

**INDEPENDENT AUDITORS' MANAGEMENT
REPORT ON ADMINISTRATIVE FINDINGS**

**FINANCIAL, COMPLIANCE AND
PERFORMANCE**

**MARION P. THOMAS CHARTER SCHOOLS
COUNTY OF ESSEX, NEW JERSEY**

JUNE 30, 2018

**GALLEROS KOH LLP
CERTIFIED PUBLIC ACCOUNTANTS**

**MARION P. THOMAS CHARTER SCHOOLS
COUNTY OF ESSEX, NEW JERSEY**

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INDEPENDENT AUDITORS' REPORT

Honorable President and
Members of Board of Trustees
Marion P. Thomas Charter Schools
County of Essex, 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 Marion P. Thomas Charter Schools (the "Charter School" or "MPTCS") in the County of Essex, State of New Jersey for the year ended June 30, 2018, and have issued our report thereon dated February 25, 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 cursive script that reads 'Leonora Galleros'.

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

A handwritten signature in cursive script that reads 'Galleros Koh LLP'.

GALLEROS KOH LLP
Certified Public Accountants

February 25, 2019
Cream Ridge, New Jersey

**MARION P. THOMAS CHARTER SCHOOLS
COUNTY OF ESSEX, 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 Marion P. Thomas Charter Schools (the "Charter School"), 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)

School Leaders Errors and Omissions Liability Insurance Coverage were carried for all members of the board of Trustees with coverage for each wrongful act of \$1,000,000. There is a Public Officials Bond covering the Superintendent, Board Secretary and Treasurer for \$500,000 each.

Tuition Charges

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

Financial Planning, Accounting, and Reporting

Examination of Claims

An examination of claims paid during the period under review showed that claims were approved by designated individuals, certified and supporting documents were maintained.

Finding 2018-001(*)

In our review of cash disbursements and various transactions comprising certain expenditure amounts, we noted the following:

- a. Thirteen (13) purchase orders were dated after the invoice dates.
- b. Two (2) claims had invoice amounts that exceeded the purchase order amounts.
- c. One (1) claim did not have a vendor's declaration.

**MARION P. THOMAS CHARTER SCHOOLS
COUNTY OF ESSEX, NEW JERSEY**

**ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE**

Financial Planning, Accounting, and Reporting - Continued

Examination of Claims - continued

Recommendation:

We recommend consistent implementation of purchasing policies and procedures.

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 and the Chief Executive Officer.

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 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. No exception was noted in this area.

Travel Policy

A travel policy was adopted in 2007 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: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, a transaction error rate of 1.90 percent overall was noted and no additional procedures were deemed necessary to test the propriety of expenditure classification

**MARION P. THOMAS CHARTER SCHOOLS
COUNTY OF ESSEX, NEW JERSEY**

**ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE**

Financial Planning, Accounting, and Reporting - Continued

Board Secretary's Records

Our review of the financial and accounting records maintained by the Business Office disclosed that monthly reports are provided to the Board in a timely manner. No exceptions noted.

Finding 2018-002

During the audit, we noted that the Charter School has several interfund transactions. These interfund accounts were not periodically reconciled during the fiscal year. As a result, adjusting journal entries were needed to correct the balances of certain reciprocal interfund activities.

Recommendation:

We recommend a more frequent analyses of interfund activities during the fiscal year and a final analysis at year-end as part of the closing process to minimize year-end audit journal entries.

Treasurer's Records

Monthly reports and reconciliation of accounts were prepared and were presented to the Board. No exceptions noted.

Elementary and Secondary Education Act (ESEA) as amended by amended by the Every Student Succeeds Act (ESSA)

The ESEA 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 IV 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.

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. No exceptions noted.

**MARION P. THOMAS CHARTER SCHOOLS
COUNTY OF ESSEX, NEW JERSEY**

**ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE**

Financial Planning, Accounting, and Reporting - Continued

TPAF Reimbursements to State for Federal Salary Expenditures

The Charter School did not have a 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 required by N.J.S.A. 18A:66-90 because all salaries charged for to Federal Awards were paraprofessionals only.

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, 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 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 18:18A-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.

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. No exceptions were noted.

**MARION P. THOMAS CHARTER SCHOOLS
COUNTY OF ESSEX, NEW JERSEY**

**ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE**

School Food Service - Continued

We did note that the School Food Service has continued to incur operating losses. As of June 30, 2018, the accumulated deficit is \$368,118. Increasing the appropriation in the general fund for a budgetary transfer out to the Food Service Fund should be considered during fiscal year 2018 if other revenue sources will not increase.

