

Auditor's Management Report

for the

*South Hunterdon Regional
School District*

in the

*County of Hunterdon
New Jersey*

for the

*Fiscal Year Ended
June 30, 2018*

**INDEPENDENT AUDITOR'S MANAGEMENT REPORT OF ADMINISTRATIVE
FINDINGS FINANCIAL AND COMPLIANCE**

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Tax ID Number 46-4868149



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INDEPENDENT AUDITOR'S REPORT

Honorable President and Members
of the Board of Education
South Hunterdon Regional School District
County of Hunterdon
Lambertville New Jersey 08530

We have audited, in accordance with U.S. generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States, the basic financial statements of the South Hunterdon Regional School District in the County of Hunterdon for the year ended June 30, 2018, and have issued our report dated February 6, 2019.

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

This report is intended solely for the information of the South Hunterdon Regional School District, County of Hunterdon, New Jersey, the New Jersey Department of Education and federal and state audit awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.


CERTIFIED PUBLIC ACCOUNTANTS


PUBLIC SCHOOL ACCOUNTANT NO. 962

February 6, 2019

Independent Auditor's Management Report of Administrative Findings Financial and Compliance

SCOPE OF AUDIT

The audit covered the financial transactions of the Board Secretary/School Business Administrator and the Bookkeeper/Treasurer, the activities of the South Hunterdon Regional Board of Education, and the records of the various funds under the auspices of the Board of Education.

ADMINISTRATIVE PRACTICES AND PROCEDURES

Insurance

Insurance coverage was carried in the amounts as detailed on the Insurance Schedule (Exhibit J-20) contained in the District's Comprehensive Annual Financial Report (CAFR).

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

<u>NAME</u>	<u>POSITION</u>	<u>AMOUNT OF BONDS</u>
Kerry Sevilis	Board Secretary/School Business Administrator	\$200,000.00
All Employees	Blanket Bond	\$100,000.00

Adequacy of insurance coverage is the responsibility of the Board of Education.

Tuition Charges

Not Applicable.

FINANCIAL PLANNING, ACCOUNTING AND REPORTING

Examination of Claims

Our audit of claims paid during the period under review did not indicate any discrepancies with respect to signatures, certification or supporting documentation.

**Independent Auditor's Management Report of Administrative
Findings- Financial and Compliance**

FINANCIAL PLANNING, ACCOUNTING AND REPORTING (CONTINUED)

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 were certified by the President of the Board and 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.

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

The balances of funds on deposit in the Payroll Account are analyzed on a monthly basis.

Position Control Roster

The Position Control Roster was reviewed and compared to payroll records, employee benefit records and charges made to the general ledger to ensure proper and consistent financial reporting and that employee benefits are only offered to current employees.

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 without exception.

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 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.

Board Secretary's Records

The financial records, books of account and minutes of the Board Secretary were maintained in satisfactory condition and an encumbrance system was fully implemented.

**Independent Auditor's Management Report of Administrative
Findings Financial and Compliance**

FINANCIAL PLANNING, ACCOUNTING AND REPORTING (CONTINUED)

Treasurer's Records

The records maintained by the Bookkeeper/Treasurer were in agreement with the records maintained by the Board Secretary/School Business Administrator.

Elementary and Secondary Education Act (E.S.E.A.) as amended by the Every Student Succeeds Act (ESSA)

The E.S.E.A. 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 Title I through Title IV of the Elementary and Secondary Education Act as amended and reauthorized.

Other Special Federal and State Projects

The District's Special Projects were approved as listed on Exhibits K-3 and K-4 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 semi-monthly reimbursements filed with the Department of Education for district employees who are members of the Teachers' Pension and Annuity Fund. No exceptions were noted.

TPAF Reimbursement to the State of Federal Salary Expenditures

The amount of the expenditure charged to the current year's Final Report for all federal awards 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 90 day grant liquidation period required by the Office of Grants Management. The expenditure was reviewed subsequent to the reimbursement and no exceptions were noted.

**Independent Auditor's Management Report of Administrative
Findings Financial and Compliance**

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 \$29,000.00, 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 (C.40A:11-9) the board of education may establish that the bid threshold may be up to \$40,000.00. 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 \$1,000.00. 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 every year in which it is made. Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to paragraph (1) of subsection a. of N.J.S.A. 18A:18A-5 may be awarded for a period not exceeding 12 consecutive months."

