

**WATCHUNG HILLS REGIONAL  
HIGH SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S MANAGEMENT REPORT ON  
ADMINISTRATIVE FINDINGS -  
FINANCIAL, COMPLIANCE AND PERFORMANCE  
JUNE 30, 2017**

**WATCHUNG HILLS REGIONAL HIGH SCHOOL DISTRICT  
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- FINANCIAL, COMPLIANCE AND PERFORMANCE**

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Honorable President and Members  
of the Board of Education  
Watchung Hills Regional High School District  
County of Somerset, 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 financial statements of the Watchung Hills Regional High School District as of and for the fiscal year ended June 30, 2017, and have issued our report thereon dated October 12, 2017.

As part of our audit, we performed procedures required by the Office of School Finance, Department of Education, State of New Jersey and the findings and results thereof are disclosed on the following pages, as listed in the accompanying table of contents.

This report is intended solely for the information and use of management, the Board of Trustees, others within the District and the New Jersey State Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

  
LERCH, VINCI & HIGGINS, LLP  
Certified Public Accountants  
Public School Accountants

  
Gary J. Vinci  
Public School Accountant  
PSA Number CS00829

Fair Lawn, New Jersey  
October 12, 2017

**WATCHUNG HILLS REGIONAL HIGH SCHOOL DISTRICT  
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**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 and 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 the Schedule of Insurance reported on Exhibit J-20 in the District's Comprehensive Annual Financial Report (CAFR).

**Official Bonds**

<u>Name</u>	<u>Position and Coverage Period</u>	<u>Amount</u>
Timothy M. Stys, CPA	Board Secretary/Business Administrator	\$100,000
William J. Scholts, II	Treasurer of School Monies	300,000

There is a Public Employees Faithful Performance policy with Zurich Insurance Company covering all other employees with multiple coverage of \$500,000.

**Tuition Charges**

A comparison of tentative tuition charges and actual certified tuition charges was made. The Board made a proper adjustment to the billings to sending districts in accordance with N.J.A.C. 6A:23A-17.1(f)3.

**Financial Planning, Accounting and Reporting**

**Examination of Claims**

An examination of claims paid during the period under review did not reveal any material discrepancies with respect to signatures, certifications and supporting documentation.

**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 tested were approved by the Superintendent and certified by the Board President and the Board Secretary/Business Administrator.

Salary withholdings were promptly remitted to the proper agencies, including employee health benefit contribution withholdings due to the General Fund. The School Business Administrator completed and filed the required Certification of Compliance with Federal and State Law respecting the reporting of compensation for certain employees.

The Board has implemented and maintains a personnel tracking and accounting (Position Control) system.

**WATCHUNG HILLS REGIONAL HIGH SCHOOL DISTRICT  
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**Financial Planning, Accounting and Reporting**

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: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:2A-8.3.

As a result of the procedures performed, no additional procedures were deemed necessary to test the propriety of expenditure classification.

Board Secretary's Records

The financial records, books of account and minutes maintained by the Board Secretary were in excellent condition.

Acknowledgment of the Board's receipt of the Board Secretary and Treasurer's monthly financial reports was included in the minutes.

The prescribed contractual order system was followed. Bids received were summarized in the minutes (N.J.S.A. 18A:18A-21).

Treasurer's Records

The Treasurer's records were in agreement with the records of the Board Secretary.

Unemployment Compensation Insurance Trust Fund

The Board has adopted the direct reimbursement method and has established an Unemployment Compensation Insurance Trust Fund. The financial transactions of this fund are reported in the Fiduciary Trust Funds.

Elementary and Secondary Education Act (E.S.E.A./Improving America's Schools (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 projects under Titles I and II A of the Elementary and Secondary Education Act (NCLB).

Our examination indicated that obligations and expenditures were incurred during the fiscal year or project period for which the project was approved.

**WATCHUNG HILLS REGIONAL HIGH SCHOOL DISTRICT  
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**Financial Planning, Accounting and Reporting**

**Other Special Federal and/or State Projects**

The District's Special Projects were approved as listed on Exhibits K-3 and K-4 located in the CAFR.

Our examination 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 contained herein represent a true statement of the financial position pertaining to the aforementioned special projects.

**T.P.A.F. Reimbursement**

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

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

The amount of expenditure charged to the current year's Title I Final Report for the school district to reimburse the State for the TPAF/FICA payments made by the State on-behalf of the school district for those employees whose salaries are identified as being paid from federal funds was made prior to the end of the grant liquidation period required by the Office of Grants Management. The expenditure was reviewed subsequent to the reimbursement and 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, 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 designated the School Business Administrator as the qualified purchasing agent.

The Board of Education has the responsibility of determining whether the expenditures in any category will exceed the statutory thresholds within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, the Board Attorney's opinion should be sought before a commitment is made.

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

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.

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

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. Our examination did reveal, however, that purchases were made through the use of State contracts.

