

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

**GRAY CHARTER SCHOOL**  
**Auditors' Management Report On Administrative Findings**  
**Financial, Compliance and Performance**  
**For the Year Ended June 30, 2016**

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**Tax Identification Number: 22-3626543**

# *Olugbenga Olabintan*

**Certified Public Accountant/Consultant**

137 Camden Street, Suite #3  
Newark, NJ 07103

Tel: (201) 230-7518  
Fax: (973) 368-8268  
E-mail: oolabintan@aol.com

## **Report of Independent Auditors**

Honorable President and  
Members of the Board of Trustees  
Gray 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 Gray Charter School in the County of Essex, for the year ended June 30, 2016, and have issued our report thereon dated November 7, 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 Gray Charter School Board of Trustee's 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*

November 7, 2016  
Newark, New Jersey

OLUGBENGA OLABINTAN  
Certified Public Accountant/Consultant



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

**GRAY CHARTER SCHOOL**  
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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**

<b><u>Name</u></b>	<b><u>Position</u></b>	<b><u>Amount</u></b>
Karen Milteer	Board Secretary/School Business Administrator	\$148,000

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 Employee's Faithful Performance Blanket Position Bond Policy covering each employee in the amount 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.

**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 President of the Board of Trustees and the School Business Administrator.

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

**Employee Certification**

***Finding # 2016-001 – Test of Employees Personnel Folders***

During our test of personnel information, we selected 15 employees and noted the following:

- All employees had the required federal Form I-9 on file, however, four (4) of the fifteen Forms I-9 on file were not signed by the employer.
- Two (2) employees did not have the required Mantoux physical examination results on file.

**Recommendation:**

We recommend that all documentation be maintained on file. This policy helps to protect the interest of the Charter School

***Management Response:***

Management agrees and will ensure compliance going forward.

***Finding # 2016-002 – Statutorily Required Health Benefits Deductions***

Effective May 21, 2010, New Jersey passed NJ Chapter 2, P.L. 2010 law as part of the Health Benefits/Pension Benefits reform. The law requires state employees including employees of the Charter Schools to contribute a minimum of 1.5% of their annual gross base salaries towards their health benefits. We noted that the Charter took steps to set up the required deductions from the pay of those employees who were covered by the Health Insurance. However, there is evidence that the deductions were not being made consistently – some employees had deductions lower or higher than the required amount made out of their pay all year.

***Recommendation:***

We recommend that the Business Office should regularly review the deductions made from employees' pay and reconcile to the deductions that should have been made. Any discrepancies should be rectified by additional deductions or refunds made as appropriate in the fiscal year 2016-2017.

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***Management Response:***

Management agrees and will ensure compliance going forward.

**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**

***Finding 2016-003:***

We performed the percentage test for instructional expenses in relation to the general fund expenditures; we noted that the instructional expenses accounted for 58.34% of the total general fund expenditures, which is below the required percentage of 60%.

**Management Response:**

Management will pay closer attention to attaining the 60% threshold in the current 2016-2017 school year. However, significant instructional salaries for 2014-2016 were charged to federal grants in order to ensure that the restricted grants were fully spent within the time limits imposed by the grantors. It should be noted that the state does not allow these grant expenses to be included in the calculation of instructional percentage.

**Board Secretary's Records**

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

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**Treasurer's Records**

The Charter School does not maintain the position of Treasurer of School Moneys; rather the business office and the executive staff handles all cash transactions and bank account reconciliations.

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/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 through VI of the Elementary and Secondary Education Act as amended.

***Finding # 2016-004***

**Examination Report – NCLB – Title IA - New Jersey Department of Education**

The Charter School shared with us an examination report from the New Jersey Department of Education. The report was based on the monitoring review of the Charter School's federal grants and it covered the period July 1, 2014 through June 30, 2015. The federal grants reviewed are Title IA awards amounting to \$268,472. We noted that the examination report listed six (6) findings and recommendations for which the Charter School had responded with the required Corrective Active Plan. We discussed the issues with administration and it appears progress is being made in addressing all findings.

***Recommendation:***

We recommend that all issues noted in the examination review report be addressed fully in a timely manner.

***Management Response:***

Management agrees and will ensure compliance going forward.

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***Finding # 2016-005 – Federal Grants Benefits and Reimbursement to State Under N.J.S.A 18A:66-90***

We noted that the Charter School has not made the appropriate reimbursements for the fiscal year 2015-2016 to the State of New Jersey under *N.J.S.A 18A:66-90*.

The statute provides that “*each local board of education/charter school shall reimburse the state of New Jersey for the employer’s cost of pensions, group life insurance, social security and other benefits to the Teacher’s Pension and Annuity Fund (TPAF). This applies to the contractual salaries of TPAF member employee paid from federally financed programs.*”

***Recommendation:***

We recommend that the appropriate reimbursements for 2015-2016 fiscal year should be calculated and paid to the State of New Jersey under *N.J.S.A 18A:66-90*.

***Management Response:***

Management agrees and will ensure compliance going forward.

