

*Auditor's Management Report*

*for the*

*Borough of Hawthorne  
School District*

*in the*

*County of Passaic  
New Jersey*

*for the*

*Fiscal Year Ended  
June 30, 2018*



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

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Tax ID Number 22-6001974





# SUPLEE, CLOONEY & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

308 East Broad Street, Westfield, New Jersey 07090-2122

Telephone 908-789-9300 Fax 908-789-8535

E-mail info@scnco.com

## INDEPENDENT AUDITOR'S REPORT

Honorable President and Members  
of the Board of Trustees  
Hawthorne Board of Education  
Hawthorne, New Jersey 07506

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 Borough of Hawthorne School District in the County of Passaic for the year ended June 30, 2018, and have issued our report dated February 4, 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 Borough of Hawthorne School District, County of Passaic, 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. 948

February 4, 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 activities of the Borough of Hawthorne - 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 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>
Gertrude Engle	Business Administrator/Board Secretary	\$300,000.00

There is a Public Employees’ Blanket Position Bond with Selective Insurance Company covering all other employees with multiple coverage of \$100,000.

**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.

**Payroll Accounts**

The net salaries of all employees of the Board were deposited in the Net 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, the Board Secretary/Business Administrator and the Chief School Administrator.

Salary withholdings were promptly remitted to the proper agencies including health benefits premium amounts withheld due to the general fund.

Payrolls were delivered to the secretary of the board with a warrant made to her order for the full amount of each payroll.

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

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

**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 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 reserve 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 the test the propriety of expenditure classification.

**Board Secretary's Records**

The records maintained by the Board Secretary were in agreement with the records maintained by the Treasurer.

**Treasurer's Records**

The records maintained by the Treasurer were in satisfactory condition and were in agreement with the records maintained by the Board Secretary/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 the projects under Title I, Title II Title III and Title IV of the Elementary and Secondary Education Act as amended and reauthorized.

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

**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 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 reimbursement filed with the Department of Education for district employees who are members of the Teachers Pension and Annuity Fund.

The amount of the expenditure charged to the current year's Final Report(s) 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 60 day grant liquidation period required by the Office of Grants Management. The expenditure was reviewed subsequent to the reimbursement.

**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 therefor, 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. (pending before the Legislature as section 15 of this bill) 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 for by a general delegation of the power to negotiate and award such contracts pursuant to this section.



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

**School Purchasing Programs (Continued)**

**Contracts and Agreements Requiring Advertisement for Bids (Continued)**

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 therefor, 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, 2017, the bid threshold in accordance with N.J.S.A. 18A:18A-3(a) and (c) is \$29,000.00. In accordance with N.J.S.A. 40A:11-9 (b) the bid threshold for all purchases made by the District's qualified purchasing agent is \$40,000.00. The law regulating bidding for public school student transportation contracts under N.J.S.A. 18:39-3 is currently \$19,000.00.

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.

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

**School Purchasing Programs (Continued)**

**Contracts and Agreements Requiring Advertisement for Bids (Continued)**

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. Our examination did reveal however, that the district made purchases through the use of state contracts.

**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 appropriate school food service personnel, as to whether the SFA had any Child Nutrition Program reimbursement overclaims or underclaims. No exceptions were noted.

In addition, 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 statement of revenues, expenses and charges in fund net position (CAFR exhibit B-5) does separate program and non-program revenue and program and non-program costs of goods sold.

**Student Body Activities**

The records for the Student Body Activities were maintained in satisfactory condition.

**Application for State School Aid**

Our audit procedures included a test of information reported in the October 15, 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 without exception. The information that was included on the workpapers was verified with minor exceptions. 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 had written procedures for the recording of student enrollment.

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

**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.

**Capital Assets and Facilities**

Our procedures included a review of the SDA grant agreements for consistency with recording of SDA revenue, transfer of local funds from the general or capital reserve account, and awarding of contracts for eligible facilities construction.

**Miscellaneous**

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

**Follow-Up Prior Year's Audit Findings**

Not Applicable.

