

**HIGHLANDS SCHOOL DISTRICT**

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

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2020**

**HIGHLANDS SCHOOL DISTRICT  
AUDITOR'S MANAGEMENT REPORT ON  
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FINANCIAL, COMPLIANCE AND PERFORMANCE**

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## REPORT OF INDEPENDENT AUDITORS

Honorable President and  
Members of the Board of Education  
Highlands School District  
County of Monmouth, 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 Education of the Highlands School District in the County of Monmouth for the year ended June 30, 2020, and have issued our report thereon dated December 18, 2020.

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 Highlands Board of Education's management and the New Jersey Department of Education. However, this report is a matter of public record and its distribution is not limited.



Licensed Public School Accountant

No. 2183

ALVINO & SHECHTER, L.L.C.

December 18, 2020  
Neptune, 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 Treasurer of School Monies, the activities of the 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 Exhibit J-20, Insurance Schedule contained in the district's CAFR.

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

<u>Name</u>	<u>Position</u>	<u>Amount</u>
Christopher J. Mullins	Board Secretary/School Business Administrator	\$200,000.00
Lorraine C. Gallagher (Deceased 02/20/20)	Treasurer	\$200,000.00 (Cancelled 03/01/20)

There is a Public Employees' Faithful Performance Blanket Position Bond with Selective Insurance Company covering all other employees with multiple coverage of \$25,000.00.

### 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 and Position Control Roster

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 Superintendent and were certified by the President of the Board and the Board Secretary/Business Administrator.

Salary withholdings were promptly remitted to the proper agencies.

Payrolls were delivered to the treasurer of school monies with a warrant made to her order for the full amount of each payroll.

An inquiry and subsequent review of the Position Control Roster found no inconsistencies between the payroll records, employee benefit records (e.g. pension reports and health benefit coverage reports), the general ledger accounts to where wages are posted (administrative versus instruction), and the Position Control Roster.

#### 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 reserves 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 test the propriety of expenditure classification and administrative classification.

### A. General Classification Findings

None

### B. Administrative Classification Findings

None

## Board Secretary's Records

The records of the Board Secretary were properly maintained during the fiscal year ended June 30, 2020 and were in agreement with the records of the Treasurer.

## Treasurer's Records

The Treasurer, Lorraine C. Gallagher passed away on February 20, 2020. The Board passed a resolution on March 19, 2020 appointing Christopher J. Mullins, the current Board Secretary/Business Administrator as Treasurer effective as of January 1, 2020.

The records of the Treasurer were properly maintained during the fiscal year ended June 30, 2020 and were in agreement with the records of the Board Secretary.

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

The study of compliance for E.S.E.A. indicated no areas of noncompliance and/or questionable costs.

## Other Special Federal and/or State Projects

The district'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 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.

The study of compliance for the special projects indicated no areas of noncompliance.

## T.P.A.F. Reimbursement

Our audit procedures included a test of the biweekly reimbursements filed with the Department of Education for district employees who are members of the Teachers Pension and Annuity Fund. No exceptions were noted.

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 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.

## **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:18-3(a) are \$40,000.00 (with a Qualified Purchasing Agent) and \$29,000.00 (without a Qualified Purchasing Agent), respectively. Christopher J. Mullins has been appointed as the qualified purchasing agent pursuant to N.J.S.A. 40A:11-9(b) and therefore the bid threshold has been increased to \$40,000.00 per statute. The law regulating bidding for public school student transportation under N.J.S.A. 18A:39-3 is currently \$19,000.00 for 2019-20.

The board of education has the responsibility of determining whether the expenditure 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.

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 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**

In accordance with the Governor's Declaration of Emergency pertaining to the COVID-19 Virus all Public, Charter, Non-Public schools were ordered to close effective as of March 18, 2020 for an undetermined period to limit the spread of the virus. As a result, School Food Authorities (SFA) were required to institute alternate procedures to provide meals to Free and Reduced Price eligible students during the period of school closures.

Therefore, SFAs were authorized to solicit and award emergency noncompetitive procurements and contracts with Food Service Management Companies in accordance with 2 CFR 200.320 and N.J.S.A.18A:18A-7. The SFAs were also authorized to submit contract modifications to their existing Cost Reimbursable or Fixed Price contracts as necessary to ensure the feeding of Free and Reduced Price meal eligible students.

SFAs were notified of the requirement to maintain and report separate meal count records and financial records of all applicable costs incurred in providing meals to all free and reduced price meal eligible students during the emergency.

The School Food Service Fund has not been audited as a major program and has not expended \$100,000.00 or more in Federal and State support.

