

**EAST ORANGE COMMUNITY
CHARTER SCHOOL**

**Auditors' Management Report
On
Administrative Findings
Financial, Compliance
And Performance
June 30, 2016**

EAST ORANGE COMMUNITY CHARTER SCHOOL

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Tax Identification Number:	22-3573478

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Report of Independent Auditors

Honorable President and
Members of the Board of Trustees
East Orange Community Charter School
County of Essex, New Jersey

We have audited, in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States, the basic financial statements of the Board of Trustees of East Orange Community Charter School in the County of Essex, for the year ended June 30, 2016, and have issued our report thereon dated August 28, 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 East Orange Community 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.

Olugbenga Olabintan, CPA

August 28, 2016
Newark, New Jersey

OLUGBENGA OLABINTAN
Certified Public Accountant/Consultant



Olugbenga Olabintan, CPA
Licensed Public School Accountant
No. 20CS00230200

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Scope of Audit

The audit covered the financial transactions of the Business Office, the activities of the Board of Trustees, and the records of the various funds under the auspices of the Board of Trustees.

Administrative Practices and Procedures

Insurance

Fire insurance coverage was carried in the amounts as detailed on Exhibit J-4, Insurance Schedule contained in the charter school's CAFR.

Official Bonds

<u>Name</u>	<u>Position</u>	<u>Amount</u>
Joel Julien, CPA	Board Secretary/School Business Administrator	\$168,000
Raymond L. Scott	Treasurer of School Monies	\$168,000

School Leaders Errors and Omissions Liability insurance was carried for all members of the Board of Trustees with coverage for each wrongful act of \$1,000,000.

There is an Employee's Faithful Performance Blanket Position Bond Policy covering for all other employees with coverage of \$25,000.

Tuition Charges

A review of the financial statements indicated that the charter school charged no tuition for any student attending the Charter School and all proceeds for a before/after school program were accounted for in an Enterprise Fund.

Financial Planning, Accounting and Reporting

Examination of Claims

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

Payroll Account

The net salaries of all 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.

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All payrolls were approved by the designee in the Charter School and were certified by the Chairman of the Board of Trustees and the Comptroller.

Salary withholdings were promptly remitted to the proper agencies.

Employee Certification

Reserve for Encumbrances and Accounts Payable

A review of outstanding issued purchased orders was made as of June 30 for proper classification of orders as reserve for encumbrances and accounts payable. No exceptions were noted.

Classification of Expenditures

The coding of expenditures was tested for proper classification in accordance with NJAC 6A:23-2.2(g) and line item details as described in the Budget Summary Key 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 transaction error rate was noted and no additional procedures were deemed necessary to test the propriety of expenditure classification.

Instructional Expense

Observation

We performed the percentage test for instructional expenses in relation to the general fund expenditures; we noted that the instructional expenses accounted for 49.72% of the total general fund expenditures, which is below the required percentage of 60%.

Management Response:

The Charter School budget for 2015-2016 was prepared to ensure that restricted funds (including the No Child Left Behind grant) which were available for a defined period of time were fully expended during the year. Therefore, the portion of instructional expenses that would have pulled the percentage above 60% was charged to the restricted funds. Further, the original Charter of the school was uniquely written to include certain specialized services like Social Service, Mental Health and Child Study Team. The expenses for these services are not instructional and tend to pull down the percentage.

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Finding # 2016-01 – *Current Year's 2016 Budget Deficit*

Budget appropriations were greater than realized revenues resulting in current year deficit of \$53,397. However, this was significantly less than the deficit of \$445,945 recorded in the prior year ended June 30, 2015. Which implies that the aggressive cost cutting measures the Board of the Charter School put in place worked. It should be noted that the Charter School is not completely out of the woods. It should further be noted that the net/net surplus of \$80,563 as of June 30, 2016 had a portion – approximately \$75,000 reserved for the required escrow cash account. This leaves available balance of \$5,563 which is too low. The state recommends a minimum of \$250,000 to \$500,000 in fund balance.

The Charter School administration and its Board of Trustees had projected the shortfall during the year.

Recommendation:

In the event of a shortfall in budgeted revenues, the Charter School Administration in consultation with the Board of Trustees should continue to take timely steps to both reduce budgeted expenditures and/or raise additional revenues in order to balance the budget.

Management Response:

Management has started implementing the cost cutting measures put in place during the year - to absorb the deficit as of June 30, 2016 and ensure that no deficits were incurred in the ensuing years.

Board Secretary's Records

We reviewed the financial and accounting records maintained by the Business Office and no material findings noted.

Finding # 2016-02 – *Good Faith Deposit of \$5,000 Outstanding for Several Years*

We noted a good faith deposit on the Charter School's balance sheet that has been outstanding for several years. Management represented that it was made to one of the Charter School's current landlords pursuant to a proposed purchase of a building and the proposal fell through.