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

**Recommendations**

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. **Capital Assets and Facilities**

None

9. **Miscellaneous**

None

10. **Status of Prior Year's Findings/Recommendations**

Not Applicable

HAWTHORNE BOARD OF EDUCATION  
 SCHEDULE OF AUDITED ENROLLMENTS  
 APPLICATION FOR STATE SCHOOL AID SUMMARY  
 ENROLLMENT AS OF OCTOBER 13, 2017

	2018-19 Application for State School Aid (11/6/17 data)						Sample for Verification						Private School for Disabled		
	Reported as on Roll		Reported on Workpapers		Errors		Sample Selected from Workpapers		Verified per Registers on Roll		Errors per Registers on Roll		Reported on A.S.A. as Private Schools	Sample Verification	Sample Errors
	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared			
Half Day Preschool - 3 Yr	6	-	6	-	-	-	2	-	2	-	-	-	-	-	-
Half Day Preschool - 4 Yr	9	-	9	-	-	-	4	-	4	-	-	-	-	-	-
Full Day Kindergarten	151	-	151	-	-	-	19	-	19	-	-	-	-	-	-
One	143	-	143	-	-	-	19	-	19	-	-	-	-	-	-
Two	130	-	130	-	-	-	16	-	16	-	-	-	-	-	-
Three	157	-	157	-	-	-	23	-	23	-	-	-	-	-	-
Four	166	-	166	-	-	-	24	-	24	-	-	-	-	-	-
Five	127	-	127	-	-	-	15	-	15	-	-	-	-	-	-
Six	157	-	157	-	-	-	21	-	21	-	-	-	-	-	-
Seven	128	-	128	-	-	-	16	-	16	-	-	-	-	-	-
Eight	180	-	180	-	-	-	28	-	28	-	-	-	-	-	-
Nine	132	-	132	-	-	-	15	-	15	-	-	-	-	-	-
Ten	162	-	162	-	-	-	20	-	20	-	-	-	-	-	-
Eleven	140	-	140	-	-	-	14	-	14	-	-	-	-	-	-
Twelve	143	-	143	-	-	-	16	-	16	-	-	-	-	-	-
<b>Subtotal</b>	<b>1,931</b>	<b>0</b>	<b>1,931</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>252</b>	<b>0</b>	<b>252</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Sp. Ed - Elementary	176	-	176	-	-	-	12	-	12	-	-	-	6	6	-
Sp. Ed - Middle School	105	-	105	-	-	-	10	-	10	-	-	-	6	6	-
Sp. Ed - High School	96	-	96	-	-	-	10	-	10	-	-	-	7	7	-
<b>Subtotal</b>	<b>377</b>	<b>0</b>	<b>377</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>32</b>	<b>0</b>	<b>32</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>19.0</b>	<b>19</b>	<b>0</b>
Co. Voc. - Regular	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Co. Voc. Ft. Post Sec.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Totals</b>	<b>2,308</b>	<b>0</b>	<b>2,308</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>284</b>	<b>0</b>	<b>284</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>19.0</b>	<b>19</b>	<b>0</b>
<b>Percentage Error</b>							<u>0.00%</u>		<u>0.00%</u>				<u>0.00%</u>		<u>0.00%</u>

**HAWTHORNE BOARD OF EDUCATION  
SCHEDULE OF AUDITED ENROLLMENTS  
APPLICATION FOR STATE SCHOOL AID SUMMARY  
ENROLLMENT AS OF OCTOBER 13, 2017**

	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	Sample Selected from Workpapers	Verified to Application and Register	Reported on A.S.S.A. as LEP low Income	Reported on Workpapers as LEP low Income	Sample Selected from Workpapers	Verified to Test Score and Register
Half Day Preschool - 3 Yr	0	-	0	0	-	-	0	-
Half Day Preschool - 4 Yr	0	-	0	0	-	-	0	-
Full Day Kindergarten	39	39	13	13	2	2	2	2
One	32	32	11	11	2	2	2	2
Two	38	38	12	12	5	5	4	4
Three	34	34	11	11	5	5	4	4
Four	43	43	13	13	6	6	5	5
Five	36	36	11	11	2	2	2	2
Six	36	36	11	11	0	0	0	0
Seven	22	22	11	11	1	1	1	1
Eight	40	40	14	14	3	3	2	2
Nine	31	31	12	12	2	2	2	2
Ten	28	28	11	11	2	2	2	2
Eleven	35	35	13	13	5	5	4	4
Twelve	23	23	11	11	-	-	0	0
<b>Subtotal</b>	<b>437.0</b>	<b>437.0</b>	<b>154</b>	<b>154</b>	<b>35</b>	<b>35</b>	<b>30</b>	<b>30</b>

Sp. Ed - Elementary	69	-	19	19	3	3	3	3
Sp. Ed - Middle School	36	-	14	14	1	1	1	1
Sp. Ed - High School	27	27.0	10	10	0	0	0	-
<b>Subtotal</b>	<b>132.0</b>	<b>132.0</b>	<b>43</b>	<b>43</b>	<b>4.0</b>	<b>4</b>	<b>4.0</b>	<b>4</b>
<b>Totals</b>	<b>569.0</b>	<b>569.0</b>	<b>197</b>	<b>197</b>	<b>39.0</b>	<b>39</b>	<b>34.0</b>	<b>34</b>
<b>Percentage Error</b>	0.00%		0.00%		0.00%		0.00%	

