

***PACE CHARTER SCHOOL OF HAMILTON***

***AUDITOR'S MANAGEMENT REPORT***

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

***Barre & Company LLC***  
***Certified Public Accountants & Consultants***

PACE CHARTER SCHOOL OF HAMILTON

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

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**Report of Independent Auditors**

Honorable President and  
Members of the Board of Trustees  
Pace Charter School of Hamilton  
County of Mercer, 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 Trustees of the Pace Charter School of Hamilton in the County of Mercer for the year ended June 30, 2017, and have issued our report thereon dated November 10, 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 Pace Charter School of Hamilton 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.



Richard M. Barre  
Licensed Public School Accountant  
No. CS-O1181  
Barre & Company, CPAs

November 10, 2017

## **Administrative Findings – Financial, Compliance and Performance**

### **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, 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-20, Insurance Schedule contained in the Charter School's CAFR.

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

There was no Public Employees' Faithful Performance Blanket Position Bond.

#### **Tuition Charges**

A review of financial statements indicated that the Charter School charged no tuition for any student attending the Charter School and all proceeds for a before/after school program were accounted for in an Enterprise Fund.

### **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 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 in the Charter School and were certified by the President of the Board, the Board Secretary/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.

Current statute is posted on the New Jersey Legislature website at: Payrolls were delivered to the treasurer of school moneys with a warrant made to his order for the full amount of each payroll.

Payrolls were delivered to the secretary of the board who then deposited with warrants in separate bank accounts for net payroll and withholdings.

## **Administrative Findings – Financial, Compliance and Performance**

### **Financial Planning, Accounting and Reporting (Continued)**

#### **Reserve for Encumbrances and Accounts Payable**

A review of outstanding issued purchase orders was made as of June 30 for proper classification of orders as reserve for encumbrances and accounts payable. No exceptions were noted during our review.

#### **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 the 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, a transaction error rate of 1.90% overall was noted and no additional procedures were deemed necessary to test the propriety of expenditure classification.

##### **A. General Classification Findings**

No exceptions or discrepancies were noted in the general classification of expenditures.

##### **B. Administrative Classification Findings**

No exceptions or discrepancies were noted in the administrative classification of expenditures.

#### **Board Secretary's Records**

Our review of the financial and accounting records maintained by the business office disclosed no exceptions or discrepancies.

#### **Treasurer's Records**

There were no items noted during our review of the records of the Treasurer.

#### **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 of the Elementary and Secondary Education Act as amended and reauthorized.

The study of compliance for E.S.E.A. did not indicate any areas of noncompliance and/or questionable cost.

## **Administrative Findings – Financial, Compliance and Performance**

### **Financial Planning, Accounting and Reporting (Continued)**

#### 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 the 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 did not indicate any areas of noncompliance.

#### T.P.A.F. Reimbursement

Our audit procedures included a test of the biweekly reimbursements (electronic, but Charter Schools can print out the DOENET screen for an auditor) filed with the Department of Education for Charter School 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

*N.J.S.A. 18A:18A-1 et seq.* (Public School Contracts Law), the associated rules and related information on the statute, and school contracts in general (as of June 2007) is available on the website: <http://www.state.nj.us/dca/divisions/dlgs/programs/lpcl.html>. [http://lis.njleg.state.nj.us/cgi-bin/om\\_isapi.dll?clientID=1319801&depth=2&expandheadings=off&headingswithhits=on&infobase=statutes.nfo&softpage=TOC\\_Frame\\_Pg42](http://lis.njleg.state.nj.us/cgi-bin/om_isapi.dll?clientID=1319801&depth=2&expandheadings=off&headingswithhits=on&infobase=statutes.nfo&softpage=TOC_Frame_Pg42) Auditors should refer to Section I, Chapter 5, Bids & Contracts/Purchasing for highlights of *N.J.S.A. 18A:18A-3* and 4.

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 \$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 of *N.J.S.A. 18A:18A-4*, amended.

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

## **Administrative Findings – Financial, Compliance and Performance**

### **School Purchasing Programs (Continued)**

#### 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.

Cash receipts and bank records were reviewed for timely deposit.

The Charter School utilizes a food service management company (FSMC) and is depositing and expending program monies in accordance with N.J.S.A. 18A:17-34, and 19-1 through 19-4.1. Provisions of the FSMC contract/addendum were reviewed and audited. .

Expenditures should be separately recorded as food. Vendor invoices were reviewed and costs verified.

The cash disbursements 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 exceeded three months average expenditures.

The number of meals claimed for reimbursement was compared to sales and meal count records. As part of the claims review process that Edit Check Worksheet was completed. Reimbursement claims were submitted/certified in a timely manner.

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 and/or to the list of directly certified students on file, times the number of operating days, on a school by school basis. The free and reduced price meal and free milk policy was reviewed for uniform administration throughout the school system. Sites approved to participate in Provisions I and II were examined for compliance with all counting and claiming requirements. The required verification procedures for free and reduced price applications were completed and available for review.

No Exceptions Noted.

