

**INDEPENDENT AUDITORS' MANAGEMENT
REPORT ON ADMINISTRATIVE FINDINGS**

**FINANCIAL, COMPLIANCE AND
PERFORMANCE**

**CLASSICAL ACADEMY CHARTER SCHOOL OF CLIFTON
COUNTY OF ESSEX**

JUNE 30, 2016

**GALLEROS KOH LLP
CERTIFIED PUBLIC ACCOUNTANTS**

**CLASSICAL ACADEMY CHARTER SCHOOL OF CLIFTON
COUNTY OF PASSAIC, NEW JERSEY**

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INDEPENDENT AUDITORS' REPORT

Honorable President and
Classical Academy Charter School of Clifton
County of Passaic, New Jersey

We have audited, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Board of Trustees of the Classical Academy Charter School of Clifton (the "Charter School") in the County of Passaic, 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 State of 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.

A handwritten signature in black ink that reads 'Leonora Galleros'.

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

A handwritten signature in blue ink that reads 'Galleros Koh LLP'.

November 17, 2016
Freehold, New Jersey

**CLASSICAL ACADEMY CHARTER SCHOOL OF CLIFTON
COUNTY OF PASSAIC, NEW JERSEY**

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

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 Link Community Charter School (the "Charter School"), and the records of the various funds under the auspices of the Board of Trustees.

Administrative Practices and Procedures

Insurance

Required insurance coverages are 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>
Vincent DeRosa	Board Administrator	\$105,000
Magda DeRosa	Board Administrator	\$105,000
Bima Baje	Board Secretary	\$105,000

Finding No. 2016-001

In our review of insurance and official bonds, we noted that the surety bonds of \$105,000 was lower than the required coverage of at least \$110,000 based on the 2014-2015 budget.

Recommendation

We recommend that surety bonds for key personnel should be reviewed annually and adjusted to amounts at least equal to the minimum requirements determined as a percentage of the current school's budget described in the schedule of insurance set forth in N.J.A.C. 6A:23A-16.4.

Adequate insurance is in effect with a duly licensed and authorized insurance company for all employees for the faithful performance of their duties.

Tuition Charges

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

**CLASSICAL ACADEMY CHARTER SCHOOL OF CLIFTON
COUNTY OF PASSAIC, NEW JERSEY**

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

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 No. 2016-002

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

- a. There were six (6) claims that have purchase orders dated on or after the invoice/contract dates.
- b. There were thirteen (13) claims that did not have signed vendor declaration forms.

Recommendation

We recommend a review of vendor files to ensure that all supporting documents including approved purchase orders, vendor invoices and certifications are obtained and maintained.

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, the Board Secretary/Business Administrator and the Chief School Administrator. In addition, salary withholdings were remitted to the proper agencies.

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.

Travel Policy

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

**CLASSICAL ACADEMY CHARTER SCHOOL OF CLIFTON
COUNTY OF PASSAIC, NEW JERSEY**

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

Financial Planning, Accounting, and Reporting - Continued

Classification of Expenditures

The coding of expenditures was tested for proper classification in accordance with N.J.A.C. 6A: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. No exception was noted.

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 noted exceptions as follows:

Finding No. 2016-003

In our review of the Charter School's instructional expense ratio to the total expenditures, we noted that it is below the 60% (54.76%) minimum threshold.

Recommendation

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

Treasurer's Records

Monthly reports and reconciliation of accounts were prepared and presented to the Board.

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.

**CLASSICAL ACADEMY CHARTER SCHOOL OF CLIFTON
COUNTY OF PASSAIC, NEW JERSEY**

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

Financial Planning, Accounting, and Reporting - Continued

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.

Teachers' Pension Annuity Fund (TPAF) FICA Reimbursement

The Charter School filed the TPAF FICA reimbursements after the fiscal year ended.

School Purchasing Programs

Contracts and Agreements Requiring Advertisement for Bids

N.J.S.A. 18A:18A-3 (a) sets forth the bid threshold and requires award by board resolution. The statute was amended in 1999 to provide for an even higher threshold when there is a "Qualified Purchasing Agent" in the charter school as defined at N.J.A.C. 5:34-1.1 and certified upon approval of an application submitted to DCA. Pursuant to N.J.S.A. 18a:18a-3(B), the bid threshold was raised to \$26,000, effective July 1, 2010. For charter schools with a qualified purchasing agent, the bid threshold was raised to \$36,000.

"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 \$26,000 the contract may be awarded by a purchasing agent when so authorized by resolution of the board without public advertising for bids and bidding therefore, except that the board may adopt a resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations."