USDA Food Distribution Program (food and/or commodities) were received and a single inventory was maintained on a first-in, first-out basis. No exceptions were noted.

The Charter School maintains the detailed revenue and expenditure information necessary in order to execute the USDA mandated Non-Program Food Revenue Tool at least annually.

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

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.

Finding 2018-003* (CAFR 2018-001)

In our review of enrollment information as reported in the CHE and as per school records, we noted the following:

- a. Proof of address for one student was not on file.
- b. Two students were classified as Special Education in CHE but parents did not agree with the implementation of the students' IEPs.
- c. A student was classified as Special Education in CHE but was not such per review of the student records.
- d. A student has 1.0 ADE per June 30, 2018 CHE; however, per the attendance test, the student transferred out in the middle of the school year and has an actual ADE of 0.45.
- e. A student was entered and counted twice in CHE.

Recommendation:

We recommend that the Charter School reviews the System entries for accurate posting of student information in the System and improve filing of student records. Reconciliation and review procedures of information should also be conducted on a periodic basis.

**MARION P. THOMAS CHARTER SCHOOLS
COUNTY OF ESSEX, NEW JERSEY**

**ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE**

Student Body Activities

Student activities during the fiscal year ended June 30, 2018 were accounted for. No exceptions were noted in this area.

Facilities and Capital Assets

The Charter School had engaged an appraisal company to account for its fixed assets for insurance purposes and update its fixed assets records.

Miscellaneous

Testing for Lead of All Drinking Water in Educational Facilities

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

Deficit

For the fiscal year ended June 30, 2018, the total change in fund balance is (\$2,206,658) (excess of expenditures over revenues) from its governmental funds (CAFR Exhibit B-2, General Fund and Special Revenue Funds). But as required by applicable Government Accounting Standards Board (GASB) statements, the change in fund balance is adjusted by the following reconciling items resulting in a change in net position of (\$1,363,504). As shown below, the negative change in net position is primarily caused by the Charter School's proportionate share of pension costs for its employees in the State pension system.

		<u>Governmental Funds</u>
Total net change in fund balances		
(Modified Accrual Basis)		\$ (2,206,658)
Increase (Decrease)		
Capital asset addition	\$ 28,500	
Depreciation of fixed assets	(131,441)	
Compensated absences	4,552	
Repayment of capital lease	36,553	
Net pension costs	<u>(1,301,668)</u>	<u>(1,363,504)</u>
Change in Net Position (Accrual Basis)		<u>\$ (3,570,162)</u>

**MARION P. THOMAS CHARTER SCHOOLS
COUNTY OF ESSEX, NEW JERSEY**

**ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE**

Follow-up on Prior Year's Findings

In accordance with *Government Auditing Standards*, our procedures included a review of all prior year recommendations. Corrective actions had been completed or are still in process on prior year findings, with the exception of those that are identified as repeat (*) or partially similar to findings in this year's recommendation.

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

February 25, 2019
Cream Ridge. New Jersey

**MARION P. THOMAS CHARTER SCHOOL
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	
Kindergarten	66	66	66	-	190	-	5	4	1	190	-	55	55	-	
First	92	92	92	-	190	-	8	7	1	190	-	80	80	-	
Second	111	111	111	-	190	-	5	5	-	190	-	98	98	-	
Third	86	86	86	-	190	-	7	6	1	190	-	72	72	-	
Fourth	91	91	91	-	190	-	12	12	-	190	-	77	77	-	
Fifth	84	84	84	-	190	-	11	11	-	190	-	70	70	-	
Sixth	98	98	98	-	190	-	11	11	-	190	-	82	82	-	
Seventh	90	90	90	-	190	-	8	8	-	190	-	77	77	-	
Eighth	89	89	88	1	190	-	12	11	1	190	-	82	81	1	
Ninth	167	167	167	-	190	-	29	29	-	190	-	130	130	-	
Tenth	153	153	153	-	190	-	25	25	-	190	-	96	96	-	
Eleventh	140	140	140	-	190	-	17	17	-	190	-	89	89	-	
Twelfth	112	112	112	-	190	-	18	18	-	190	-	70	70	-	
Total	1,379	1,379	1,378	1		-	168	164	4		-	1,078	1,077	1	
Percentage				0.1%		0.0%			2.4%		0.0%			0.1%	

