

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

**FINANCIAL, COMPLIANCE AND
PERFORMANCE**

**MARION P. THOMAS CHARTER SCHOOLS
COUNTY OF ESSEX, NEW JERSEY**

JUNE 30, 2016

**GALLEROS KOH LLP
CERTIFIED PUBLIC ACCOUNTANTS**

**MARION P. THOMAS CHARTER SCHOOLS
COUNTY OF ESSEX, NEW JERSEY**

TABLE OF CONTENTS

	<u>PAGE NO.</u>
Independent Auditors' Report	1
Scope of Audit	2
Administrative Practices and Procedures	
Insurance	2
Official Bonds	2
Tuition Charges.....	2
Financial Planning, Accounting and Reporting	
Examination of Claims	2
Payroll Account	3
Reserve for Encumbrances and Accounts Payable.....	3
Travel Policy.....	3
Classification of Expenditures	4
▪ General Classification	
▪ Administrative Classification	
Board Secretary's Reports	4
Treasurer's Records.....	4
Elementary and Secondary Education Act/Improving America's School Act as Reauthorized by the No Child Left Behind Act of 2001	5
Other Special Federal and/or State Projects.....	5
TPAF Reimbursement.....	5
TPAF Reimbursements to State for Federal Salary Expenditures	5
School Purchasing Programs	
Contracts and Agreements Requiring Advertisement for Bids	5
School Food Service	6
Charter School Enrollment System/Charter School Aid	7
Student Body Activities	9
Facilities and Capital Assets	9
Miscellaneous	9
Follow-up on Prior Year Findings	9
Acknowledgment	10
Schedule of Meal Count Activity	N/A
Schedule of Audited Enrollments	11
Excess Surplus Calculation	13



INDEPENDENT AUDITORS' REPORT

Honorable President and
Members of Board of Trustees
Marion P. Thomas Charter Schools
County of Essex, 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 Marion P. Thomas Charter Schools (the "Charter School" or "MPTCS") in the County of Essex, State of New Jersey for the year ended June 30, 2016, and have issued our report thereon dated November 28, 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.

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

November 28, 2016
Cream Ridge, New Jersey

**MARION P. THOMAS CHARTER SCHOOLS
COUNTY OF ESSEX, 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 Marion P. Thomas 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)

School Leaders Errors and Omissions Liability Insurance Coverage were carried for all members of the board of Trustees with coverage for each wrongful act of \$1,000,000. There is a Public Officials Bond covering the Superintendent, Board Secretary and Treasurer for \$500,000 each.

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.

Finding 2016-001

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

- a. There were sixteen (16) purchase orders that have the same date as the invoices/receipts or check dates.
- b. There were four (4) claims that did not have vendor declaration.

Recommendation

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

**MARION P. THOMAS CHARTER SCHOOLS
COUNTY OF ESSEX, NEW JERSEY**

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

Financial Planning, Accounting, and Reporting - Continued

Finding 2016-001 - Continued

Management's Response

Management accepts the recommendation to and will work towards minimizing occurrence of this type of disbursement.

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. However, we noted the exception below:

Finding 2016-002

During our testing of payroll, we noted that there were four (4) teachers that did not have teacher certifications. Upon further inquiry, we noted that the certification of one of the four is in-progress.

Recommendation

The Charter School should make sure that the teachers have certifications.

Management's Response

The Charter School has a policy to employ only Teachers with the required certifications for their grade and subject. The certification of some newly recruited staff may be at different stages of completion. The HR ensures that they are completed within a specified time frame.

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 in 2007 as required by *N.J.A.C. 6A:23A A-6.13* and *N.J.S.A. 18A:11-12*.

**MARION P. THOMAS CHARTER SCHOOLS
COUNTY OF ESSEX, 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 0.028% was noted and no additional procedures were deemed necessary to test the propriety of expenditure classifications.

Board Secretary's Records

Our review of the financial and accounting records maintained by the Business Office disclosed that monthly reports are provided to the Board in a timely manner. We did note an exception as follows:

Finding 2016-003*

During the audit, we noted that the Charter School has several interfund transactions. These interfund accounts were periodically reconciled during the fiscal year. However, as of June 30, 2016, the interfund transactions did not reconcile. As a result, adjusting journal entries were needed to correct the balances of certain reciprocal interfund activities. A similar finding was noted in the prior year.

Recommendation

We recommend a more frequent analysis of interfund activities during the fiscal year and a final analysis at year-end as part of the closing process to minimize year-end audit journal entries.

Management's Response

The Business Office will increase the frequency of the reconciliation of interfund accounts and seek guidance from auditors before end-year closing to ensure outstanding items are properly adjusted.

Treasurer's Records

Monthly reports and reconciliation of accounts were prepared and were presented to the Board. No exceptions noted.

**MARION P. THOMAS CHARTER SCHOOLS
COUNTY OF ESSEX, NEW JERSEY**

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

Financial Planning, Accounting, and Reporting - Continued

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. No exception was noted.

