

**INDEPENDENT AUDITORS MANAGEMENT
REPORT ON ADMINISTRATIVE FINDINGS**

**FINANCIAL, COMPLIANCE AND
PERFORMANCE**

**ACADEMY FOR URBAN LEADERSHIP
CHARTER SCHOOL
COUNTY OF MIDDLESEX, NEW JERSEY**

JUNE 30, 2018

**GALLEROS KOH LLP
CERTIFIED PUBLIC ACCOUNTANTS**

**ACADEMY FOR URBAN LEADERSHIP CHARTER SCHOOL
COUNTY OF MIDDLESEX, NEW JERSEY**

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INDEPENDENT AUDITORS' REPORT

Honorable President and
Members of Board of Trustees
Academy for Urban Leadership Charter School
County of Middlesex, 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 basic financial statements of the Board of Trustees of the Academy for Urban Leadership Charter School (the "Charter School") in the County of Middlesex, State of New Jersey for the year ended June 30, 2018, and have issued our report thereon dated January 28, 2019.

As part of our audit, we performed procedures required by the State of 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 Charter School 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.

A handwritten signature in blue ink that reads 'Leonora Galleros'.

Leonora Galleros, CPA
Public School Accountant
PSA No. 20CS00239400

A handwritten signature in blue ink that reads 'Galleros Koh LLP'.

GALLEROS KOH LLP
Certified Public Accountants

January 28, 2019
Cream Ridge, New Jersey

**ACADEMY FOR URBAN LEADERSHIP CHARTER SCHOOL
COUNTY OF MIDDLESEX, NEW JERSEY**

**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 of Academy for Urban Leadership Charter School (the "Charter School"), and the records of the various funds under the auspices of the Board of Trustees.

Administrative Practices and Procedures

Insurance

Required insurance coverages are 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)

| <u>Name</u> | <u>Position</u> | <u>Amount</u> |
|----------------------|-------------------------------|---------------|
| Johnny Rosa | School Business Administrator | \$175,841 |
| Patrick J. De Blasio | Treasurer | \$175,841 |

Finding 2018-001

In our review of insurance and official bonds, we noted that the surety bonds of \$175,841 was lower than the required coverage of at least \$180,000 based on the 2017-2018 budget.

Recommendation

We recommend that surety bonds for the School Business Administrator and Treasurer School Moneys should be reviewed annually and adjusted to amounts at least equal to the minimum requirements determined as a percentage of the current school's budget described in the schedule of insurance set forth in N.J.A.C. 6A:23A-16.4.

Adequate insurance is in effect with a duly licensed and authorized insurance company for all employees for the faithful performance of their duties.

Tuition Charges

A review of the financial statements indicated that the Charter School charged no tuition for any student attending the Charter School.

**ACADEMY FOR URBAN LEADERSHIP CHARTER SCHOOL
COUNTY OF MIDDLESEX, NEW JERSEY**

**ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE - CONTINUED**

Financial Planning, Accounting, and Reporting

Examination of Claims

An examination of claims paid during the period under review we noted that claims were approved by designated individuals, certified and supporting documents were maintained except for the item noted below:

Finding 2018-002

In our review of cash disbursements and various transactions comprising certain expenditure amounts, we noted four (4) purchase orders were dated after the invoice dates.

Recommendation:

We recommend that the Charter School should consistently follow the purchasing policy where purchase orders are approved first before services are rendered and payments made.

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 of the Charter School and were certified by the President of the Board, the Board Secretary/Business Administrator and the Chief School Administrator. In addition, salary withholdings were remitted to the proper agencies.

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.

Reserve for Encumbrances and Accounts Payable

A review of outstanding purchase orders was made as of June 30, 2018, for proper classification of purchase orders as Reserved for Encumbrances or Accounts Payable and we noted that:

Finding 2018-003

Charter School's accounts payable balance at June 30, 2018 includes purchase orders related to supplies and purchased professional services which were not paid within the 60 to 90 days after year end. Accordingly, these were canceled in fiscal year 2019.

**ACADEMY FOR URBAN LEADERSHIP CHARTER SCHOOL
COUNTY OF MIDDLESEX, NEW JERSEY**

**ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE - CONTINUED**

Financial Planning, Accounting, and Reporting - Continued

Reserve for Encumbrances and Accounts Payable - continued

Recommendation

As a general rule, for other than construction contracts, the liquidation of the purchase orders should be within 60 to 90 days of year-end. All purchase orders that are no longer considered necessary and/or will not be honored within that time frame in the subsequent year must be canceled.