N.J.S.A. 18A:18A-37 describes the awarding of contracts below the bid threshold. Subsection (a) describes the requirements for awarding contracts below the bid threshold.

"For all contracts that in the aggregate are less than the bid threshold but 15 percent or more of that amount, and for those contracts that are for subject matter enumerated in subsection (a) of N.J.S.A. paragraph (3) of that subsection concerning work by employees of the board, the purchasing agent shall award the contract after soliciting at least two competitive quotations, if practicable."

**CLASSICAL ACADEMY CHARTER SCHOOL OF CLIFTON
COUNTY OF PASSAIC, NEW JERSEY**

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

School Purchasing Programs - Continued

Contracts and Agreements Requiring Advertisement for Bids (continued)

Subsection (c) describes the requirements for small purchases.

“If authorized by the board resolution, all contracts that are in the aggregate less than 15 percent of the bid threshold may be awarded by the purchasing agent without soliciting competitive quotations.”

Based on the results of our tests, we noted the exception below for any individual payments, contracts, or agreements made for the performance of any work or goods or services in excess of statutory thresholds where there had been no advertising for bids in accordance with the provision of N.J.S.A. 18A:18A-4, as amended.

Resolutions were adopted authorizing the awarding of contracts or agreements for “Professional Services” per N.J.S.A 18:18A-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. We noted the exceptions noted below.

Finding No. 2016-004

In our review of enrollment information as reported in State’s system and as per school records, we noted that there were forty-three (43) students with missing birth certificate and/or proof of address on file.

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.

**CLASSICAL ACADEMY CHARTER SCHOOL OF CLIFTON
COUNTY OF PASSAIC, NEW JERSEY**

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

Charter School Enrollment System/Charter School Aid – Continued

Finding No. 2016-005

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 follow:

- a. There were two (2) students classified as "denied" but should have been classified as "free" based on the completed application and income information on file.
- b. There was one (1) student classified as "denied" but should have been classified as "reduced" based on the completed application and income information on file.
- c. There was one (1) student classified as "reduced" but should have been classified as "free" based on the completed application and income information on file.
- d. There were two (2) students classified as "free" and "reduced" but did not have a 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 or by contracted vendor 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 made available for review.

Facilities and Capital Assets

The Charter School has inventory records of assets. No exception was noted in this area.

Follow-up on Prior Year's Findings

There were no prior year findings reported.

**CLASSICAL ACADEMY CHARTER SCHOOL OF CLIFTON
COUNTY OF PASSAIC, NEW JERSEY**

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

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,

A handwritten signature in black ink that reads "Leonora Galleros". The signature is written in a cursive, flowing style.

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

November 17, 2016
Cream Ridge, New Jersey

**CLASSICAL ACADEMY CHARTER SCHOOL OF CLIFTON
APPLICATION FOR CHARTER SCHOOL AID
ENROLLMENT COUNT AS OF OCTOBER 15, 2015**

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	
6	40	40	40	-	190	-	-	-	-	190	-	6	7	(1)	
7	40	40	40	-	190	-	1	-	1	190	-	4	4	-	
8	38	38	36	2	190	-	1	-	1	190	-	6	7	(1)	
Total	118	118	116	2	570	-	2	-	2	570	-	16	18	(2)	
Percentage				1.7%		0.0%			100.0%		0.0%				-12.5%

**CLASSICAL ACADEMY CHARTER SCHOOL OF CLIFTON
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	
6	39	39	39	-	194	-	-	-	-	194	-	5	6	(1)	
7	40	40	40	-	194	-	1	-	1	194	-	4	4	-	
8	37	37	35	2	194	-	1	-	1	194	-	5	6	(1)	
Total	116	116	114	2	582	-	2	-	2	582	-	14	16	(2)	
Percentage				1.7%		0.0%			100.0%		0.0%				-14.3%

**CLASSICAL ACADEMY CHARTER SCHOOL OF CLIFTON
(COUNTY OF PASSAIC, 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	\$ 1,257,068 (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	\$ 136,367 (B2a)
Assets Acquired Under Capital Leases	\$ _____ - (B2b)
Adjusted 2015-16 General Fund Expenditures [(B)+(B1s)-(B2s)]	<u>\$ 1,120,701 (B3)</u>
2% of Adjusted 2015-16 General Fund Expenditures [(B3) times .02]	\$ 22,414 (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)	\$ 1,801,755 (C)
Decreased by:	
Year-end Encumbrances	\$ _____ - (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>\$ 1,801,755 (U1)</u>
Excess Surplus at June 30, 2016	<u>\$ 1,551,755</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>\$ _____ - (D)</u>

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."