**MARION P. THOMAS CHARTER SCHOOL
APPLICATION FOR CHARTER SCHOOL AID
ENROLLMENT COUNT AS OF JUNE 30, 2018**

Submission to		Sample													
Grades	DOE reported	Reported on	Verified signed	Verified #		Special Ed/	Verified	Verified # days			Low	Verified		Errors	
	On Roll	workpapers	registration forms	Errors	days enrolled	Bilingual	documentation	Errors	Service Provided	Errors	Income	documentation			
Kindergarten	63	63	63	-	190	-	5	4	1	190	-	52	52	-	
First	90	90	90	-	190	-	8	7	1	190	-	76	76	-	
Second	109	109	109	-	190	-	5	5	-	190	-	96	96	-	
Third	85	85	85	-	190	-	7	6	1	190	-	69	69	-	
Fourth	90	90	90	-	190	-	12	12	-	190	-	75	75	-	
Fifth	84	84	84	-	190	-	11	11	-	190	-	69	69	-	
Sixth	95	95	95	-	190	-	10	10	-	190	-	77	77	-	
Seventh	87	87	87	-	190	-	8	8	-	190	-	75	75	-	
Eighth	91	91	90	1	190	-	13	12	1	190	-	80	79	1	
Ninth	165	165	165	-	190	-	29	29	-	190	-	125	125	-	
Tenth	150	150	150	-	190	-	24	24	-	190	-	94	94	-	
Eleventh	139	139	139	-	190	-	17	17	-	190	-	89	89	-	
Twelfth	108	108	107	1	190	-	16	16	-	190	-	67	66	1	
Total	1,356	1,356	1,354	2		-	165	161	4		-	1,044	1,042	2	
Percentage				0.1%		0.0%			2.4%		0.0%			0.2%	

**MARION P. THOMAS CHARTER SCHOOLS
(COUNTY OF ESSEX, 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	\$ 27,423,819 (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	\$ 2,083,152 (B2a)
Assets Acquired Under Capital Leases	\$ _____ - (B2b)
Adjusted 2017-18 General Fund Expenditures [(B)+(B1s)-(B2s)]	<u>\$ 25,340,667 (B3)</u>
2% of Adjusted 2017-18 General Fund Expenditures [(B3) times .02]	\$ 506,813 (B4)
Enter Greater of (B4) or \$250,000	\$ 506,813 (B5)
Increased by: Allowable Adjustment *	\$ _____ - (K)
Maximum Unassigned/Undesignated-Unreserved Fund Balance [(B5)+(K)]	<u>\$ 506,813 (M)</u>

SECTION 2

Total General Fund - Fund Balances @ 6/30/2018 (Per CAFR Budgetary Comparison Schedule C-1)	\$ 2,517,846 (C)
Decreased by:	
Year-end Encumbrances	\$ 97,207 (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)]	<u>\$ 2,420,639 (U1)</u>
Excess Surplus at June 30, 2018	<u>\$ 1,913,826</u>

SECTION 3

Restricted Fund Balance – Excess Surplus*** [(U1)-(M)] IF NEGATIVE ENTER -0-	<u>\$ _____ - (E)</u>
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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)]	<u>\$ _____ - (D)</u>

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."

**MARION P. THOMAS CHARTER SCHOOLS
COUNTY OF ESSEX, NEW JERSEY**

AUDIT RECOMMENDATIONS SUMMARY

FOR THE YEAR ENDED JUNE 30, 2018

I. Administrative Practices and Procedures

There are none.

II. Financial Planning, Accounting and Reporting

- A. We recommend review of purchasing, reimbursements, and travel policies and procedures for adherence.
- B. We recommend a more frequent analyses of interfund activities during the fiscal year and a final analysis at year-end as part of the closing process to minimize year-end audit journal entries.

III. School Purchasing Programs

There are none.

IV. School Food Service

There are none.

V. Student Body Activities

There are none.

VI. Application for State School Aid

N/A.

VII. Charter School Enrollment System/Charter School Aid

We recommend that the Charter School reviews the System entries for accurate posting of student information in the System and improve filing of student records. Reconciliation and review procedures of information should also be conducted on a periodic basis.

**MARION P. THOMAS CHARTER SCHOOLS
COUNTY OF ESSEX, NEW JERSEY**

AUDIT RECOMMENDATIONS SUMMARY

FOR THE YEAR ENDED JUNE 30, 2018

VIII. Pupil Transportation

There are none.

IX. Facilities and Capital Assets

There are none.

X. Miscellaneous

There are none.

XI. Status of Prior Year Findings

The prior year recommendation had been addressed through corrective actions.