Travel Policy

A travel policy was adopted by the Board as required by N.J.A.C. 6A:23A A-6.13 and N.J.S.A. 18A:11-12.

Classification of Expenditures

The coding of expenditures was tested for proper classification in accordance with N.J.A.C. 6A:23-2.2(g) and line item details as described in the Budget Summary Key as part of our test of transactions of judgmentally selected expenditure items.

We also reviewed coding of all expenditures included in our Compliance and Single Audit testing procedures. In addition to the selected expenditures items, we specifically targeted administrative coding classifications to determine overall reliability and compliance with N.J.A.C. 6A:23-8.2. As a result of the procedures performed, a minimal transaction error rate of 0.017% was noted and no additional procedures were deemed necessary to test the propriety of expenditure classifications.

Finding No. 2018-004*

In our review of the Charter School's instructional expense ratio to the total expenditures, we noted that it is below the 60% minimum threshold (actual is 52.08%)

Recommendation

We recommend that the Charter School review its support and administrative expenses to improve its instructional expense ratio to total expenditures.

Board Secretary's Records

We reviewed the Board Secretary's financial and accounting records maintained by the Business Office and noted that monthly reports are provided to the Board for review and approval.

**ACADEMY FOR URBAN LEADERSHIP CHARTER SCHOOL
COUNTY OF MIDDLESEX, NEW JERSEY**

**ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE - CONTINUED**

Financial Planning, Accounting, and Reporting - Continued

Board Secretary's Records - continued

Finding No. 2018-005 (CAFR 2018-001)

The fiscal year 2017 audit adjustments were not completely recorded in the Charter School's accounting system. The beginning balances were corrected during the fieldwork.

Recommendation

The Charter School should record audit adjustments in its accounting system and in the correct period.

Treasurer's Records

Finding No. 2018-006 (CAFR 2018-001)

The cash balances indicated on the Treasurer's reports were not in agreement with the cash balances on the Board Secretary's report. The cash balances and reconciliation were corrected during fieldwork. Adjusting journal entries were proposed to correct the balances.

Recommendation

The Treasurer should reconcile his cash records with the reconciled bank statements and the cash records of the Board Secretary. Each month, the Treasurer should determine cash balances by performing cash reconciliations for the general operating account, payroll account, and the payroll agency account (N.J.S.A. 18A:17-9) and the accounting records should reflect the adjusted balance.

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 Titles I and VI of the Elementary and Secondary Education Act as amended and reauthorized.

Other Special Federal and/or State Projects

The Charter School's special projects were approved as listed on Schedules A and B 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.

**ACADEMY FOR URBAN LEADERSHIP CHARTER SCHOOL
COUNTY OF MIDDLESEX, NEW JERSEY**

**ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE - CONTINUED**

Financial Planning, Accounting, and Reporting – Continued

Teachers' Pension Annuity Fund (TPAF) Reimbursement

Our audit procedures included a test of the electronic reimbursements filed with the Department of Education for Charter School employees who are members of the Teacher's Pension Annuity Fund. We noted no exceptions.

TPAF Reimbursement to the State for Federal Salary Expenditures

The reimbursement to the State for the amount of the expenditure charged to the current year's Final Report(s) for all federal awards for Charter School to reimburse the State for the TPAF/FICA payments made by the State on-behalf of the Charter School for those employees whose salaries are identified as being paid from federal funds was made subsequent to the end of the 60-day grant liquidation period, and subsequent to the 90 days required by N.J.S.A. 18A:66-90.

School Purchasing Programs

Contracts and Agreements Requiring Advertisement for Bids

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 \$19,000 for 2017-18.

The district board of education/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, I 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 with the provision 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 appropriate school food service personnel, as to whether the SFA had any Child Nutrition Program reimbursement overclaims or underclaims. No exceptions were noted.

**ACADEMY FOR URBAN LEADERSHIP CHARTER SCHOOL
COUNTY OF MIDDLESEX, NEW JERSEY**

**ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE - CONTINUED**

School Food Service - continued

We also 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.

Exhibits reflecting Child Nutrition Program operations are included in the section entitled Enterprise Funds, Section G of the CAFR.

Charter School Enrollment System/Charter School Aid

Our audit procedures included tests of information reported on October 15th and the last day of the school year for enrolled, special education, bilingual and low-income students. We also performed a review of the Charter School's procedures related to its completion.

Facilities and Capital Assets

The Charter School has inventory records of assets. No exception was noted in this area.