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".

The board of education may, by resolution approve by the majority of the board of education and subject to subsections b. and c. of this section, disqualify a bidder who would otherwise be determined to be the lowest responsible bidder, if the board of education finds that it has had negative prior experience with the bidder."

Effective July 1, 2015, the bid thresholds in accordance with N.J.S.A. 18A:18A-3(a) and (c) is \$40,000.00 (with a Qualified Purchasing Agent) and \$29,000.00 (without a Qualified Purchasing Agent), respectively. The law regulating bidding for public school student transportation contracts under N.J.S.A. 18:39-3 is currently \$19,000.00.

**Independent Auditor's Management Report of Administrative
Findings Financial and Compliance**

SCHOOL PURCHASING PROGRAMS (CONTINUED)

Contracts and Agreements Requiring Advertisement for Bids (Continued)

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 solicitor'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.

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 provisions 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 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 appropriated school food service personnel, as to whether the SFA had any Child Nutrition Program reimbursement over-claims or under-claims. No exceptions were noted.

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

The financial transactions and statistical records of the School Food Services were maintained in satisfactory condition. The financial accounts, meal count records and eligibility applications were reviewed on a test-check basis. No exceptions were noted.

Cash receipts and bank records were review for timely deposit without exception.

The District 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. The FSMC contract includes an operating results provision that the food service program will operate at no cost or breakeven. The operating results provision has been met.

**Independent Auditor's Management Report of Administrative
Findings Financial and Compliance**

SCHOOL FOOD SERVICE (CONTINUED)

Expenditures were separately recorded as food, labor and other costs. Vendor invoices were reviewed and costs verified. Inventory records on food and supply items were currently maintained and properly applied in determining the cost of food and supplies used. No exceptions were noted.

The cash disbursements records reflected expenditures for program related goods and services. The appropriated 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.

Time sheets were reviewed and labor costs verified. Payroll records were maintained on all School Food Services employees authorized by the board of education. No exceptions were noted.

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 claims were submitted in a timely manner. No exceptions were noted.

Applications for free and reduced price meals were reviewed for completeness and accuracy. The number of free and reduced price meals claimed as served did not exceed the number of valid applications on file, times the number of operating days, on a school by school basis. The free and reduced priced meal policy is uniformly administered throughout the school system. The required verification procedure for free and reduced price applications was completed and available for review. No exceptions were noted.

National Food Distribution Commodities were received and an inventory was maintained on a first-in, first-out basis. No exceptions were noted.

The Statement of Revenues, Expenses, and Changes in Fund Net Assets does separate program and non-program revenue and program and non-program cost of goods sold.

Exhibits reflecting Child Nutrition Program operations are included in the section entitled Enterprise Funds, Exhibits B-4, B-5 and B-6.

The District maintains the detailed revenue and expenditure information necessary to execute the USDA mandated Non-Program Food Revenue tool at least annually.

STUDENT BODY ACTIVITIES/ATHLETIC FUNDS

A cash receipts and disbursement record were maintained in satisfactory condition.

**Independent Auditor's Management Report of Administrative
Findings Financial and Compliance**

APPLICATION FOR STATE SCHOOL AID

Our audit procedures included a test of information reported in the October 13, 2017 Application for State School Aid (A.S.S.A) for on-roll, private schools for the handicapped, 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 with immaterial exceptions. The results of our procedures are presented in the Schedule of Audited Enrollments.

2017-01 Finding: The District did not maintain adequate workpapers to support the amounts reported on the ASSA report.

2017-01 Recommendation: The District should maintain adequate workpapers that support the various categories reported in the ASSA report.

The district had written procedures for the recording of student enrollment data.

PUPIL TRANSPORTATION

Our audit procedures included a test of on roll status reported in the 2017-2018 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. The bid specifications for the purchase of buses were in compliance with applicable statutes. No exceptions were noted in our review of transportation related purchases of goods and services.

TESTING FOR LEAD OF ALL DRINKING WATER IN EDUCATIONAL FACILITIES

We were informed that the school district complied with the requirements of N.J.A.C. 26-1.2 and 12.4 related to the testing for lead of all drinking water in educational facilities.

