

MENDHAM BOROUGH SCHOOL DISTRICT
COUNTY OF MORRIS
AUDITORS' MANAGEMENT REPORT ON
ADMINISTRATIVE FINDINGS - FINANCIAL,
COMPLIANCE AND PERFORMANCE
YEAR ENDED JUNE 30, 2017

MENDHAM BOROUGH SCHOOL DISTRICT
COUNTY OF MORRIS
AUDITORS' MANAGEMENT REPORT ON ADMINISTRATIVE
FINDINGS - FINANCIAL,
COMPLIANCE AND PERFORMANCE
YEAR ENDED JUNE 30, 2017
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September 4, 2017

The Honorable President and Members
of the Board of Education
Mendham Borough School District
County of Morris, NJ

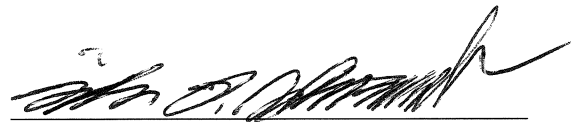
We have audited, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Board of Education of the Mendham Borough School District in the County of Morris for the fiscal year ended June 30, 2017, and have issued our report thereon dated September 4, 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 letter does not affect our report dated September 4, 2017, on the financial statements of the Board.

We will review the status of the comments during our next audit engagement. We have already discussed these comments with various management personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the suggestions.

This report is intended solely for the information and use of the Mendham Borough School District's management and the New Jersey Department of Education. However, this report is a matter of public record and its distribution is not limited.

NISIVOCCIA LLP



William F. Schroeder
Licensed Public School Accountant #2112
Certified Public Accountant

MENDHAM BOROUGH SCHOOL DISTRICT
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE
AND PERFORMANCE
YEAR ENDED JUNE 30, 2017

Scope of Audit

The audit covered the financial transactions of the Board Secretary/School Business Administrator, 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

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

Officials in Office and Surety Bonds

<u>Name</u>	<u>Position</u>	<u>Coverage</u>
James Rollo	Business Administrator/Board Secretary	\$ 200,000
Judy Favino	Treasurer of School Monies	\$ 200,000

The District also has Employee Dishonesty and Faithful Performance coverage through the New Jersey School Insurance Group as detailed on Exhibit J-20 of the CAFR

Financial Planning, Accounting and Reporting

Examination of Claims

An examination of claims paid on a test basis, 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 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 certified by the President of the Board, the School Business Administrator and the Chief School Administrator.

Salary withholdings were promptly remitted to the proper agencies, including health benefits withholding due to the General Fund.

The required certification (E-CERT 1) of compliance with all documentation prepared for income tax related purposes of administrators (superintendent, assistant superintendents and business administrator) complying with the requirements of federal and state laws and regulations, was completed and submitted to the NJ Department of Treasury by due March 15.

Reserve for Encumbrances and Accounts Payable

A review of outstanding issued purchase orders was made on a test basis as of June 30, 2017 for proper classification of orders as reserve for encumbrances and accounts payable.

MENDHAM BOROUGH SCHOOL DISTRICT
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE
AND PERFORMANCE
YEAR ENDED JUNE 30, 2017
(Continued)

Classification of Expenditures

The coding of expenditures was tested for proper classification in accordance with *N.J.A.C.* 6:23A-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, we reviewed administrative coding classifications to determine overall reliability and compliance with *N.J.A.C.* 6A:23A-8.2. As a result of the procedures performed, a transaction error rate of 0% was noted and no additional procedures were deemed necessary to test the propriety of expenditure classification.

Board Secretary's Records

In planning and performing our audit of the financial statements of the Board, we considered the condition of the Board Secretary's records for the purpose of expressing our opinion on the financial statements and not to provide specific assurance on the condition of the records. Based on these procedures, we have no comments except as noted herein.