**Transportation**

	Reported on DRTS by DOE/county	Reported on DRTRS by District	Tested	Verified	Errors
Reg. - Public Schools, col. 1	129	129	65	65	0
Reg -SpEd, col. 4	1	1	1	1	0
Transported - Non-Public, col. 3	150	150	75	75	0
Special Ed Spec, col. 6	134	134	56	56	0
<b>Totals</b>	<b>414</b>	<b>414</b>	<b>197</b>	<b>197</b>	<b>-</b>
<b>Percentage Error</b>	0.00%		0.00%		0.00%

Reg Avg.(Mileage) = Regular Including Grade PK students (Part A) 4.4  
 Reg Avg.(Mileage) = Regular Excluding Grade PK students (Part B) 4.4  
 Spec Avg. = Special Ed with Special Needs 3.3

**HAWTHORNE BOARD OF EDUCATION  
APPLICATION FOR STATE SCHOOL AID SUMMARY  
ENROLLMENT AS OF OCTOBER 13, 2017**

	Resident LEP 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 Application and Register	Sample Errors
Half Day Preschool - 3 Yr	-	-	-	-	-	-
Half Day Preschool - 4 Yr	-	-	-	-	-	-
Full Day Kindergarten						
One	2	2	-	2	2	-
Two	1	1	-	1	1	-
Three	2	2	-	2	2	-
Four	3	3	-	2	2	-
Five	1	1	-	1	1	-
Six	1	1	-	1	1	-
Seven	4	4	-	3	3	-
Eight	0	0	-	0	0	-
Nine	0	0	-	0	0	-
Ten	3	3	-	2	2	-
Eleven	2	2	-	1	1	-
Twelve	1	1	-	1	1	-
<b>Subtotal</b>	<b>21</b>	<b>21</b>	<b>0</b>	<b>17</b>	<b>17</b>	<b>0</b>
Special Ed - Elementary	1	1	-	1	1	-
Special Ed - Middle	-	-	-	-	-	-
Special Ed - High	-	-	-	-	-	-
<b>Subtotal</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>0</b>
Co. Voc. - Regular	0.0	0	-	0	0	-
Co. Voc. Ft. Post Sec.	0	0	-	0	0	-
<b>Totals</b>	<b>22.0</b>	<b>22</b>	<b>0.0</b>	<b>18.0</b>	<b>18</b>	<b>0</b>
<b>Percentage Error</b>			<b>0.00%</b>			<b>0.00%</b>

HAWTHORNE 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 the CAFR, Ex. C-1	\$ 44,436,485.63	
Decreased by:		
On-Behalf TPAF Pension & Social Security	\$ 5,039,401.71	
Adjusted 2017 - 2018 General Fund Expenditures		\$ 39,397,083.92
2% of Adjusted 2017 - 2018 General Fund Expenditures		\$ 787,941.68
Greater of Line Above or \$250,000.00		\$ 787,941.68
Increased by: Allowable Adjustment		\$ 265,753.00
Maximum Unreserved/Undesignated Fund Balance		\$ 1,053,694.68

SECTION 2

Total General Fund - Fund Balances @ 6-30-2018	\$ 4,372,134.39	
Decreased by:		
Year-End Encumbrances	\$ 731,272.18	
Legally Restricted-Excess Surplus-Designated for Subsequent Year's Expenditures	\$ 193,542.68	
Other Restricted Fund Balances	\$ 2,118,925.00	
Assigned Fund Balance - Unreserved-Designated for Subsequent Year's Expenditures	\$ 0.32	
Total Unassigned Fund Balance		\$ 1,328,394.21

SECTION 3

Restricted Fund Balance-Excess Surplus	\$ 274,699.53
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Recapitulation of Excess Surplus as of June 30, 2018

Reserved Excess Surplus - Designated for Subsequent Year's Expenditures	\$ 193,542.68
Reserved Excess Surplus	\$ 274,699.53
Total Excess Surplus	\$ 468,242.21

Detail of Allowable Adjustments

Extraordinary Aid	\$ 217,780.00
Additional Non-Public School Transportation Aid	\$ 47,973.00
	\$ 265,753.00

Detail of Other Restricted Fund Balance:

Capital Reserve	\$ 968,925.00
Maintenance Reserve	1,150,000.00
	\$ 2,118,925.00