Follow-up on Prior Year Findings

In accordance with *Government Auditing Standards*, our procedures included a review of all prior year recommendations. Repeat recommendations are identified with an asterisk (*). All other recommendations had been addressed through corrective actions.

**ACADEMY FOR URBAN LEADERSHIP CHARTER SCHOOL
COUNTY OF MIDDLESEX, NEW JERSEY**

**ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE - CONTINUED**

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 our audit team.

Respectfully submitted,



Leonora Galleros, CPA
Public School Accountant
PSA No. 20CS00239400



GALLEROS KOH LLP
Certified Public Accountants

January 28, 2019
Cream Ridge, New Jersey

**ACADEMY FOR URBAN LEADERSHIP CHARTER SCHOOL
SCHEDULE OF AUDITED ENROLLMENT
APPLICATION FOR CHARTER SCHOOL AID
ENROLLMENT COUNT AS OF OCTOBER 15, 2017**

| Submission to | | Sample | | | | | | | | | | | | | |
|---------------|-------------------------|---------------------------|---------------------------------------|----------|-----------------------------|----------|--------------------------|---------------------------|----------|-------------------------------------|----------|---------------|---------------------------|----------|--|
| Grades | DOE reported On Roll | Reported on workpapers | Verified signed registration forms | Errors | Verified # days enrolled | Errors | Special Ed/ Bilingual | Verified documentation | Errors | Verified # days Service Provided | Errors | Low Income | Verified documentation | Errors | |
| Seventh | 92 | 92 | 92 | - | 182 | - | 4 | 4 | - | 182 | - | 80 | 80 | - | |
| Eighth | 72 | 72 | 72 | - | 182 | - | 3 | 3 | - | 182 | - | 60 | 60 | - | |
| Ninth | 107 | 107 | 107 | - | 182 | - | - | - | - | 182 | - | 87 | 87 | - | |
| Tenth | 104 | 104 | 104 | - | 182 | - | 3 | 3 | - | 182 | - | 74 | 74 | - | |
| Eleventh | 105 | 105 | 105 | - | 182 | - | 3 | 3 | - | 182 | - | 82 | 82 | - | |
| Twelfth | 94 | 94 | 94 | - | 182 | - | 1 | 1 | - | 182 | - | 72 | 72 | - | |
| Total | 574 | 574 | 574 | - | - | - | 14 | 10 | - | - | - | 455 | 455 | - | |
| Percentage | | | | 0.0% | | 0.0% | | | 0.0% | | 0.0% | | | 0.0% | |

**ACADEMY FOR URBAN LEADERSHIP CHARTER SCHOOL
SCHEDULE OF AUDITED ENROLLMENT
APPLICATION FOR CHARTER SCHOOL AID
ENROLLMENT COUNT AS OF JUNE 30, 2018**

| Submission to | | Sample | | | | | | | | | | | | | |
|---------------|-------------------------|---------------------------|---------------------------------------|----------|-----------------------------|----------|--------------------------|---------------------------|----------|-------------------------------------|----------|---------------|---------------------------|----------|--|
| Grades | DOE reported On Roll | Reported on workpapers | Verified signed registration forms | Errors | Verified # days enrolled | Errors | Special Ed/ Bilingual | Verified documentation | Errors | Verified # days Service Provided | Errors | Low Income | Verified documentation | Errors | |
| Seventh | 94 | 94 | 94 | - | 182 | - | 4 | 4 | - | 182 | - | 81 | 81 | - | |
| Eighth | 68 | 68 | 68 | - | 182 | - | 2 | 2 | - | 182 | - | 54 | 54 | - | |
| Ninth | 104 | 104 | 104 | - | 182 | - | - | - | - | 182 | - | 81 | 81 | - | |
| Tenth | 96 | 96 | 96 | - | 182 | - | 3 | 3 | - | 182 | - | 68 | 68 | - | |
| Eleventh | 100 | 100 | 100 | - | 182 | - | 3 | 3 | - | 182 | - | 76 | 76 | - | |
| Twelfth | 93 | 93 | 93 | - | 182 | - | 1 | 1 | - | 182 | - | 71 | 71 | - | |
| Total | 555 | 555 | 555 | - | - | - | 13 | 9 | - | - | - | 431 | 431 | - | |
| Percentage | | | | 0.0% | | 0.0% | | | 0.0% | | 0.0% | | | 0.0% | |