**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 except as noted for NCLB above.

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 noted.



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**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 \$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.

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, amended. However, we noted the following:

Resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services" per N.J.S.A 18A:A8A-5.

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 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.

**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.

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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.

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.

**Student Body Activities**

Our audit revealed that all student body activities were properly accounted for 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.

**GRAY CHARTER SCHOOL**  
**Auditors' Management Report On Administrative Findings**  
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**For the Year Ended June 30, 2016**

***Finding 2016-006:***

We noted that several student names and grades were incorrectly reported on the NJ DOENET Report

**Recommendation:**

We recommend that attention be placed on the input to the State DOENET Report.

***Management Response:***

Management agrees.

**Follow-up on Prior Year's Findings**

In accordance with government auditing standards, our procedures included a review of all prior year recommendations. The prior year's findings were corrected.

**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.

**GRAY CHARTER SCHOOL**  
**Auditors' Management Report On Administrative Findings**  
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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	4,667	4,667	-	0.41	\$ -
	Reduced	5,287	5,287	-	2.81	-
	Free	36,443	36,443	-	3.21	-
	Total	<u>46,397</u>	<u>46,397</u>	<u>-</u>		<u>-</u>
School Breakfast	Paid	-	-	-	0.29	-
	Reduced	-	-	-	1.69	-
	Free	8,750	8,750	-	1.99	-
	Total	<u>8,750</u>	<u>8,750</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>

**GRAY CHARTER SCHOOL**  
**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	50	26	26	-	26	-	-	-	-	-	-	20	20	-
One	54	25	25	-	25	-	-	-	-	-	-	19	19	-
Two	52	25	25	-	25	-	-	-	-	-	-	18	18	-
Three	51	26	26	-	26	-	-	-	-	-	-	17	17	-
Four	44	25	25	-	25	-	1	1	-	1	-	16	16	-
Five	24	12	12	-	12	-	-	-	-	-	-	7	7	-
Six	31	14	14	-	14	-	1	1	-	1	-	11	11	-
Seven	17	9	9	-	9	-	2	2	-	2	-	6	6	-
Eight	23	10	10	-	10	-	-	-	-	-	-	6	6	-
<b>Total</b>	<b>346</b>	<b>172</b>	<b>172</b>	<b>0</b>	<b>172</b>	<b>0</b>	<b>4</b>	<b>4</b>	<b>0</b>	<b>4</b>	<b>0</b>	<b>120</b>	<b>120</b>	<b>0</b>
Percentage				0.00%		0.00%			0.00%		0.00%			0.00%

**GRAY CHARTER SCHOOL**  
**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	50	25	25	-	25	-	-	-	-	-	-	16	16	-
One	54	29	29	-	29	-	1	1	-	1	-	15	15	-
Two	52	27	27	-	27	-	2	2	-	2	-	17	17	-
Three	52	26	26	-	26	-	-	-	-	-	-	16	16	-
Four	44	19	19	-	19	-	1	1	-	1	-	13	13	-
Five	24	14	14	-	14	-	1	1	-	1	-	10	10	-
Six	31	17	17	-	17	-	-	-	-	-	-	13	13	-
Seven	17	8	8	-	8	-	-	-	-	-	-	4	4	-
Eight	23	10	10	-	10	-	-	-	-	-	-	6	6	-
<b>Total</b>	<b>347</b>	<b>175</b>	<b>175</b>	<b>0</b>	<b>175</b>	<b>0</b>	<b>5</b>	<b>5</b>	<b>0</b>	<b>5</b>	<b>0</b>	<b>110</b>	<b>110</b>	<b>0</b>
Percentage				0.00%		0.00%			0.00%		0.00%			0.00%

**GRAY 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>	<b>Food Service B - 4/5</b>	
<b>CAFR</b>	<b>*</b>	<b>Current Assets</b>
B-4		Cash & Cash Equiv. \$ 14,913
B-4		Due from Other Gov'ts 5,872
B-4		Accounts Receivable 6,762
B-4		Investments -
<b>CAFR</b>		<b>Current Liabilities</b>
B-4		Less Accounts Payable -
B-4		Less Accruals -
B-4		Less Due to Other Funds -
B-4		Less Deferred Revenue -
		<b>Net Cash Resources</b> \$ <b>27,547</b> (A)
 <u>Net Adj. Total Operating Expense:</u>		
B-5		Tot. Operating Exp. 144,546
B-5		Less Depreciation -
		Adj. Tot. Oper. Exp. \$ <b>144,546</b> (B)
 <u>Average Monthly Operating Expense:</u>		
		B / 10 \$ <b>14,455</b> (C)
 <u>Three times monthly Average:</u>		
		3 X C \$ <b>43,364</b> (D)

TOTAL IN BOX A	\$ 27,547	
LESS TOTAL IN BOX D	\$ (43,364)	
NET	\$ (15,817)	
From above:		
<b>D is greater than A, cash does not exceed 3 X average monthly operating expenses.</b>		

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

Source: Charter School's CAFR