Recommendation:

We recommend that the amount should be recouped from the landlord either by a refund from the landlord or a reduction of rent payable to the landlord.

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Management Response:

Management agrees.

Treasurer's Records

Our review of the treasurer's records disclosed that the Charter School is in compliance with the State requirements. All cash accounts were reconciled monthly and reporting requirements were met on time.

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.

The E.S.E.A 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 through VI of the Elementary and Secondary Education Act as amended.

The study of compliance for E.S.E.A did not indicate any areas of noncompliance and/or questionable costs.

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 Charter School employees who are members of the Teachers Pension and Annuity Fund. No exceptions were noted.

School Purchasing Programs

Contracts and Agreements Requiring Advertising for Bids

Effective July 1, 2015 and thereafter the bid thresholds in accordance with N.J.S.A 18A: 18A-3 (as amended) and 18A:39-3 is \$40,000 (with a Qualified Purchasing Agent) and

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\$29,000 (without a Qualified Purchasing Agent), respectively. The law requiring bidding for public student transportation contract under N.J.S.A. 18A:39-3 is currently \$18,800.

The 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.

In as much as the system of records did not provide for an accumulation of payments for categories for the performance of any work or goods or services, the results of such accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed.

The results of our examination indicated that no individual payments, contract, or agreements were made for the performance of any work or goods or services, in excess of the statutory threshold where there had been no advertising for bids in accordance with the provision of N.J.S.A. 18A:18A-4, amended.

School Food Service

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

The number of meals claimed for reimbursement was verified against sales and meal count records. As part of the claims review process the Edit Check Worksheet was completed. We noted that meals claimed agreed with meal count records. No exceptions noted. We also noted that the reimbursement claims were submitted/certified in a timely manner. Applications for free and reduced price meals were reviewed for completeness and accuracy. The number of free and reduced price meals claimed as served was compared to the number of valid applications on file, times the number of operating days, on a class by class basis. No exceptions noted. The free and reduced price meals and free milk policy is uniformly administered throughout the Charter school. The required verification procedures for free and reduced price applications were completed and available for review.

Expenditures were separately recorded as food, labor and other costs. Vendor invoices were reviewed and cost verified.

The cash disbursement records reflected expenditures for program related goods and services. The appropriate revenue and expenditure records were maintained in order to substantiate the non-profit status of the school food service. Net cash resources did not exceed three-month average expenditures.

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

The Charter School uses a food service management company. We noted that the Charter School deposited and expended food program monies in accordance with N.J.S.A 18A:17-34, and 19-1 through 19-4.1.

Food Distribution Program commodities were not received and therefore no inventory were maintained.

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

Finding 2016-03:

We noted that the Enterprise Fund - Child Nutrition Program incurred a deficit of \$70,377 for the year ended June 30, 2016. We further observed that the Food Program has consistently incurred deficits in the last couple of years. The deficit was funded by a transfer from the General Fund.

Recommendation/Management Response:

Management stressed that the meals fed to the students are of the highest quality and comply with the nutrients requirements of the New Jersey Department of Education. However, we recommend that the Board should explore other ways of raising unrestricted donations/fund to fund the recurring deficits.

Student Body Activities

Our audit did not reveal any student body activities during the fiscal year ended June 30, 2016.

Enrollment Counts and Submission to the Department

Our audit procedures included test of information reported on the October 15th, and the last day of school for on-roll, special education, bilingual and low income. We also performed a review of the Charter School procedures related to its completion. The Charter School maintained adequate written procedures for the recording of student enrollment data.

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Follow-up on Prior Year's Findings

In accordance with government auditing standards, our procedures included a review of all prior year recommendations as follows:

- We noted that the Enterprise Fund - Child Nutrition Program incurred a deficit of \$36,796 for the year ended June 30, 2015. We further observed that the Food Program has consistently incurred deficits in the last couple of years. The deficit was funded by a transfer from the General Fund. This finding was repeated in the current year.
- The Charter School's instructional expenses accounted for 50.04% of the total general fund expenditures, which was below the required 60%. This finding was repeated in the current year.

During our test of personnel information, we selected 16 employees and noted the following:

- All employees had employment contracts on file, except one.
- All employees had the required certification on file, no exceptions noted.
- All employees had the federal Form I-9 on file, no exceptions noted.
- Eleven employees out of sixteen did not have the required annual performance evaluation on file.
- All employees had the required Mantoux physical examination results on file.
- All employees had the required result of New Jersey Criminal background history check on file.

This finding was not found in 2016.

We noted that for 2014-2015, the budget appropriations were greater than realized revenues resulting in significant current year deficit of \$445,945. This was repeated for 2016, however, the deficit of \$53,397 was a lot lower than prior year's.