Treasurer's Records

In planning and performing our audit of the financial statement of the Board, we considered the condition of the Treasurer's records for the purpose of expressing our opinion on the financial statements and not to provide specific assurance on the condition of the records. Based upon these procedures, we have no comments except as noted herein.

No Child Left Behind (N.C.L.B.)

The N.C.L.B. financial exhibits are contained within the Special Revenue Section of the District's CAFR. This section of the CAFR documents the financial position pertaining to projects under Title I and II of the No Child Left Behind Consolidated Grant.

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.

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.

MENDHAM BOROUGH SCHOOL DISTRICT
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE
AND PERFORMANCE
YEAR ENDED JUNE 30, 2017
(Continued)

T.P.A.F. Reimbursement to the State for Federal Salary Expenditures

The T.P.A.F. Reimbursement to the State for Federal Salary Expenditures was remitted to the State of New Jersey prior to the required deadline of October 1, 2017. The reimbursement form was reviewed and no exceptions were noted.

School Purchasing Programs

Contracts and Agreements Requiring Advertisement for Bids

N.J.S.A. 18A:18A-3 states:

a. "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 \$17,500, the contract may be awarded by a purchasing agent when so authorized by resolution of the Board of Education without public advertising for bids and bidding therefore, except that the Board of Education may adopt a resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations. If the purchasing agent is qualified pursuant to subsection b. of section 9 of P.L.1971, c. 198. the Board of Education may establish that the bid threshold may be up to \$25,000. Such authorization may be granted for each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section.

b. Commencing in the fifth year after the year in which P.L.1999, c. 440 takes effect and every five years thereafter, the Governor, in consultation with the Department of Treasury, shall adjust the threshold amount and the higher threshold amount which the Board of Education is permitted to establish as set forth in subsection a. of this section or the threshold amount resulting from any adjustment under this subsection, in direct proportion to the rise or fall of the index rate as that term is defined in N.J.S.A. 18A:18A-2, and shall round the adjustment to the nearest \$1,000. The Governor shall notify all local school districts of the adjustment no later than June 1 of every fifth year. The adjustment shall become effective on July 1 of the year in which it is made"

N.J.S.A. 18A:18A-4 states, "Every contract for the provision or performance of any goods or services the cost of which in the aggregate exceeds the bid threshold, shall be awarded only by resolution of the Board of Education to the lowest responsible bidder after public advertising for bids and bidding therefore, except as is provided otherwise in this chapter or specifically by any other law"

Effective July 1, 2015 and thereafter the bid thresholds in accordance with *N.J.S.A.* 18A:18A-2 and 18A:18A-3(a) are \$40,000 (with a Qualified Purchasing Agent) and \$29,000 (without a Qualified Purchasing Agent), respectively. The law regulating bidding for public school student transportation contracts under N.J.S.A 18A:39-3 is currently \$18,800.

The Board of Education 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 Attorney's opinion should be sought before a commitment is made.

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed. General compliance was noted.

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, amended.

MENDHAM BOROUGH SCHOOL DISTRICT
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE
AND PERFORMANCE
YEAR ENDED JUNE 30, 2017
(Continued)

Contracts and Agreements Requiring Advertisement for Bids (Cont'd)

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

The system of records did not provide for an accumulation of purchases for which the school board 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 school food service program was not selected as a major federal and/or state program.

We 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.

The District does not participate in the Child Nutrition Program. Thus, the Statement of Revenue, Expenses and Change in Net Position in the CAFR Schedule B-5, reflects non-program revenue and non-program cost of goods sold only.

Student Body Activities

In planning and performing our audit of the financial statements of the Board, we considered the condition of the records of the Student Activities Fund for the purpose of expressing our opinion on the financial statements and not to provide specific assurance on the condition of the records. Based on these procedures, we have no comments except as noted herein.

Application for State School Aid

Our audit procedures included a test of enrollments and related services reported in the October 14, 2016 Application for State School Aid (A.S.S.A.) for on-roll, private schools for the handicapped, low income and bilingual students. 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 on a test basis 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's written procedures for the recording of student enrollment data appear to be adequate.

