

HIGHLANDS SCHOOL DISTRICT

**AUDITOR'S MANAGEMENT REPORT ON
ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2017**

**HIGHLANDS SCHOOL DISTRICT
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REPORT OF INDEPENDENT AUDITORS

Honorable President and
Members of the Board of Education
Highlands School District
County of Monmouth, 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 Education of the Highlands School District in the County of Monmouth for the year ended June 30, 2017, and have issued our report thereon dated November 28, 2017.

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 Highlands Board of Education's management and the New Jersey Department of Education. However, this report is a matter of public record and its distribution is not limited.



Licensed Public School Accountant

No. 2183

ALVINO & SHECHTER, L.L.C.

November 28, 2017
Neptune, 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 Treasurer of School Monies, the activities of the Board of Education, the records of the various funds under the auspices of the Board of Education.

Administrative Practices and Procedures

Insurance

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

Official Bonds (N.J.S.A.18A:17-26, 18A:17-32, 18A:13-13)

<u>Name</u>	<u>Position</u>	<u>Amount</u>
Christopher J. Mullins	Board Secretary/School Business Administrator	\$200,000.00
Lorraine C. Gallagher	Treasurer	\$200,000.00

There is a Public Employees' Faithful Performance Blanket Position Bond with Selective Insurance Company covering all other employees with multiple coverage of \$25,000.00.

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 and Position Control Roster

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 Superintendent and were certified by the President of the Board and the Board Secretary/Business Administrator.

Salary withholdings were promptly remitted to the proper agencies.

Payrolls were delivered to the treasurer of school monies with a warrant made to her order for the full amount of each payroll.

An inquiry and subsequent review of the Position Control Roster found no inconsistencies between the payroll records, employee benefit records (e.g. pension reports and health benefit coverage reports), the general ledger accounts to where wages are posted (administrative versus instruction), and the Position Control Roster.

Reserve for Encumbrances and Accounts Payable

A review of outstanding issued purchase orders was made as of June 30, for goods not yet received or services not yet rendered and it was determined that no blanket purchase orders were included in the balance of the reserves for encumbrances. Also, unpaid purchase orders included in the balance of accounts payable were reviewed for propriety and to determine that goods were received and services were rendered, as of June 30.

Classification of Expenditures

The coding of expenditures was tested for proper classification in accordance with N.J.A.C. 6A:23A-16.2(f) 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. In addition to randomly selecting a test sample, our sample selection specifically targeted administrative coding classifications to determine overall reliability and compliance with N.J.A.C. 6A:23A-8.3. As a result of the procedures performed no errors were noted and no additional procedures were deemed necessary to test the propriety of expenditure classification and administrative classification.

A. General Classification Findings

None

B. Administrative Classification Findings

None

Board Secretary's Records

The records of the Board Secretary were properly maintained during the fiscal year ended June 30, 2017 and were in agreement with the records of the Treasurer.

Treasurer's Records

The records of the Treasurer were properly maintained during the fiscal year ended June 30, 2017 and were in agreement with the records of the Board Secretary.

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 Title I and VI of the Elementary and Secondary Education Act as amended and reauthorized.

The study of compliance for E.S.E.A. indicated no areas of noncompliance and/or questionable costs.

Other Special Federal and/or State Projects

The district'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.

The study of compliance for the special projects indicated no areas of noncompliance.

T.P.A.F. Reimbursement

Our audit procedures included a test of the biweekly reimbursements filed with the Department of Education for district employees who are members of the Teachers Pension and Annuity Fund. No exceptions were noted.

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:18-3(a) are \$40,000.00 (with a Qualified Purchasing Agent) and \$29,000.00 (without a Qualified Purchasing Agent), respectively. Christopher J. Mullins has been appointed as the qualified purchasing agent pursuant to N.J.S.A. 40A:11-9(b) and therefore the bid threshold has been increased to \$40,000 per statute. The law regulating bidding for public school student transportation under N.J.S.A. 18A-39-3 is currently \$18,800.00 for 2016-17.

The board of education has the responsibility of determining whether the expenditure 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 results of our examination indicated that no individual payments, contracts or agreements were made "for the performance of any work or the furnishing or hiring of any materials or supplies," 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

The financial transactions and statistical records of the school food service fund were reviewed. 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. Reimbursement vouchers were timely filed, and meals claimed agreed with meal count records.

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. The free and reduced price meal policy is uniformly administered throughout the School System. The required verification procedures for free and reduced price applications were completed and available for review. No exceptions were noted.

The Board of Education entered into a food service management contract with Maschio's Food Services, Inc., to operate the cafeteria for 2016/2017 school year.

Expenditures were separately recorded as food, labor and other costs. Vendor invoices were reviewed and costs verified. Inventory records on food supply items were currently maintained and properly applied in determining the cost of food and supplies used. The beginning and ending inventories were accepted as submitted.