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) 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 no exceptions.

TPAF Reimbursements to 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 (or charter school or renaissance school project) 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

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 \$29,000, effective July 1, 2015. For charter schools with a qualified purchasing agent, the bid threshold was raised to \$40,000.

**MARION P. THOMAS CHARTER SCHOOLS
COUNTY OF ESSEX, NEW JERSEY**

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

School Purchasing Programs - Continued

“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.”

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 did note 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

The school food service program was not selected as a major federal and/or State program. However, the program expenditures exceeded \$100,000 in federal and/or State support. Accordingly, we inquired of school management, or appropriate school food service personnel, as to whether the SFA had any Child Nutrition Program reimbursement overclaims or underclaims. No exceptions were noted.

We also inquired of school management, or appropriate school food service personnel, as to whether the SFA’s expenditures of school food service revenues were limited to allowable direct and indirect costs. No exceptions were noted.

**MARION P. THOMAS CHARTER SCHOOLS
COUNTY OF ESSEX, NEW JERSEY**

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

School Food Service - Continued

We did note that the School Food Service has continued to incur operating losses. As of June 30, 2016, the accumulated deficit is at \$423,703. Increasing the appropriation in the general fund for a budgetary transfer out to the Food Service Fund should be considered during fiscal year 2016 if other revenue sources will not increase.

USDA Food Distribution Program (food and/or commodities) were received and a single inventory was maintained on a first-in, first-out basis. No exceptions were noted.

The Charter School maintains the detailed revenue and expenditure information necessary in order to execute the USDA mandated Non-Program Food Revenue Tool at least annually.

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

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 2016-006* (CAFR Finding 2016-001)

In our review of free and reduced lunch applications while performing state enrollment related procedures, we noted applications that were placed in incorrect categories.

- a. Twelve students were classified as "free" in Charter School Enrollment System (CHE) but should have been classified as "denied" or "reduced" based on the completed application and income information on file and the Master Eligibility List (MEL).
- b. 20 students that were classified as "denied" in CHE but should have been classified as "free" based on the completed application and income information on file and MEL.

Recommendation

We recommend that free and reduced applications and entries in the Charter School Enrollment System should be reviewed by the Charter School personnel to ensure proper classification of applications into the categories of free, reduced, or paid. Completed applications should be maintained and available for review.

**MARION P. THOMAS CHARTER SCHOOLS
COUNTY OF ESSEX, NEW JERSEY**

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

Enrollment Count and Submission to the Department - Continued

Finding 2016-006* (CAFR Finding 2016-001) - Continued

Management's Response

Some of the errors were noted arose from Parents that submitted their lunch application after the due date with data which might be different from the data on their children already in REAL Time software that manages Food service of the School. However, the School is unable to update the data in CHE for any changes because the system had closed. Management has put in place a process that would insure prompt update of student's lunch application as status changes in REAL Time and subsequently CHE when it reopens. However, the basis of reimbursement for meals served was on the data in updated REAL Time System and not the CHE System

Finding 2015-007*

In our review of enrollment information as reported in the CHE and as per school records, we noted the following:

- a. There were seven (7) students with no proof of address and/or birth certificate on file.
- b. There were four (4) students with incorrect names and/or date of birth in CHE.
- c. There were 35 students were student files were not available for review.
- d. There were six (6) students classified as Special Education in CHE but should not be classified as Special Education based on the student records.
- e. There was a student that was inputted twice in CHE (have the same NJ Smart ID).
- f. There were two (2) students which was reported with full Average Daily Enrollment (ADE) in the June 2016 CHE, however, actual attendance was less than 0.5 ADE.

Recommendation

We recommend that the Charter School reviews the System entries for accurate posting of student information in the System. Reconciliation and review procedures of information should also be conducted on a periodic basis.

Management's Response

MPTCS will conduct more regular reconciliation of the School attendance record and the CHE system to ensure accuracy of the demographic of the students and their special needs Status in the CHE.

**MARION P. THOMAS CHARTER SCHOOLS
COUNTY OF ESSEX, NEW JERSEY**

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

Student Body Activities

Student activities during the fiscal year ended June 30, 2016 were accounted for. No exceptions were noted in this area.

Facilities and Capital Assets

The Charter School had engaged an appraisal company to account for its fixed assets for insurance purposes and update its fixed assets records.

Miscellaneous

For the fiscal year ended June 30, 2016, the total change in fund balance is \$146,394 (excess of revenues over expenditures) from its governmental funds (CAFR Exhibit B-2, General Fund and Special Revenue Funds). But as required by applicable Government Accounting Standards Board (GASB) statements, the change in fund balance is adjusted by the following reconciling items resulting in a change in net position of (\$523,489). As shown below, the negative change in net position is primarily caused by the Charter School's proportionate share of pension costs for its employees in the State pension system.