The school district submitted the annual Statement of Assurance to the Department of Education, pursuant to N.J.A.C. 6A:26-12.4(g).

**Independent Auditor's Management Report of Administrative
Findings Financial and Compliance**

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'S FINDINGS

Not applicable

**Independent Auditor's Management Report of Administrative
Findings Financial and Compliance**

RECOMMENDATIONS

Administrative Practices and Procedures

None

Financial Planning, Accounting and Reporting

None

School Purchasing Program

None

School Food Services

None

Student Body Activities

None

Application for State School Aid

2017-01: The District should maintain adequate workpapers that support the various categories reported in the ASSA report.

Pupil Transportation

None

Testing for Lead of All Drinking Water in Educational Facilities

None

Capital Assets and Facilities

None

Prior Year's Findings

N/A

SOUTH HUNTERDON REGIONAL SCHOOL DISTRICT
 SCHEDULE OF AUDITED ENROLLMENTS
 APPLICATION FOR STATE SCHOOL AID SUMMARY
 ENROLLMENT AS OF OCTOBER 13, 2017

	2018-2019 Application for State School Aid						Sample for Verification						Private School for Handicapped							
	Reported on A.S.S.A. as on Roll		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 Verification		Sample Errors			
	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared		
Half Day Pre-K 3 yr	12		10		2		3		3		0									
Full Day Pre-K 4 yr	4		4				1		1											
Full Day Kindergarten	52		52				12		12											
One	47		40		7		10		10											
Two	69		64		5		16		16											
Three	56		52		4		12		12											
Four	57		51		6		13		13											
Five	53		49		4		12		12											
Six	68		66		2		15		15											
Seven	62		59		3		16		16											
Eight	58		57		1		14		14											
Nine	73		73				18		18											
Ten	69		69				17		17											
Eleven	62	2	62	2			15	1	15	1										
Twelve	56	8	55	8	1		13	2	13	2										
Subtotal	798	10	763	10	35		188	3	188	3	0									
SpEd Elementary	56		82		-26		21		21		0			4		3		3		
SpEd Middle School	33		38		-5		10		10		0			8		5		5		
SpEd High School	36	8	38	7	-2		9	1	9	1	0			6		4		4		
Subtotal	125	8	158	7	-33		40	1	40	1	0			18		12		12		
Totals	923	18	921	17	2		228	4	228	4				18		12		12		
Percentage					0.22%															NONE
					5.56%															NONE

SOUTH HUNTERDON REGIONAL SCHOOL DISTRICT
 SCHEDULE OF AUDITED ENROLLMENTS
 APPLICATION FOR STATE SCHOOL AID SUMMARY
 ENROLLMENT AS OF OCTOBER 13, 2017

	Resident Low Income			Sample for Verification			Resident ELL Low Income			Sample for Verification		
	Reported on A.S.S.A. as Low Income	Workpapers as Low Income	Errors	Sample Selected from Workpapers	Verified to Application and Register	Sample Errors	Reported on A.S.S.A. as ELL Low Income	Workpapers as ELL Low Income	Errors	Sample Selected from Workpapers	Verified to Application and Register	Sample Errors
Full Day Pre-K3	6	6	6	3	3							
Full Day Pre-K4	4	4	4	2	2							
Full Day Kindergarten	12	11	-1	5	5		6	6		5	5	
One	4	3	-1	1	1		1	2	1	1	1	
Two	17	16	-1	8	8		10	9	-1	8	8	
Three	17	15	-2	6	6		7	8	1	7	7	
Four	11	11		5	5		3	4	1	3	3	
Five	7	7		5	5		1	1		1	1	
Six	9	9		6	6							
Seven	13	13		8	8		2	2		1	1	
Eight	8	8		5	5		1	1		1	1	
Nine	11	12	1	9	9		4	5	1	3	3	
Ten	15	15		9	9		6	6		5	5	
Eleven	7	8	1	3	3		2	2		1	1	
Twelve	16	16		8	8		2	2		1	1	
Subtotal	147	148	1	80	80		45	48	3	37	37	
SpEd Elementary	31.0	31.0		24	24		7	7		5	5	
SpEd Middle School	15.0	15.0		8	8		2	2		1	1	
SpEd High School	12.5	12.5		6	6		1	1		1	1	
Subtotal	58.5	58.5		38	38		10	10		7	7	
Totals	206	207	1.0	118	118		55	58	3	44	44	
Percentage Error			0.49%									5.45%