The cash disbursements records reflected expenditures for program related goods and services. The District is depositing and expending program monies in accordance with N.J.S.A. 18A:17-34, and 19-1 through 19-4.1. 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 months average expenditures.

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

Food Distribution Program commodities were received and a separate inventory was maintained on a first-in, first-out basis. No exceptions were noted.

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

Student Body Activities

The financial transactions of the student activity agency fund were reviewed. No exceptions were noted.

Application for State School Aid

Our audit procedures included a test of information reported in the October 14, 2016 Application for State School Aid (A.S.S.A) for on roll, private school for the handicapped, and low-income. We also performed a review of the district procedures related to its completion. The information on the A.S.S.A. was compared to the district workpapers without exception. The information that was included on the workpapers was verified without exception. The results of our procedures are presented in the Schedule of Audited Enrollments.

The district maintained workpapers on the prescribed state forms or their equivalent.

The district has adequate written procedures for the recording of student enrollments.

Pupil Transportation

Our audit procedures included a test of on roll status reported in the 2016/2017 District Report of Transported Resident Students (DRTRS). The information that was included on the DRTRS was verified to the DRTRS Eligibility Summary Report without exception. The results of our procedures are presented in the Schedule of Audited Enrollments.

Our procedures also included a review of transportation related contracts and purchases. Based on our review, the district complied with proper bidding procedures and award of contracts. No exceptions were noted in our review of transportation related purchases of goods and service.

Facilities and Capital Assets

The fixed asset records were updated for any additions and disposals of assets made during the year. There were no active facilities projects funded with SDA grants during the current fiscal year.

Follow-up on Prior Years' Findings

In accordance with government auditing standards, our procedures included a review of all prior year recommendations including findings. Corrective action was taken on all prior years recommendations.

Acknowledgment

We received the complete cooperation of all the officials of the school district and we greatly appreciate the courtesies extended to us.

SCHEDULE OF AUDITED ENROLLMENTS

**HIGHLANDS SCHOOL DISTRICT
APPLICATION FOR STATE SCHOOL AID SUMMARY
ENROLLMENT AS OF OCTOBER 14, 2016**

	2017-2018 Application for State School Aid						Sample for Verification						Private Schools for Disabled				
	Reported on A.S.S.A. On Roll		Reported on Workpapers On Roll		Errors		Sample Selected from Workpapers		Verified per Registers On Roll		Errors per Registers On Roll		Reported on A.S.S.A. as Private Schools	Sample for Verifi-cation	Sample Verified	Sample Errors	
	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared					
Half Day Preschool																	
Full Day Preschool	19		19					19		19							
Half Day Kindergarten																	
Full Day Kindergarten	27		27					27		27							
One	26		26					26		26							
Two	15		15					15		15							
Three	19		19					19		19							
Four	17		17					17		17							
Five	14		14					14		14							
Six	20		20					20		20							
Seven																	
Eight																	
Nine																	
Ten																	
Eleven																	
Twelve																	
Post-Graduate																	
Adult H.S. (15+CR.)																	
Adult H.S. (1-14 CR.)																	
Subtotal	157	0	157	0	0	0	0	157	0	157	0	0	0	0	0	0	0
Special Ed - Elementary	29		29					29		29				2	2	2	
Special Ed - Middle School	4		4					4		4							
Special Ed - High School																	
Subtotal	33	0	33	0	0	0	0	33	0	33	0	0	0	2	2	2	0
Co. Voc. - Regular																	
Co. Voc. Ft. Post Sec.																	
Totals	190	0	190	0	0	0	0	190	0	190	0	0	0	2	2	2	0
Percentage Error					0.00%	0.00%											0.00%

SCHEDULE OF AUDITED ENROLLMENTS

HIGHLANDS SCHOOL DISTRICT
APPLICATION FOR STATE SCHOOL AID SUMMARY
ENROLLMENT AS OF OCTOBER 14, 2016

	<u>Resident LEP NOT Low Income</u>			<u>Sample for Verification</u>		
	<u>Reported on A.S.S.A. as NOT Low Income</u>	<u>Reported on Workpapers as NOT Low Income</u>	<u>Errors</u>	<u>Sample Selected from Workpapers</u>	<u>Verified to Application and Register</u>	<u>Sample Errors</u>
Half Day Preschool						
Full Day Preschool						
Half Day Kindergarten						
Full Day Kindergarten						
One						
Two						
Three						
Four						
Five						
Six						
Seven						
Eight						
Nine						
Ten						
Eleven						
Twelve						
Post-Graduate						
Adult H.S. (15+CR.)						
Adult H.S. (1-14 CR.)						
Subtotal	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Special Ed - Elementary						
Special Ed - High						
Subtotal	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Co. Voc. - Regular						
Co. Voc. Ft. Post Sec.						
Totals	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Percentage Error			<u>0.00%</u>			<u>0.00%</u>