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 services.

MENDHAM BOROUGH SCHOOL DISTRICT
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE
AND PERFORMANCE
YEAR ENDED JUNE 30, 2017
(Continued)

Facilities and Capital Assets

Our procedures included a review of the SDA grant agreement for consistency with recording SDA revenue, transfer of local funds from the General Fund or from the Capital Reserve Account, and awarding of contracts for eligible facilities construction. Based on these procedures, we have no comments.

Travel Expense and Reimbursement Policy

Travel regulations require each District to adopt a formal policy and procedure pertaining to travel and expense reimbursement for its employees and board members. The regulations require the District to establish a maximum travel amount for the year and to account that the maximum is not exceeded. The regulations also require that all travel be approved prior by the Board of Education and that the approval must be itemized by event, event total cost, and individuals attending. During the course of our testing, we have noted that the travel expenses and reimbursements for employees and board members were in accordance with the guidelines set forth by the State of New Jersey.

Management Suggestions:

Student Activities

It has recently been determined that School District personnel may not be completely aware of the limitations and restrictions on the use of Student Activity Funds. We believe it is important that the District be aware that any pupil organization which is part of the activity program of the School District, places at least indirect responsibility for supervision and control of that organization with the Board of Education. We suggest that the Board formally approve each school club or activity. As directed by the New Jersey Department of Education, collections related to fund raising for outside organizations should not be maintained in the District's Student Activity Funds.

Additionally, the District should ensure that District-wide standard policies and procedures are implemented for all Student Activity Funds. These policies should indicate the student activities funds are to be utilized for the benefit of the student activity or club and not to be utilized for enhancement of instructional programs or school facilities. The District should at least at a minimum communicate to school personnel on an annual basis the District's policies and procedures regarding Student Activity Funds. We suggest that these policies include guidance regarding timely deposits of funds and the safeguarding of funds prior to deposit as well as the appropriate purchasing guidelines for student activities disbursements.

Governmental Accounting Standards Board Statements

The next Governmental Accounting Standards Board ("GASB") statement which will have a significant impact on the District will be GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which will be effective for the fiscal year ending June 30, 2018. This standard replaces GASB No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. It is similar to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in that successful implementation of this standard will require the provision of certain key financial and non-financial information from the New Jersey Division of Pensions.

MENDHAM BOROUGH SCHOOL DISTRICT
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE
AND PERFORMANCE
YEAR ENDED JUNE 30, 2017
(Continued)

Status of Prior Year's Findings/Recommendations

There were no prior year audit findings or recommendations.

MENDHAM BOROUGH SCHOOL DISTRICT
APPLICATION FOR STATE SCHOOL AID SUMMARY
SCHEDULE OF AUDITED ENROLLMENTS
ENROLLMENT AS OF OCTOBER 14, 2016

	2017-2018 Application for State School Aid										Sample for Verification											
	Reported on					Reported on					Sample			Verified per			Errors per					
	A.S.S.A.		Workpapers			On Roll		Errors			Selected from		Workpapers	Registers		On Roll	Registers		On Roll	Shared		
	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared		
Half Day Preschool 4 Yrs	2		2								2				2							
Full Day Kindergarten	42		42								42				42							
Grade One	38		38								38				38							
Grade Two	57		57								57				57							
Grade Three	47		47								47				47							
Grade Four	53		53								53				53							
Grade Five	44		44								44				44							
Grade Six	73		73								73				73							
Grade Seven	50		50								50				50							
Grade Eight	59		59								59				59							
Subtotal	465	0	465	0	0	0	0	0	0	0	465	0	0	465	0	0	0	0	0	0	0	
Special Ed - Elementary	30		30								4				4							
Special Ed - Middle School	25		25								3				3							
Subtotal	55	0	55	0	0	0	0	0	0	0	7	0	0	7	0	0	0	0	0	0	0	
Totals	520	0	520	0	0	0	0	0	0	0	472	0	0	472	0	0	0	0	0	0	0	
Percentage Error					0.00%										0.00%							0.00%

