lunch applications on file.
- b. There were three (3) students under “denied” category in CHE but “free” in the MEL that did not have lunch applications on file.
- c. One (1) student was classified under “free” category but should have been under “denied” because there was no documentation on file.
- d. One (1) student was classified under “free” category but should have been under “reduced” category based on the completed application and income information on file
- e. There were five (5) students classified under “denied” category in CHE but should have been under “free” category based on the completed application and income information on file.
- f. One (1) student was classified under “free” category per CHE and MEL but should have been under “reduced” category based on the completed application and income information on file
- g. One (1) student was classified under “denied” category per CHE and MEL but should have been under “reduced” category based on the completed application and income information on file
- h. There were seven (7) students with correct lunch category in the CHE but were incorrect in the MEL based on the completed application and income information on file

Recommendation

We recommend that entries in the CHE system should be reviewed against information on verified lunch applications by designated Charter School personnel to ensure proper reporting and accurate claims of meals served under the three categories: free, reduced, or paid meals. All completed applications should be maintained and be made available for review.

Facilities and Capital Assets

The Charter School has inventory records of assets.

**THE PAULO FREIRE CHARTER SCHOOL
COUNTY OF ESSEX, NEW JERSEY**

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

Student Body Activities

We reviewed the student activities and the related records. We noted that a separate bank account was established to account for student activities. The exception below was noted:

Finding 2016-014

During our audit, we noted that expenses incurred by the Student Activities amounting to \$13,875 were recorded as expenses in the general fund. Adjusting journal entries in the General Fund and Student activity fund were made to properly record the transaction in the correct fund.

Recommendation

Student activity fund disbursements should be recorded in the correctly recorded.

Miscellaneous

Finding 2016-015

In our review of bank transactions, we noted five ACH web remittances from the Charter's School operating account in the total amount of \$21,672 for PayPal and Debit Card transactions. Per our inquiry, only the Executive Officers have access to the use of Paypal and Debit Cards. However, some of these purchases did not have prior approved Purchase Orders.

Further, we also noted that the PayPal and Debit Card transactions were mainly for purchase of airfare and hotel accommodation for Board-approved out-of-state professional development/fieldtrips. We also noted that it was also used to purchase movie tickets, admission fees related to the fieldtrips, airline seats upgrades, and purchase of office supplies.

Neither board of trustees nor charter schools officials may use credit cards for the purchase of goods and services. Statutory requirements direct how board of trustees may purchase goods and services and establish the procedures to follow in paying for the purchase of goods and services.

Recommendation

We recommend that purchases through PayPal and Debit Charges be processed following approved purchase orders. We recommend that the Charter School updates its purchasing and travel policies to include policy statement and procedures for the use of Paypal and Debit Card for those rare occasions, specifically defined by the policy. The policy should, at the minimum, include the following elements: (1) nature of the expenses that can be purchased, (2) Board approval requirement and (3) maximum amount that can be purchased per transaction.

**THE PAULO FREIRE CHARTER SCHOOL
COUNTY OF ESSEX, NEW JERSEY**

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

Follow-up on Prior Year's Findings

In accordance with Government Auditing Standards, our procedures included a review of all prior year recommendations. Corrective actions had been completed or are still in process on prior year findings, with the exception of those that are identified as repeat or partially similar to findings in this year's recommendation (with asterisk *).

Acknowledgment

We received the complete cooperation of all the officials of the Charter School and we greatly appreciate the courtesies extended to the members of our audit team.

Respectfully submitted,



Leonora Galleros, CPA
Licensed Public School Accountant
No. 20CS002239400

November 17, 2016
Cream Ridge, New Jersey

**PAULO FREIRE CHARTER SCHOOL
APPLICATION FOR CHARTER SCHOOL AID
ENROLLMENT COUNT AS OF OCTOBER 15, 2015**

Submission to [REDACTED]															
Grades	CHE reported On Roll	Reported on workpapers	Verified signed registration forms	Errors	Verified # days enrolled	Errors	Special Ed/ Bilingual	Verified documentation	Errors	Verified # days Service Provider	Errors	Low Income	Verified documentation	Errors	
Ninth	71	71	71	-	185	-	10	10	-	185	-	57	56	1	
Tenth	78	78	78	-	185	-	8	8	-	185	-	51	49	2	
Eleventh	68	68	68	-	185	-	10	10	-	185	-	30	30	-	
Twelveth	53	53	53	-	185	-	8	8	-	185	-	32	29	3	
Total	270	270	270	-	740	-	36	36	-	740	-	170	164	6	
Percentage				0.0%		0.0%			0.0%		0.0%			3.5%	