**WATCHUNG HILLS REGIONAL HIGH SCHOOL DISTRICT  
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**School Food Service**

The financial transactions and statistical records of the school food services were maintained in satisfactory condition. The financial accounts were reviewed on a test-check basis. The District does not participate in the National School Lunch Program.

Cash receipts and bank records were reviewed for timely deposit.

The District contracted with a food service management company (FSMC) to manage the operations of the school food services and deposited funds in accordance with applicable State statutes. Provisions of the FSMC contract were reviewed and audited. The FSMC contract includes an operating results provision which guarantees that the food service company will return a minimum profit of \$15,000. The operating results provision has been met.

Expenditures were separately recorded as food, labor and other costs. Inventory records on food supply items were currently maintained and properly applied in determining the cost of food and supplies used.

The cash disbursement records reflected expenditures for program related goods and services. The appropriate revenue and expense records were maintained in order to substantiate the non-profit status of the school food service.

Exhibits reflecting the district's Food Service Program on Exhibits B-4, B-5 and B-6 of the district's CAFR.

Net cash resources did not exceed three months average expenditures.

**Student Body Activity/Athletic and Scholarship Funds**

The Board has a policy, which clearly established the regulation of student activity funds.

Cash disbursements were supported by proper documentation.

**Finding** – The cash receipt date recorded in the Student Activity and Athletic account ledgers does not appear to be the date that the monies were collected. In addition, the bank reconciliations are not in agreement with the accounting records.

**Recommendation** – Monies collected for Student Activities and Athletics be recorded in the respective ledgers, the date the monies were received. Furthermore, the monthly bank reconciliations be in agreement with the respective accounting records.

**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 schools for the disabled, low-income and bilingual. 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 exceptions. The information that was included on the workpapers was verified with minor exceptions noted. 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 enrollment data.

**WATCHUNG HILLS REGIONAL HIGH SCHOOL DISTRICT  
ADMINISTRATIVE FINDINGS - FINANCIAL, COMPLIANCE AND PERFORMANCE REPORTING  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**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 information that was included on the workpapers was verified without exceptions. 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.

**Miscellaneous**

The school district has complied with continuing disclosure agreements made in relation to the District's outstanding bond issuances.

**Suggestions to Management**

Old outstanding checks and reconciling items in the High School Student Activity Account and Athletic Account be reviewed and cleared of record.

Lease purchase transactions be recorded in the District's financial and budgetary accounting systems.



**WATCHUNG HILLS REGIONAL HIGH SCHOOL DISTRICT  
FOOD SERVICE ENTERPRISE FUND  
NUMBER OF MEALS SERVED AND (OVER)/UNDERCLAIM  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

SCHEDULE IS NOT APPLICABLE

**SCHEDULE OF NET CASH RESOURCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

SCHEDULE IS NOT APPLICABLE

**WATCHUNG HILLS REGIONAL SCHOOL DISTRICT  
APPLICATION FOR STATE SCHOOL AID  
ENROLLMENT AS OF OCTOBER 14, 2016  
SCHEDULE OF AUDITED ENROLLMENTS**

	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 Register 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				
Grade 9	408.0	3.0	408.0	3.0	-	-	408.0	3.0	408.0	3.0						
Grade 10	425.0	1.0	425.0	1.0	-	-	425.0	1.0	425.0	1.0						
Grade 11	480.0	2.0	481.0	2.0	1.0	-	481.0	2.0	481.0	2.0						
Grade 12	447.0	3.0	446.0	3.0	(1.0)	-	446.0	3.0	446.0	3.0	-	-				-
Subtotal	1,760.0	9.0	1,760.0	9.0	-	-	1,760.0	9.0	1,760.0	9.0	-	-	-	-	-	-
Sp Ed - High School	294.0	11.0	294.0	11.0	-	-	294.0	11.0	294.0	11.0	-	-	27.0	23.0	23.0	-
Subtotal	294.0	11.0	294.0	11.0	-	-	294.0	11.0	294.0	11.0	-	-	27.0	23.0	23.0	-
Totals	2,054.0	20.0	2,054.0	20.0	-	-	2,054.0	20.0	2,054.0	20.0	-	-	27.0	23.0	23.0	-
Percentage Error					<u>0.00%</u>	<u>0.00%</u>					<u>0.00%</u>	<u>0.00%</u>				<u>0.00%</u>

**WATCHUNG HILLS REGIONAL SCHOOL DISTRICT  
APPLICATION FOR STATE SCHOOL AID  
ENROLLMENT AS OF OCTOBER 14, 2016  
SCHEDULE OF AUDITED ENROLLMENTS**