MENDHAM BOROUGH SCHOOL DISTRICT
 APPLICATION FOR STATE SCHOOL AID SUMMARY
 SCHEDULE OF AUDITED ENROLLMENTS
 ENROLLMENT AS OF OCTOBER 14, 2016

	Private Schools for Disabled			Reported on			Resident Low Income			
	Reported on A.S.S.A. as Private Schools	Sample for Verification	Sample Verified	Sample Errors	Reported on A.S.S.A. as Low Income	Reported on Workpapers as Low Income	Errors	Sample Selected from Workpapers	Verified to Application and Register	Sample Errors
Half Day Preschool										
Full Day Kindergarten										
Grade One					1	1				
Grade Two					1	1				
Grade Three					1	1		1	1	
Grade Four					1	1		1	1	
Grade Five					1	1				
Grade Six					3	3		1	1	
Grade Seven					1	1				
Grade Eight					1	1				
Subtotal					11	11		3	3	
Special Ed - Elementary	2	1	1		2	2		1	1	
Special Ed - Middle School	5	1	1		1	1				
Subtotal	7	2	2		3	3		1	1	
Totals	7	2	2	0	14	14	0	4	4	0
Percentage Error				0.00%			0.00%			0.00%

MENDHAM BOROUGH SCHOOL DISTRICT
APPLICATION FOR STATE SCHOOL AID SUMMARY
SCHEDULE OF AUDITED ENROLLMENTS
ENROLLMENT AS OF OCTOBER 14, 2016

Resident LEP Low Income

NOT APPLICABLE FOR FY 2016-17

MENDHAM BOROUGH SCHOOL DISTRICT
APPLICATION FOR STATE SCHOOL AID SUMMARY
SCHEDULE OF AUDITED ENROLLMENTS
ENROLLMENT AS OF OCTOBER 14, 2016

Resident LEP Not Low Income

NOT APPLICABLE FOR FY 2016-17

MENDHAM BOROUGH SCHOOL DISTRICT
SCHEDULE OF AUDITED ENROLLMENT
APPLICATION FOR STATE SCHOOL AID SUMMARY
ENROLLMENT AS OF OCTOBER 14, 2016

Transportation

	<u>Reported on DRTRS by DOE</u>	<u>Reported on DRTRS by District</u>	<u>Errors</u>	<u>Tested</u>	<u>Verified</u>	<u>Errors</u>
Regular - Public Schools	24	24		6	6	
Regular - Special Education	3	3		2	2	
Transported - Non Public	25	25		4	4	
AIL - Non Public	22	22		4	4	
Special Needs - Public	2	2		1	1	
Special Needs - Private	5	5		2	2	
Totals	<u>81</u>	<u>81</u>	<u>0</u>	<u>19</u>	<u>19</u>	<u>0</u>
Percentage Error			<u>0.00%</u>			<u>0.00%</u>

	<u>Reported</u>	<u>Re- calculated</u>
Average Mileage - Regular Including Grade PK Students	5.7	5.7
Average Mileage - Regular Excluding Grade PK Students	5.7	5.7
Average Mileage - Special Education with Special Needs	21.8	21.8

MENDHAM BOROUGH SCHOOL DISTRICT
EXCESS SURPLUS CALCULATION
YEAR ENDED JUNE 30, 2017

EXCESS SURPLUS CALCULATION

Section 1 - REGULAR DISTRICT

2% Calculation of Excess Surplus:

2016-2017 Total General Fund Expenditures per the CAFR	<u>\$ 11,291,618</u>	(B)
Increased by:		
Transfer to Food Service Fund	<u>\$ 10,000</u>	(B1a)
Transfer from Capital Reserve to Capital Projects Fund	<u>\$ -0-</u>	(B1b)
Decreased by:		
On-Behalf TPAF Pension and Social Security	<u>\$ 1,189,890</u>	(B2a)
Assets Acquired Under Capital Leases	<u>\$ -0-</u>	(B2b)
Adjustment for Disallowed Expenditures per S1701	<u>\$ -0-</u>	(B2c)
Adjusted 2016-2017 General Fund Expenditures [(B)+(B1's)-(B2's)]	<u>\$ 10,111,728</u>	(B3)
2% of Adjusted 2016-2017 General Fund Expenditures [(B5) times .03]	<u>\$ 202,235</u>	(B4)
Enter Greater of (B4) or \$250,000	<u>\$ 250,000</u>	(B5)
Increased by: Allowable Adjustment	<u>\$ 67,835</u>	(K)
Maximum Unassigned Fund Balance [(B5)+(K)]		<u>\$ 317,835</u> (M)

Section 2

Total General Fund - Fund Balances @ 6/30/2017 (Per CAFR Budgetary Comparison Schedule C-1)	<u>\$ 2,099,016</u>	(C)
Decreased by:		
Year-End Encumbrances	<u>\$ 71,765</u>	(C1)
Legally Restricted:		
Designated for Subsequent Year's Expenditures	<u>\$ -0-</u>	(C2)
Excess Surplus - Designated for Subsequent Year's Expenditures	<u>\$ 45,924</u>	(C3)
Other Restricted Fund Balances	<u>\$ 1,347,902</u>	(C4)
Assigned Fund Balance:		
Designated for Subsequent Year's Expenditures	<u>\$ -0-</u>	(C5)
Additional Assigned Fund Balance - Designated for Subsequent Year's Expenditures July 1, 2017 - August 1, 2017	<u>\$ -0-</u>	(C6)
Total Unassigned Fund Balance [(C)-(C1)-(C2)-(C3)-(C4)-(C5)]		<u>\$ 633,425</u> (U1)
Increased by:		
Adjustment for Disallowed Expenditures per S1701		<u>\$ -0-</u> (C6)
Total Unassigned Fund Balance [(U1) + (C6)]		<u>\$ 633,425</u> (U2)

MENDHAM BOROUGH SCHOOL DISTRICT
EXCESS SURPLUS CALCULATION
YEAR ENDED JUNE 30, 2017

Section 3

Restricted Fund Balance-Excess Surplus [(U2)-(M)] IF NEGATIVE, ENTER -0- \$ 315,590 (E)

Recapitulation of Excess Surplus as of June 30, 2017

Restricted Excess Surplus - Designated for Subsequent Year's Expenditures \$ -0- (C3)
 Restricted Excess Surplus [(E)] \$ 315,590 (E)

Total [(C3)+(E)+(F)] \$ 315,590 (D)

Detail of Allowable Adjustments

Impact Aid \$ -0- (H)
 Sale and Lease Back \$ -0- (I)
 Extraordinary Aid \$ 60,541 (J1)
 Additional Nonpublic School Transportation Aid \$ 7,294 (J2)

Total Adjustments [(H)+(I)+(J1)+(J2)] \$ 67,835 (K)

Detail of Other Restricted Fund Balance

Statutory Restrictions: \$ -0-
 Approved Unspent Separate Proposal \$ -0-
 Sale/Lease-Back Reserve \$ -0-
 Capital Reserve \$ 1,252,218
 Maintenance Reserve \$ 95,684
 Tuition Reserve \$ -0-
 Other State/Governmental Mandated Reserve \$ -0-
 Other Reserved Fund Balance not Noted Above \$ -0-
 Total Other Restricted Fund Balance \$ 1,347,902

MENDHAM BOROUGH SCHOOL DISTRICT
SUMMARY OF RECOMMENDATIONS
YEAR ENDED JUNE 30, 2017

It is recommended that:

1. Administrative Practices and Procedures

None

2. Financial Planning, Accounting and Reporting

None

3. School Purchasing Program

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's Findings/Recommendations

There were no prior year audit findings or recommendations.