**PAULO FREIRE CHARTER SCHOOL
APPLICATION FOR CHARTER SCHOOL AID
ENROLLMENT COUNT AS OF JUNE 30, 2016**

Submission to															
Grades	CHE reported On Roll	Reported on workpapers	Verified signed registration forms	Errors	Verified # days enrolled	Errors	Special Ed/ Bilingual	Verified documentation	Errors	Verified # days Service Provided	Errors	Low Income	Verified documentation	Errors	
Ninth	73	73	73	-	178	-	10	10	-	178	-	56	55	1	
Tenth	80	80	80	-	178	-	8	8	-	178	-	50	48	2	
Eleventh	70	70	70	-	178	-	10	10	-	178	-	30	30	-	
Twelveth	50	50	50	-	178	-	6	6	-	178	-	30	27	3	
Total	273	273	273	-	712	-	34	34	-	712	-	166	160	6	
Percentage				0.0%		0.0%			0.0%		0.0%			3.6%	

**THE PAULO FREIRE CHARTER SCHOOL
(COUNTY OF ESSEX, NEW JERSEY)**

EXCESS SURPLUS CALCULATION

June 30, 2016

SECTION 1

A. 2% Calculation of Excess Surplus

2015-16 Total General Fund Expenditures per the CAFR, Ex. C-1		\$ 4,327,377 (B)
Increased by:		
Transfer from Capital Outlay to Capital Projects Fund		\$ - (B1a)
Transfer from Capital Reserve to Capital Projects Fund		\$ - (B1b)
Transfer from General Fund to SRF for PreK-Regular		\$ - (B1c)
Transfer from General Fund to SRF for PreK-Inclusion		\$ - (B1d)
Decreased by:		
On-Behalf TPAF Pension & Social Security	\$ 86,420	(B2a)
Assets Acquired Under Capital Leases	\$ -	(B2b)
Adjusted 2015-16 General Fund Expenditures [(B)+(B1s)-(B2s)]	<u>\$ 4,240,957</u>	(B3)
2% of Adjusted 2015-16 General Fund Expenditures [(B3) times .02]	\$ 84,819	(B4)
Enter Greater of (B4) or \$250,000	\$ 250,000	(B5)
Increased by: Allowable Adjustment *	\$ -	(K)
Maximum Unassigned/Undesignated-Unreserved Fund Balance [(B5)+(K)]		<u>\$ 250,000 (M)</u>

SECTION 2

Total General Fund - Fund Balances @ 6/30/2016 (Per CAFR Budgetary Comparison Schedule C-1)	\$ 910,415	(C)
Decreased by:		
Year-end Encumbrances	\$ 174,688	(C1)
Legally Restricted – Designated for Subsequent Year’s Expenditures	\$ -	(C2)
Legally Restricted - Excess Surplus – Designated for Subsequent Year’s Expenditures **	\$ -	(C3)
Other Restricted Fund Balances ****	\$ -	(C4)
Assigned Fund Balance – Unreserved- Designated for Subsequent Year’s Expenditures	\$ -	(C5)
Total Unassigned Fund Balance [(C)-(C1)-(C2)-(C3)-(C4)-(C5)]		<u>\$ 735,727 (U1)</u>
Excess Surplus at June 30, 2016		<u>\$ 485,727</u>

SECTION 3

Restricted Fund Balance – Excess Surplus*** [(U1)-(M)] IF NEGATIVE ENTER -0-	\$ -	(E)
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Recapitulation of Excess Surplus as of June 30, 2016

Reserved Excess Surplus – Designated for Subsequent Year’s Expenditures **	\$ -	(C3)
Reserved Excess Surplus ***[(E)]	\$ -	(E)
Total Excess Surplus [(C3) + (E)]	<u>\$ -</u>	(D)

Charter schools are not subject to the excess surplus limitations. Charter schools auditors are required to document the calculation of excess surplus pursuant to N.J.S.A. 18A:7F-7 solely for the purpose of adherence to N.J.A.C. 6A:23A-22.4(e), which provides that a district board of education may petition the Commissioner to pay a lower per-pupil rate if the charter schools spends "significantly less than budgeted and has accumulated a sizeable surplus."