**ACADEMY FOR URBAN LEADERSHIP CHARTER SCHOOL
(COUNTY OF MIDDLESEX, NEW JERSEY)**

EXCESS SURPLUS CALCULATION

June 30, 2018

SECTION 1

A. 2% Calculation of Excess Surplus

| | |
|--|-------------------|
| 2017-18 Total General Fund Expenditures per the CAFR, Ex. C-1 | \$ 8,772,436 (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: | |
| On-Behalf TPAF Pension & Social Security | \$ 847,355 (B2a) |
| Assets Acquired Under Capital Leases | \$ - (B2b) |
| Adjusted 2017-18 General Fund Expenditures [(B)+(B1s)-(B2s)] | \$ 7,925,081 (B3) |
| 2% of Adjusted 2017-18 General Fund Expenditures [(B3) times .02] | \$ 158,502 (B4) |
| Enter Greater of (B4) or \$250,000 | \$ 250,000 (B5) |
| Increased by: Allowable Adjustment * | \$ - (K) |
| Maximum Unassigned/Undesignated-Unreserved Fund Balance [(B5)+(K)] | \$ 250,000 (M) |

SECTION 2

| | |
|--|-------------------|
| Total General Fund - Fund Balances @ 6/30/2018 (Per CAFR Budgetary Comparison Schedule C-1) | \$ 3,134,880 (C) |
| Decreased by: | |
| Year-end Encumbrances | \$ 577,555 (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 [(C)-(C1)-(C2)-(C3)-(C4)-(C5)] | \$ 2,557,325 (U1) |
| Excess Surplus at June 30, 2018 | \$ 2,307,325 |

SECTION 3

| | |
|---|----------|
| Restricted Fund Balance – Excess Surplus*** [(U1)-(M)] IF NEGATIVE ENTER -0- | \$ - (E) |
|---|----------|

Recapitulation of Excess Surplus as of June 30, 2018

| | |
|---|-----------|
| Reserved Excess Surplus – Designated for Subsequent Year’s Expenditures ** | \$ - (C3) |
| Reserved Excess Surplus ***[(E)] | \$ - (E) |
| Total Excess Surplus [(C3) + (E)] | \$ - (D) |

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

**ACADEMY FOR URBAN LEADERSHIP CHARTER SCHOOL
COUNTY OF MIDDLESEX, NEW JERSEY**

AUDIT RECOMMENDATIONS SUMMARY

FOR THE YEAR ENDED JUNE 30, 2018

I. Administrative Practices and Procedures

1. We recommend that surety bonds for the School Business Administrator and Treasurer School Moneys should be reviewed annually and adjusted to amounts at least equal to the minimum requirements determined as a percentage of the current school's budget described in the schedule of insurance set forth in N.J.A.C. 6A:23A-16.4.

II. Financial Planning, Accounting and Reporting

2. We recommend that the Charter School should consistently follow the purchasing policy where purchase orders are approved first before services are rendered and payments made.
3. As a general rule, for other than construction contracts, the liquidation of the purchase orders should be within 60 to 90 days of year-end. All purchase orders that are no longer considered necessary and/or will not be honored within that time frame in the subsequent year must be canceled.
4. We recommend that the Charter School review its support and administrative expenses to improve its instructional expense ratio (52.08% in FY 2018) to total expenditures.
5. The Charter School should record audit adjustments in its accounting system and in the correct period.
6. The Treasurer should reconcile his cash records with the reconciled bank statements and the cash records of the Board Secretary and Board Secretary should record agency transactions on a timely basis. Each month, the Treasurer should determine cash balances by performing cash reconciliations for the general operating account, payroll account, and the payroll agency account (N.J.S.A. 18A:17-9) and the accounting records should reflect the adjusted balance.

III. School Purchasing Programs

There are none.

IV. School Food Service

There are none.

**ACADEMY FOR URBAN LEADERSHIP CHARTER SCHOOL
COUNTY OF MIDDLESEX, NEW JERSEY**

AUDIT RECOMMENDATIONS SUMMARY

FOR THE YEAR ENDED JUNE 30, 2018

V. Student Body Activities

There are none.

VI. Application for State Aid

Not Applicable.

VII. Charter School Enrollment System/Charter School Aid

There are none.

VIII. Pupil Transportation

Not Applicable.

IX. Facilities and Capital Assets

There are none.

X. Miscellaneous

There are none.

XI. Status of Prior Years' Audit Findings/Recommendations

A review was performed on all prior year recommendations. Corrective actions had been completed or are still in process on prior findings, with the exception of those that are identified as repeat or partially similar to findings in this year's recommendation.