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.

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 vouchers were timely filed, and meals claimed agreed with meal count records.

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 on file, times the number of operating days. The free and reduced price meal policy is uniformly administered throughout the School System. The required verification procedures for free and reduced price applications were completed and available for review. No exceptions were noted.

The Board of Education entered into a food service management contract (FSMC) with Maschio's Food Services, Inc., to operate the cafeteria for 2019/2020 school year.

Expenditures were separately recorded as food, labor and other costs. Vendor invoices were reviewed and costs verified. Inventory records on food supply items were currently maintained and properly applied in determining the cost of food and supplies used. The beginning and ending inventories were accepted as submitted.

The cash disbursements records reflected expenditures for program related goods and services. The District is depositing and expending program monies in accordance with N.J.S.A. 18A:17-34, and 19-1 through 19-4.1. The appropriate revenue and expenditure records were maintained in order to substantiate the non-profit status of the school food service. All vendor discounts, rebates, and credits from vendors and/or the FSMC were tracked and credited to the Food Service Account and reconciled to supporting documentation at least annually. Net cash resources did not exceed three months average expenditures.

Cash receipts and bank records were reviewed for timely deposit. No exceptions were noted.

Food Distribution Program commodities were received and a separate inventory was maintained on a first-in, first-out basis. No exceptions were noted.

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

The Statement of Revenues, Expenses, and Changes in Fund Net Assets (CAFR Schedule B-5) does separate program and non-program revenue and non-program cost of goods sold.

We also inquired of management about the emergency COVID-19 procedures/practices that the SFA instituted to provide meals to eligible students, maintenance of all applicable production records; meal counts; noncompetitive procurements, modification of existing contracts and applicable financial records to document the specific costs applicable to the emergency operations.

### **Student Body Activities**

The financial transactions of the student activity agency fund were reviewed. No exceptions were noted.

### **Application for State School Aid**

Our audit procedures included a test of information reported in the October 15, 2019 Application for State School Aid (A.S.S.A.) for on roll, private school for the handicapped, and low-income. 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 without exception. 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 has adequate written procedures for the recording of student enrollments.

### **Pupil Transportation**

Our audit procedures included a test of on roll status reported in the 2019/2020 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. No exceptions were noted in our review of transportation related purchases of goods and service.

### **Facilities and Capital Assets**

The fixed asset records were updated for any additions and disposals of assets made during the year. There were no active facilities projects funded with SDA grants during the current fiscal year.

## **Miscellaneous**

### **Testing for Lead of All Drinking Water in Educational Facilities**

The school district adhered to all 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).

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

In accordance with audit requirements prescribed by the Office of School Finance, Department of Education, State of New Jersey, our procedures included a review of all prior year findings reported in the prior year's Auditor's Management Report on Administrative Findings - Financial, Compliance and Performance. The only prior year finding that the School Food Service net cash resources exceeded three month average expenditures was corrected in the current year. The District did not have any audit reports issued by the Office of Fiscal Accountability and Compliance (OFAC).

### **Acknowledgment**

We received the complete cooperation of all the officials of the school district and we greatly appreciate the courtesies extended to us.



**SCHEDULE OF AUDITED ENROLLMENTS**

**HIGHLANDS SCHOOL DISTRICT  
APPLICATION FOR STATE SCHOOL AID SUMMARY  
ENROLLMENT AS OF OCTOBER 15, 2019**

	2020-2021 Application for State School Aid						Sample for Verification						Private Schools for Disabled			
	Reported on A.S.S.A. On Roll		Reported on 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 Veri- fication	Sample Verified	Sample Errors
	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared				
Half Day Preschool																
Full Day Preschool	19		19				19		19							
Half Day Kindergarten																
Full Day Kindergarten	22		22				22		22							
One	25		25				25		25							
Two	16		16				16		16							
Three	23		23				23		23							
Four	17		17				17		17							
Five	9		9				9		9							
Six	16		16				16		16							
Seven																
Eight																
Nine																
Ten																
Eleven																
Twelve																
Post-Graduate																
Adult H.S. (15+CR.)																
Adult H.S. (1-14 CR.)																
Subtotal	147	0	147	0	0	0	147	0	147	0	0	0	0	0	0	0
Special Ed - Elementary	30		30				30		30				2	2	2	
Special Ed - Middle School	2		2				2		2				1	1	1	
Special Ed - High School																
Subtotal	32	0	32	0	0	0	32	0	32	0	0	0	3	3	3	0
Co. Voc. - Regular																
Co. Voc. Ft. Post Sec.																
Totals	179	0	179	0	0	0	179	0	179	0	0	0	3	3	3	0
Percentage Error					0.00%	0.00%					0.00%	0.00%				0.00%