#### Other Matters

##### **Finding #2017-001 (CAFR finding #2017-002):**

During the months of August 2016, May 2017, and June 2017, the charter school used a credit card to purchase computer equipment. According to statutory requirements charter schools may not use credit cards for the purchase of goods and services.

##### **Recommendation:**

The school should pay for goods and services using a system of purchase orders approved by the proper personnel and reviewed by the board. Payments to vendors should be made by check or other electronic disbursement from the school's bank accounts. Purchases of goods or services should not be made with a credit card. The board should be properly trained in the statutory requirements for purchases of goods and services and should properly review and question disbursements, especially where statutory requirements are not being properly met.

## **Administrative Findings – Financial, Compliance and Performance**

### **Enrollment Counts and Submissions to the Department**

Our audit procedures included a test of enrollment information reported on October 15, 2016 and the last day of school for on-roll, special education, bilingual and low-income.

### **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.

### **Follow-up on Prior Year Findings**

Not applicable.

### **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 the audit team.



SCHEDULE OF AUDITED ENROLLMENTS

PACE CHARTER SCHOOL OF HAMILTON  
 APPLICATION FOR CHARTER SCHOOL AID  
 ENROLLMENT COUNT AS OF OCTOBER 15, 2016

Grades	Submission to DOE Reported on Roll	Reported on Workpapers	Verified Signed Registration Forms	Errors	Verified # Days Enrolled	Special Ed/ Bilingual		Verified Documentation		Errors	Verified # of Days Service Provided	Errors	Low Income	Verified Documentation	Errors
						Special Ed/ Bilingual	Verified Documentation	Errors	Verified Documentation						
Kindergarten	46	46	46	-	46	-	-	-	-	-	-	-	14	14	-
One	45	45	45	-	45	-	-	-	-	-	-	-	19	19	-
Two	45	45	45	-	45	-	-	-	-	-	-	-	18	18	-
Three	30	30	30	-	30	-	-	-	-	-	-	-	12	11	1
Four	30	30	30	-	30	-	-	-	-	-	-	-	12	11	1
Five	26	26	26	-	26	-	-	-	-	-	-	-	10	9	1
Totals	222	222	222	-	222	-	-	-	-	-	-	-	85	82	3

Percentage 0.00% 0.00% 0.00% 0.00% 0.00% 0.00% 0.00% 3.53%

SCHEDULE OF AUDITED ENROLLMENTS

**PACE CHARTER SCHOOL OF HAMILTON**  
 APPLICATION FOR CHARTER SCHOOL AID  
 ENROLLMENT COUNT AS OF LAST DAY OF SCHOOL YEAR 2017

Grades	Submission to DOE Reported on Roll	Reported on Workpapers	Verified Signed Registration Forms	Errors	Verified # Days Enrolled	Special Ed/ Bilingual		Verified Documentation		Errors	Verified # of Days Service Provided	Errors	Low Income	Verified Documentation	Errors
Kindergarten	45	45	45		45	-	-	-	-				17	17	
One	46	46	46		46								21	21	
Two	44	44	44		44								21	21	
Three	43	43	43		43								16	16	
Four	30	30	30		30								15	15	
Five	29	29	29		29								14	14	
Totals	237	237	237	-	237	-	-	-	-	-	-	-	104	104	-
Percentage				0.00%						0.00%					0.00%

**Note:** June ASSA was not available. Used the October 15 as a basis for testing

## EXCESS SURPLUS CALCULATION

N.J.S.A. 18A:7F-7 requires that excess surplus for regular school districts and charter schools is calculated using 2% for June 30, 2005 and thereafter. Pursuant to P.L. 2007, c.62, the minimum was raised from \$100,000 to \$250,000, effective beginning with the year ending June 30, 2007.

Charter schools are not subject to the excess surplus limitations. Charter school 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 school spends "significantly less than budgeted and has accumulated a sizable surplus."

### CALCULATION:

Complete Sections 1 and 2. If the total of Section 2 is **greater** than the applicable portion of Section 1, enter the difference in Section 3. If the difference results in a negative, enter a zero in Section 3. The applicable sections are to be submitted as part of the Auditor's Management Report.

Note that beginning with the excess surplus calculation for the year ending June 30, 2012 the transfer to food services is no longer an adjustment (increase) to total general fund expenditures. This was first introduced in supporting documentation item 9 on page 123 of the 2011-12 Budget Guidelines and continues to apply to audited excess surplus at June 30, 2017.