	Transportation		
	Reported on DRTRS by DOE	Reported on DRTRS by District	Errors
Reg. Public Schools, col.1	422	422	168
Nonpublic Transportation, col.2	33	33	13
Non-Public All, col.3	22	22	9
Reg. - SpEd, Col.4	20	20	7
Special Ed Spec, col.6	497	497	197
Totals			197

Percentage Error

SOUTH HUNTERDON REGIONAL SCHOOL DISTRICT
SCHEDULE OF AUDITED ENROLLMENTS
APPLICATION FOR STATE SCHOOL AID SUMMARY
ENROLLMENT AS OF OCTOBER 13, 2017

	Resident ELL NOT Low Income			Sample for Verification		
	Reported on A.S.A. as NOT Low Income	Reported on Workpapers as NOT Low Income	Errors	Sample Selected from Workpapers	Verified to Register and Ensured no Application on file	Sample Errors
Half Day Pre-School!						
Full Day Pre-School						
Full Day Kindergarten						
One			0			0
Two			0			0
Three			0			0
Four			0			0
Five			0			0
Six			0			0
Seven			0			0
Eight			0			0
Nine			0			0
Ten			0			0
Eleven	1	1	0	1	1	0
Twelve			0			0
Subtotal	1	1	0	1	1	0
SpEd Elementary						
SpEd Middle School	1	1	0	1	1	0
SpEd High School						
Subtotal	1	1	0	1	1	0
Totals	2	2	0	2	2	0
Percentage Error			0.00%			0.00%

SOUTH HUNTERDON REGIONAL SCHOOL DISTRICT
SCHEDULE OF CALCULATION OF EXCESS SURPLUS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

REGULAR DISTRICT

SECTION 1

2% Calculation of Excess Surplus

2017 - 2018 Total General Fund Expenditures per CAFR Ex. C-1	\$ <u>21,876,918.58</u>	
Increased by:		
Transfer from Capital Reserve to Capital Projects Fund	<u>765,624.00</u>	
Decreased by:		
On-Behalf TPAF Pension and Social Security	<u>2,668,120.35</u>	
Adjusted 2017 - 2018 General Fund Expenditures		\$ <u>19,974,422.23</u>
2% of Adjusted 2017 - 2018 General Fund Expenditures		<u>399,488.44</u>
Greater of Line Above or \$250,000.00		<u>399,488.44</u>
Increased by: Allowable Adjustment		<u>85,018.00</u>
Maximum Unreserved/Undesignated Fund Balance		\$ <u><u>484,506.44</u></u>

SECTION 2

Total General Fund Balances at June 30, 2018	\$ <u>6,329,846.47</u>	
Decreased by:		
Year-End Encumbrances	<u>195,296.43</u>	
Legally Restricted - Designated for Subsequent Year's Expenditures	<u> </u>	
Legally Restricted - Excess Surplus-Designated for Subsequent Year's Expenditures	<u>357,038.17</u>	
Other Restricted Fund Balances	<u>4,882,641.15</u>	
Assigned Fund Balance - Unreserved - Designated for Subsequent Year's Expenditures	<u>35,342.83</u>	
Total Unassigned Fund Balance		\$ <u>859,527.89</u>

SECTION 3

Restricted Fund Balance-Excess Surplus \$ 375,021.45

Recapitulation of Excess Surplus as of June 30, 2018

Reserved Excess Surplus - Designated for Subsequent Year's Expenditures \$ 357,038.17

Reserved Excess Surplus 375,021.45

Total \$ 732,059.62

Detail of Allowable Adjustments

Extraordinary Aid \$ 75,448.00

Additional Non-Public School Transportation Aid 9,570.00

\$ 85,018.00

Detail of Other Restricted Fund Balance

Statutory Restrictions:

Capital Reserve \$ 4,107,275.45

Maintenance reserve 525,365.70

Emergency reserve 250,000.00

Total Other Restricted Fund Balance \$ 4,882,641.15