**SCHEDULE OF AUDITED ENROLLMENTS**

**HIGHLANDS SCHOOL DISTRICT  
APPLICATION FOR STATE SCHOOL AID SUMMARY  
ENROLLMENT AS OF OCTOBER 15, 2019**

	<u>Resident Low Income</u>			<u>Sample for Verification</u>			<u>Resident LEP Low Income</u>			<u>Sample for Verification</u>		
	<u>Reported on A.S.S.A. as Low Income</u>	<u>Reported on Workpapers as Low Income</u>	<u>Errors</u>	<u>Sample Selected from Workpapers</u>	<u>Verified to Application and Register</u>	<u>Sample Errors</u>	<u>Reported on A.S.S.A. as LEP Low Income</u>	<u>Reported on Workpapers as LEP Low Income</u>	<u>Errors</u>	<u>Sample Selected from Workpapers</u>	<u>Verified to Test Score and Register</u>	<u>Sample Errors</u>
Half Day Preschool												
Full Day Preschool												
Half Day Kindergarten												
Full Day Kindergarten												
One	7	7		7	7		5	5		5	5	
Two	11	11		11	11							
Three	9	9		9	9							
Four	8	8		8	8							
Five	7	7		7	7							
Six	7	7		7	7							
Seven	8	8		8	8							
Eight												
Nine												
Ten												
Eleven												
Twelve												
Post-Graduate												
Adult H.S. (15+CR.)												
Adult H.S. (1-14 CR.)												
Subtotal	<u>57</u>	<u>57</u>	<u>0</u>	<u>57</u>	<u>57</u>	<u>0</u>	<u>5</u>	<u>5</u>	<u>0</u>	<u>5</u>	<u>5</u>	<u>0</u>
Special Ed - Elementary	23	23		23	23		1	1		1	1	
Special Ed - Middle	1	1		1	1							
Special Ed - High												
Subtotal	<u>24</u>	<u>24</u>	<u>0</u>	<u>24</u>	<u>24</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>0</u>
Co. Voc. - Regular												
Co. Voc. Ft. Post Sec.												
Totals	<u>81</u>	<u>81</u>	<u>0</u>	<u>81</u>	<u>81</u>	<u>0</u>	<u>6</u>	<u>6</u>	<u>0</u>	<u>6</u>	<u>6</u>	<u>0</u>
Percentage Error			<u>0.00%</u>			<u>0.00%</u>			<u>0.00%</u>			<u>0.00%</u>

	<u>Transportation</u>					
	<u>Reported on DRTRS by DOE/County</u>	<u>Reported on DRTRS by District</u>	<u>Errors</u>	<u>Tested</u>	<u>Verified</u>	<u>Errors</u>
Reg. - Public Schools, col. 1						
Reg -SpEd, col. 4	3	3		3	3	
Transported - Non-Public, col. 3	12	12		12	12	
Special Ed Spec, col. 6						
Totals	<u>15</u>	<u>15</u>	<u>0</u>	<u>15</u>	<u>15</u>	<u>0</u>
Percentage Error			<u>0.00%</u>			<u>0.00%</u>

	<u>Reported</u>	<u>Recalculated</u>
Reg Avg.(Mileage) = Regular Including Grade PK students (Part A)	5.2	5.2
Reg Avg.(Mileage) = Regular Excluding Grade PK students (Part A)	5.2	5.2
Spec Avg. = Special Ed with Special Needs	12.7	12.7

SCHEDULE OF AUDITED ENROLLMENTS

**HIGHLANDS SCHOOL DISTRICT  
APPLICATION FOR STATE SCHOOL AID SUMMARY  
ENROLLMENT AS OF OCTOBER 15, 2019**

	<u>Resident LEP NOT Low Income</u>			<u>Sample for Verification</u>		
	<u>Reported on A.S.S.A. as NOT Low Income</u>	<u>Reported on Workpapers as NOT Low Income</u>	<u>Errors</u>	<u>Sample Selected from Workpapers</u>	<u>Verified to Application and Register</u>	<u>Sample Errors</u>
Half Day Preschool						
Full Day Preschool						
Half Day Kindergarten						
Full Day Kindergarten						
One						
Two						
Three						
Four						
Five						
Six						
Seven						
Eight						
Nine						
Ten						
Eleven						
Twelve						
Post-Graduate						
Adult H.S. (15+CR.)						
Adult H.S. (1-14 CR.)						
Subtotal	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Special Ed - Elementary						
Special Ed - High						
Subtotal	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Co. Voc. - Regular						
Co. Voc. Ft. Post Sec.						
Totals	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Percentage Error			<u>0.00%</u>			<u>0.00%</u>