	Resident Low Income			Sample for Verification			Resident LEP Low Income			Sample for Verification		
	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	Reported on ASSA as LEP Low Income	Reported on Workpapers as LEP Low Income	Errors	Sample Selected from Workpapers	Verified to Test Score and Register	Sample Errors
Grade 9	1.0	1.0		1.0	1.0		-	-	-			
Grade 10	3.0	3.0		3.0	3.0		3.0	1.0	(2.0)	1.0	1.0	
Grade 11	2.0	2.0		2.0	2.0		1.0	-	(1.0)			
Grade 12	8.0	8.0	-	7.0	7.0	-	-	-	-			-
Subtotal	14.0	14.0	-	13.0	13.0	-	4.0	1.0	(3.0)	1.0	1.0	-
Sp Ed - High School	3.0	4.0	1.0	3.0	3.0	-			-			-
Subtotal	3.0	4.0	1.0	3.0	3.0	-	-	-	-	-	-	-
Totals	17.0	18.0	1.0	16.0	16.0	-	4.0	1.0	(3.0)	1.0	1.0	-
Percentage Error			5.56%			0.00%			-300.00%			0.00%

	Transportation					
	Reported on DRTRS by DOE/County	Reported on DRTRS by District	Errors	Tested	Verified	Errors
Reg. - Public Schools	1,105.0	1,105.0	-	213	213.0	-
Non-Public	32.0	32.0	-	6	6.0	-
Reg Special Ed. - No Special Trans Need	180.5	180.5	-	35	35.0	-
Special Ed. With Special Trans Needs	49.5	49.5	-	10	10.0	-
	1,367.0	1,367.0	-	264.0	264.0	-
Percentage Error			0.00%			0.00%

**WATCHUNG HILLS REGIONAL SCHOOL DISTRICT  
 APPLICATION FOR STATE SCHOOL AID  
 ENROLLMENT AS OF OCTOBER 14, 2016  
 SCHEDULE OF AUDITED ENROLLMENTS**

	Resident LEP Not Low Income			Sample for Verification		
	Reported on ASSA as LEP Not Low Income	Reported on Workpapers as LEP Not Low Income	Errors	Sample Selected from Workpapers	Verified to Test Score and Register	Sample Errors
Grade 9	2.0	2.0	-	2.0	2.0	-
Grade 10	3.0	5.0	2.0	5.0	5.0	-
Grade 11	-	1.0	1.0	1.0	1.0	-
Grade 12			-			-
Subtotal	5.0	8.0	3.0	8.0	8.0	-
Special Ed - High			-			-
Subtotal	-	-	-	-	-	-
Totals	5.0	8.0	3.0	8.0	8.0	-
Percentage Error			<u>37.50%</u>			<u>0.00%</u>

**WATCHUNG HILLS REGIONAL HIGH SCHOOL DISTRICT  
CALCULATION OF EXCESS SURPLUS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

2016-2017 Total General Fund Expenditures per the CAFR (Budgetary Basis)		\$ 42,546,151
Decreased by:		
On-Behalf TPAF Pension and Social Security		<u>(4,463,880)</u>
Adjusted 2016-2017 General Fund Expenditures		<u>\$ 38,082,271</u>
2% of Adjusted 2016-2017 General Fund Expenditures		
Increased by Allowable Adjustments		\$ 761,645
Extraordinary Aid		348,998
Non Public Transportation Reimbursement		<u>50,651</u>
Maximum Unassigned Fund Balance		<u>\$ 1,161,294</u>
Total General Fund - Fund Balance at June 30, 2017		\$ 6,538,995
Decreased by:		
Encumbrances	\$ 357,226	
Capital Reserve	3,285,931	
Maintenance Reserve	199,735	
Tuition Reserve	250,000	
Excess Surplus Designated for Subsequent Years Budget	563,456	
Designated for Subsequent Year's Budget	<u>198,371</u>	
		<u>4,854,719</u>
Total Unreserved, Undesignated Fund Balance		<u>1,684,276</u>
Restricted Fund Balance - Excess Surplus		<u>\$ 522,982</u>
Excess Surplus as of June 30, 2017		
Excess Surplus Designated for Subsequent Year's Budget		\$ 563,456
Excess Surplus		<u>522,982</u>
Total		<u>\$ 1,086,438</u>

**WATCHUNG HILLS REGIONAL HIGH SCHOOL DISTRICT  
RECOMMENDATIONS**

**I. Administrative Practices and Procedures**

There are none.

**II. Financial Planning, Accounting and Reporting**

There are none.

**III. School Purchasing Program**

There are none.

**IV. School Food Services/Scholarship Funds**

There are none.

**V. Student Body Activities**

It is recommended that monies collected for Student Activities and Athletics be recorded in the respective ledgers, the date the monies were received. Furthermore, the monthly bank reconciliations be in agreement with the respective accounting records.

**VI. Application for State School Aid**

There are none.

**VII. Pupil Transportation**

There are none.

**VIII. Facilities and Capital Assets**

There are none.

**IX. Miscellaneous**

There are none.

**X. Status of Prior Years' Audit Findings/Recommendations**

Corrective action was taken on the prior year audit finding.

**ACKNOWLEDGEMENT**

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

Respectfully submitted,

LERCH, VINCI & HIGGINS, LLP



Gary J. Vinci  
Public School Accountant  
PSA Number CS00829