EXCESS SURPLUS CALCULATION

REGULAR DISTRICT

SECTION 1

A. 2% Calculation of Excess Surplus

2016-2017 Total General Fund Expenditures per the CAFR, Ex. C-1	\$ <u>4,277,141.96</u> (B)
Increased by Applicable Operating Transfers:	
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 Pre K - Regular	\$ _____(B1c)
Transfer from General Fund to SRF for Pre K - Inclusion	\$ _____(B1d)
Decreased by:	
On-Behalf TPAF Pension & Social Security	\$ <u>423,622.33</u> (B2a)
Assets Acquired Under Capital Leases	\$ _____(B2b)
Adjusted 2016-2017 General Fund Expenditures [(B)+(B1s)-(B2s)]	\$ <u>3,853,519.63</u> (B3)
2% of Adjusted 2016-2017 General Fund Expenditures [(B3) times .02]	\$ <u>77,070.39</u> (B4)
Enter Greater of (B4) or \$250,000	\$ <u>250,000.00</u> (B5)
Increased by: Allowable Adjustment	\$ <u>16,393.00</u> (K)
Maximum Unrestricted/Unassigned Fund Balance [(B5)+(K)]	\$ <u>266,393.00</u> (M)

SECTION 2

Total General Fund - Fund Balances @ 6-30-17 (Per CAFR Budgetary Comparison Schedule C-1)	\$ <u>1,408,134.62</u> (C)
Decreased by:	
Year-End Encumbrances	\$ <u>9,870.00</u> (C1)
Legally Restricted-Designated for Subsequent Year's Expenditures	\$ _____(C2)
Legally Restricted-Excess Surplus-Designated for Subsequent Year's Expenditures	\$ <u>478,677.12</u> (C3)
Other Restricted Fund Balances	\$ <u>128,674.00</u> (C4)
Assigned Fund Balance-Unreserved-Designated for Subsequent Year's Expenditures	\$ _____(C5)
Additional Assigned Fund Balance-Unreserved-Designated for Subsequent Year's Expenditures July 1, 2017 - August 1, 2017	\$ _____(C6)
Total Unassigned Fund Balance [(C)-(C1)-(C2)-(C3)-(C4)-(C5)-(C6)]	\$ <u>790,913.50</u> (U1)

SECTION 3

Restricted Fund Balance-Excess Surplus [(U1)-(M)] IF NEGATIVE ENTER -0- \$ 524,520.50(E)

Recapitulation of Excess Surplus as of June 30, 2017

Restricted Excess Surplus-Designated for Subsequent Year's Expenditures \$ 478,677.12(C3)
Restricted Excess Surplus [(E)] \$ 524,520.50(E)
Total Excess Surplus [(C3)+(E)] \$ 1,003,197.62(D)

Detail of Allowable Adjustments

Impact Aid \$ _____(H)
Sales & Lease-back \$ _____(I)
Extraordinary Aid \$ 12,043.00(J1)
Additional Nonpublic School Transportation Aid \$ 4,350.00(J2)
Current Year School Bus Advertising Revenue Recognized \$ _____(J3)
Family Crisis Transportation Aid \$ _____(J4)

Total Adjustments [(H)+(I)+(J1)+(J2)+(J3)+(J4)] \$ 16,393.00(K)

Detail of Other Restricted Fund Balance

Statutory restrictions:
Approved unspent separate proposal \$ _____
Sale/lease-back reserve \$ _____
Capital reserve \$ 22,128.00
Maintenance reserve \$ 106,546.00
Emergency Reserve \$ _____
Tuition reserve \$ _____
School Bus Advertising 50% Fuel Offset Reserve - current year \$ _____
School Bus Advertising 50% Fuel Offset Reserve - prior year \$ _____
Impact Aid General Fund Reserve (Sections 8002 and 8003) \$ _____
Impact Aid Capital Fund Reserve (Sections 8007 and 8008) \$ _____
Other state/government mandated reserve \$ _____

Other Restricted Fund Balance not noted above \$ _____

Total Other Restricted Fund Balance \$ 128,674.00(C4)

HIGHLANDS SCHOOL DISTRICT
AUDIT RECOMMENDATIONS SUMMARY
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Recommendations:

1. Administrative Practices and Procedures

None

2. Financial Planning, Accounting and Reporting

None

3. School Purchasing Programs

None

4. School Food Service

None

5. Student Body Activities

None

6. Application for State School Aid

None

7. Pupil Transportation

None

8. Facilities and Capital Assets

None

9. Status of Prior Year Audit Findings/Recommendations

A review was performed on all prior year recommendations. Corrective action was taken on all recommendations.