		<u>Governmental Funds</u>
Total net change in fund balances (Modified Accrual Basis)		\$ 146,394
Increase (Decrease)		
Capital asset addition	\$ 57,522	
Depreciation of fixed assets	(99,457)	
Compensated absences	(25,939)	
Net pension costs	<u>(602,009)</u>	<u>(669,883)</u>
Change in Net Position (Accrual Basis)		<u>\$ (523,489)</u>

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.

**MARION P. THOMAS CHARTER SCHOOLS
COUNTY OF ESSEX, 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,



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

November 28, 2016
Cream Ridge, New Jersey

**MARION P. THOMAS CHARTER SCHOOL
APPLICATION FOR CHARTER SCHOOL AID
ENROLLMENT COUNT AS OF OCTOBER 15, 2015**

Grades	Submission to	Sample													
	DOE 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	
Pre-Kindergarten	76	76	76	-	190		1	1	-	190	-	67	68	(1)	
Kindergarten	92	92	92	-	190	-	1	1	-	190	-	78	77	1	
First	95	95	94	1	190	-	6	6	-	190	-	69	71	(2)	
Second	68	68	68	-	190	-	3	3	-	190	-	16	25	(9)	
Third	63	63	62	1	190	-	7	7	-	190	-	27	30	(3)	
Fourth	76	76	76	-	190	-	8	8	-	190	-	64	62	2	
Fifth	87	87	86	1	190	-	8	8	-	190	-	76	75	1	
Sixth	96	96	95	1	190	-	16	15	1	190	-	87	87	-	
Seven	93	93	92	1	190	-	16	13	3	190	-	76	79	(3)	
Eight	91	91	79	12	190	-	15	14	1	190	-	81	80	1	
Ninth	163	163	154	9	190	-	23	23	-	190	-	123	121	2	
Tenth	127	127	127	-	190	-	23	22	1	190	-	93	97	(4)	
Eleventh	139	139	135	4	190	-	29	29	-	190	-	117	116	1	
Twelfth	72	72	72	-	190	-	17	17	-	190	-	51	51	-	
Total	1,338	1,338	1,308	30	2,660	-	173	167	6	2,660	-	1,025	1,039	(14)	
Percentage				2.2%		0.0%			3.5%		0.0%			-1.4%	

**MARION P. THOMAS CHARTER SCHOOL
APPLICATION FOR CHARTER SCHOOL AID
ENROLLMENT COUNT AS OF JUNE 30, 2016**

Grades	Submission to	Sample												
	DOE 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
Pre-Kindergarten	75	75	75	-	190	-	1	1	-	190	-	65	66	(1)
Kindergarten	104	104	104	-	190	-	-	-	-	190	-	78	77	1
First	74	74	73	1	190	-	3	3	-	190	-	59	61	(2)
Second	73	73	73	-	190	-	3	3	-	190	-	18	27	(9)
Third	70	70	69	1	190	-	9	9	-	190	-	28	31	(3)
Fourth	76	76	76	-	190	-	8	8	-	190	-	63	61	2
Fifth	92	92	91	1	190	-	5	5	-	190	-	74	73	1
Sixth	89	89	88	1	190	-	15	14	1	190	-	81	81	-
Seven	93	93	92	1	190	-	17	14	3	190	-	74	77	(3)
Eight	87	87	75	12	190	-	12	11	1	190	-	75	74	1
Ninth	160	160	151	9	190	-	21	21	-	190	-	119	117	2
Tenth	124	124	124	-	190	-	22	21	1	190	-	89	93	(4)
Eleventh	131	131	127	4	190	-	25	25	-	190	-	110	109	1
Twelfth	69	69	69	-	190	-	16	16	-	190	-	48	48	-
Total	1,317	1,317	1,287	30	2,660	-	157	151	6	2,660	-	981	995	(14)
Percentage				2.3%		0.0%			3.8%		0.0%			-1.4%

**MARION P. THOMAS CHARTER SCHOOLS
(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	\$ 21,651,757 (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	\$ 1,071,474 (B2a)
Assets Acquired Under Capital Leases	\$ _____ - (B2b)
Adjusted 2015-16 General Fund Expenditures [(B)+(B1s)-(B2s)]	<u>\$ 20,580,283 (B3)</u>
2% of Adjusted 2014-15 General Fund Expenditures [(B3) times .02]	\$ 411,606 (B4)
Enter Greater of (B4) or \$250,000	\$ 411,606 (B5)
Increased by: Allowable Adjustment *	\$ _____ - (K)
Maximum Unassigned/Undesignated-Unreserved Fund Balance [(B5)+(K)]	<u>\$ 411,606 (M)</u>

SECTION 2

Total General Fund - Fund Balances @ 6/30/2015 (Per CAFR Budgetary Comparison Schedule C-1)	\$ 6,871,333 (C)
Decreased by:	
Year-end Encumbrances	\$ 344,921 (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>\$ 6,526,412 (U1)</u>
Excess Surplus at June 30, 2014	<u>\$ 6,114,806</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, 2014

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."