We noted a good faith deposit on the Charter School's balance sheet that has been outstanding for several years. Management represented that it was made to one of the Charter School's current landlords pursuant to a proposed purchase of a building and the proposal fell through. We recommend that the amount should be recouped from the landlord either by a refund from the landlord or a reduction of rent payable to the landlord. The amount was still outstanding as of June 30, 2016.

Acknowledgement

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

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Food Service Fund
Numbers For Meals Served and (Over)/Underclaim
Enterprise Fund
For the Year Ended June 30, 2016

Program	Meal Category	Meals Claimed	Meals Verified	Difference	Rate	(Over) Under Claim
National School Lunch	Paid	19,732	19,732	-	0.41	\$ -
	Reduced	5,394	5,394	-	2.81	-
	Free	42,721	42,721	-	3.21	-
	Total	<u>67,847</u>	<u>67,847</u>	<u>-</u>		<u>-</u>
School Breakfast	Paid	11,161	11,161	-	0.29	-
	Reduced	3,369	3,369	-	1.69	-
	Free	24,299	24,299	-	1.99	-
	Total	<u>38,829</u>	<u>38,829</u>	<u>-</u>		<u>-</u>
National After School Snacks	Paid	-	-	-	-	-
	Reduced	-	-	-	-	-
	Free	-	-	-	-	-
	Total	<u>-</u>	<u>-</u>	<u>-</u>		<u>-</u>
Total Net (Over)/Underclaim						<u><u>\$ -</u></u>

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Application for Charter School Aid
Schedule of Audited Enrollments
Enrollment Count as of October 15, 2015

Grades	Submission to DOE reported on Roll	Reported on Workpapers	Verified signed registration forms	Errors	Verified # of days enrolled	Errors	Special Ed &/ or Bilingual	Verified Documentation	Errors	Verified # of days of Service Provided	Errors	Low Income	Verified Documentation	Errors
Kindergarten	103	49	49	-	49	-	-	-	-	-	-	49	49	-
One	108	50	50	-	50	-	-	-	-	-	-	49	49	-
Two	103	53	53	-	53	-	4	4	-	4	-	53	53	-
Three	102	45	45	-	45	-	4	4	-	4	-	43	43	-
Four	95	52	52	-	52	-	5	5	-	5	-	52	52	-
Total	511	249	249	0	249	0	13	13	0	13	0	246	246	0
Percentage				0.00%		0.00%			0.00%		0.00%			0.00%

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Application for Charter School Aid
Schedule of Audited Enrollments
Enrollment Count as of Last Day of School

Grades	Submission to DOE reported on Roll	Reported on Workpapers	Verified signed registration forms	Errors	Verified # of days enrolled	Errors	Special Ed &/ or Bilingual	Verified Documentation	Errors	Verified # of days of Service Provided	Errors	Low Income	Verified Documentation	Errors
Kindergarten	106	55	55	-	55	-	1	1	-	1	-	54	54	-
One	104	58	58	-	58	-	2	2	-	2	-	55	55	-
Two	105	51	51	-	51	-	2	2	-	2	-	50	50	-
Three	93	57	57	-	57	-	7	7	-	7	-	55	55	-
Four	99	44	44	-	44	-	9	9	-	9	-	43	43	-
Total	507	265	265	0	265	0	21	21	0	21	0	257	257	0
Percentage				0.00%		0.00%			0.00%		0.00%			0.00%

**EAST ORANGE COMMUNITY CHARTER SCHOOL
NET CASH RESOURCE SCHEDULE**

Net cash resources did/did not exceed three months of expenditures
Proprietary Funds - Food Service
Year ended June 30, 2016

<u>Net Cash Resources:</u>		Food Service B - 4/5	
CAFR	*	Current Assets	
B-4		Cash & Cash Equiv.	\$ 22,312
B-4		Due from Other Gov'ts	42,535
B-4		Accounts Receivable	6,546
B-4		Investments	-
 		Current Liabilities	
B-4		Less Accounts Payable	(32,022)
B-4		Less Accruals	-
B-4		Less Due to Other Funds	(39,371)
B-4		Less Deferred Revenue	-
		Net Cash Resources	\$ -
			(A)

Net Adj. Total Operating Expense:

B-5		Tot. Operating Exp.	342,075	
B-5		Less Depreciation	-	
		Adj. Tot. Oper. Exp.	\$ 342,075	(B)

Average Monthly Operating Expense:

	B / 10		\$ 34,208	(C)
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Three times monthly Average:

	3 X C		\$ 102,623	(D)
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TOTAL IN BOX A		\$	-	
LESS TOTAL IN BOX D		\$	(102,623)	
NET		\$	(102,623)	

From above:

D is greater than A, cash does not exceed 3 X average monthly operating expenses.

* Inventories are not to be included in total current assets.

Source: Charter School's CAFR