## EXCESS SURPLUS CALCULATION

### REGULAR DISTRICT

#### SECTION 1

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

2019-2020 Total General Fund Expenditures per the CAFR, Ex. C-1	\$ 4,908,880.98(B)
Increased by Applicable Operating Transfers:	
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 Pre K - Regular	\$ _____(B1c)
Transfer from General Fund to SRF for Pre K - Inclusion	\$ _____(B1d)
Decreased by:	
On-Behalf TPAF Pension & Social Security	\$ 706,274.31(B2a)
Assets Acquired Under Capital Leases	\$ _____(B2b)
Adjusted 2019-2020 General Fund Expenditures [(B)+(B1s)-(B2s)]	\$ <u>4,202,606.67(B3)</u>
2% of Adjusted 2019-2020 General Fund Expenditures [(B3) times .02]	\$ 84,052.13(B4)
Enter Greater of (B4) or \$250,000	\$ 250,000.00(B5)
Increased by: Allowable Adjustment	\$ 21,791.00(K)
Maximum Unrestricted/Unassigned Fund Balance [(B5)+(K)]	\$ <u>271,791.00(M)</u>

#### SECTION 2

Total General Fund - Fund Balances @ 6-30-20 (Per CAFR Budgetary Comparison Schedule C-1)	\$ 1,720,009.76(C)
Decreased by:	
Year-End Encumbrances	\$ 57,371.79(C1)
Legally Restricted-Designated for Subsequent Year's Expenditures	\$ _____(C2)
Legally Restricted-Excess Surplus-Designated for Subsequent Year's Expenditures	\$ 485,717.73(C3)
Other Restricted Fund Balances	\$ 411,546.00(C4)
Assigned Fund Balance-Unreserved-Designated for Subsequent Year's Expenditures	\$ _____(C5)
Additional Assigned Fund Balance-Unreserved-Designated for Subsequent Year's Expenditures July 1, 2020 - August 1, 2020	\$ _____(C6)
Total Unassigned Fund Balance [(C)-(C1)-(C2)-(C3)-(C4)-(C5)-(C6)]	\$ <u>765,374.24(U1)</u>

**SECTION 3**

Restricted Fund Balance-Excess Surplus [(U1)-(M)] IF NEGATIVE ENTER -0- \$ 493,583.24(E)

**Recapitulation of Excess Surplus as of June 30, 2020**

Restricted Excess Surplus-Designated for Subsequent Year's Expenditures \$ 485,717.73(C3)  
Restricted Excess Surplus [(E)] \$ 493,583.24(E)  
Total Excess Surplus [(C3)+(E)] \$ 979,300.97(D)

**Detail of Allowable Adjustments**

Impact Aid \$ \_\_\_\_\_(H)  
Sales & Lease-back \$ \_\_\_\_\_(I)  
Extraordinary Aid \$ 21,211.00(J1)  
Additional Nonpublic School Transportation Aid \$ 580.00(J2)  
Current Year School Bus Advertising Revenue Recognized \$ \_\_\_\_\_(J3)  
Family Crisis Transportation Aid \$ \_\_\_\_\_(J4)  
  
Total Adjustments [(H)+(I)+(J1)+(J2)+(J3)+(J4)] \$ 21,791.00(K)

**Detail of Other Restricted Fund Balance**

Statutory restrictions:  
Approved unspent separate proposal \$ \_\_\_\_\_  
Sale/lease-back reserve \$ \_\_\_\_\_  
Capital reserve \$ \_\_\_\_\_  
Maintenance reserve \$ 225,000.00  
Emergency Reserve \$ 186,546.00  
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 \$ \_\_\_\_\_  
  
Total Other Restricted Fund Balance \$ 411,546.00(C4)

**HIGHLANDS SCHOOL DISTRICT**  
**AUDIT RECOMMENDATIONS SUMMARY**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

**Recommendations:**

1. Administrative Practices and Procedures

None

2. Financial Planning, Accounting and Reporting

None

3. School Purchasing Programs

None

4. School Food Service

None

5. Student Body Activities

None

6. Application for State School Aid

None

7. Pupil Transportation

None

8. Facilities and Capital Assets

None

9. Miscellaneous

None

10. Follow-up on Prior Year Findings

The only prior year finding that School Food Service net cash resources exceeded three month average expenditures was corrected in the current year.