**EXCESS SURPLUS CALCULATION**

**PACE CHARTER SCHOOL OF HAMILTON**

**SECTION 1**

**A. 2% Calculation of Excess Surplus**

2016-17 Total General Fund Expenditures per the CAFR, Ex. C-1	\$	3,429,130	(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:			
Oh-Behalf TPAF Pension & Social Security		(360,931)	(B2a)
Assets Acquired Under Capital Leases		-	(B2b)
Adjusted 2016-17 General Fund Expenditures		<u>3,068,199</u>	(B3)
2% of Adjusted 2016-17 General Fund Expenditures		<u>61,364</u>	(B4)
Enter Greater of (B4) or \$250,000		250,000	(B5)
Increased by: Allowable Adjustment *		-	(K)
Maximum Unassigned Fund Balance/Undesignated-Unreserved Fund Balance			<u>\$ 250,000</u> (M)

**SECTION 2**

Total General Fund - Fund Balance @ 6/30/2017 (Per CAFR Budgetary Comparison Schedule C-1)	\$	532,876	(C)
Decrease by:			
Year-end Encumbrances		-	(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			<u>532,876</u> (U1)

**SECTION 3**

Restricted Fund Balance - Excess Surplus ***	\$	<u>282,876</u>	(E)
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**Recapitulation of Excess Surplus as of June 30, 2017**

Reserved Excess Surplus - Designated for Subsequent Year's Expenditures **	\$	-	(C3)
Reserved Excess Surplus ***		<u>282,876</u>	(E)
Total Excess Surplus		<u>282,876</u>	(D)

**EXCESS SURPLUS CALCULATION**

**PACE CHARTER SCHOOL OF HAMILTON**

Footnotes:

\* Allowable adjustment to expenditures on line K must be detailed as follows. This adjustment line (as detailed below) is to be utilized when applicable for:

(H) Federal Impact Aid. The passage of P.L. 2015, c.46 amended N.J.S.A. 18A:7F-41 to permit a board of education to appropriate federal impact aid funds to establish or supplement a federal impact aid legal reserve in the general fund. Accordingly, effective for the year ending June 30, 2015 the Federal Impact Aid adjustment to expenditures is limited to the portion of Federal Impact Aid Section 8002 and Section 8003 received during the fiscal year and recognized as revenue on the General Fund Budgetary Comparison Schedule, but not transferred to the Federal Impact Aid Reserve - General (8002 or 8003) by board resolution during June 1 to June 30 of the fiscal year under audit. Amounts transferred to the reserve are captured on line (C4);

(I) Sale and Lease-back (Refer to the Audit Program Section II, Chapter 10);

(J1) Extraordinary Aid;

(J2) Additional Nonpublic School Transportation Aid;

(J3) Recognized current year School Bus Advertising Revenue; and

(J4) Family Crisis Transportation Aid.

Notes to auditor: Refer to the Audit Program Section II, Chapter 10 for restrictions on the inclusion of Extraordinary Aid, Family Crisis Transportation Aid, and Additional Nonpublic School Transportation Aid.

**Detail of Allowable Adjustments**

Impact Aid	\$	-	(H)
Sale & Lease-back		-	(I)
Extraordinary Aid		-	(J1)
Additional Nonpublic School Transportation Aid		-	(J2)
Current Year School Bus Advertising Revenue Recognized		-	(J3)
Family Crisis Transportation Aid		-	(J4)
		<hr/>	
Total Adjustments	\$	-	(K)

\*\* This amount represents the June 30, 2017 Excess Surplus (C3 above) and must be included in the Audit Summary Worksheet Line 90031.

\*\*\* Amounts must agree to the June 30, 2017 CAFR and must agree to Audit Summary Worksheet Line 90030.

\*\*\*\* Amount for Other Reserved Fund Balances must be detailed for each source. Use in the excess surplus calculation of any legal reserve that is not state mandated or that is not legally imposed by an other type of government, such as the judicial branch of government, must have departmental approval. District requests should be submitted to the Division of Finance prior to September 30.

**Detail of Other Restricted Fund Balance**

Statutory restrictions:			
Approved unspent separate proposal	\$	-	
Sale/lease-back reserve		-	
Capital reserve		-	
Maintenance reserve		-	
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] ****		-	
		<hr/>	
Total Other Restricted Fund Balance	\$	-	(C4)

**PACE CHARTER SCHOOL OF HAMILTON  
AUDIT RECOMMENDATIONS SUMMARY  
FOR THE FISCAL YEAR JUNE 30, 2017**

**Findings and Recommendations:**

1. Administrative Practices and Procedures

None

2. Financial Planning, Accounting and Reporting

None

3. School Purchasing Programs

Other Matters:

**Finding #2017-001 (CAFR finding #2017-002):**

During the months of August 2016, May 2017, and June 2017, the charter school used a credit card to purchase computer equipment. According to statutory requirements charter schools may not use credit cards for the purchase of goods and services.

**Recommendation:**

The school should pay for goods and services using a system of purchase orders approved by the proper personnel and reviewed by the board. Payments to vendors should be made by check or other electronic disbursement from the school's bank accounts. Purchases of goods or services should not be made with a credit card. The board should be properly trained in the statutory requirements for purchases of goods and services and should properly review and question disbursements, especially where statutory requirements are not being properly met.

4. School Food Service

None

5. Student Body Activities

None

6. Application for State School Aid/Charter School Enrollment System/Charter School Aid

None

7. Pupil Transplantation

None

8. Facilities and Capital Assets

None

**PACE CHARTER SCHOOL OF HAMILTON  
AUDIT RECOMMENDATIONS SUMMARY  
FOR THE FISCAL YEAR JUNE 30, 2017**

9. Miscellaneous

None

10. Status of Prior Year Audit Findings/Recommendations

None