

**BOARD OF EDUCATION OF THE
BOROUGH OF HI-NELLA SCHOOL DISTRICT
COUNTY OF CAMDEN**

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

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2017**



BOROUGH OF HI-NELLA SCHOOL DISTRICT
Auditor's Management Report on Administrative
Findings - Financial, Compliance and Performance

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

The Honorable President and
Members of the Board of Education
Borough of Hi-Nella School District
County of Camden, 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 Education of the Borough of Hi-Nella School District in the County of Camden, State of New Jersey, as of and for the fiscal year ended June 30, 2017, which were separately issued in the Comprehensive Annual Financial Report dated December 1, 2017.

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

This report is issued in conjunction with the Comprehensive Annual Financial Report of the Board of Education of the Borough of Hi-Nella School District, for the fiscal year ended June 30, 2017, and is intended for the information of the School District's management and the Division of Administration and Finance, Department of Education, State of New Jersey. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

Bowman & Company LLP

BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Carol A McAllister

Carol A McAllister
Certified Public Accountant
Public School Accountant No. CS 00238400

Voorhees, New Jersey
December 1, 2017

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 Education, and the records of the various funds under the auspices of the Board of Education.

ADMINISTRATIVE PRACTICES AND PROCEDURES

Insurance

Insurance coverages are carried in the amounts as detailed on exhibit J-20, insurance schedule, contained in the School District's Comprehensive Annual Financial Report (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>
Denise DiGiandomenico	Board Secretary / School Business Administrator	\$ 200,000.00
Katherine Smith	Treasurer of School Moneys	200,000.00

Tuition Charges

There were no tuition billings to other districts during the year.

FINANCIAL PLANNING, ACCOUNTING, AND REPORTING

Examination of Claims

Sampled claims paid during the fiscal year under audit did not indicate any reportable noncompliance with respect to signatures, certification, or supporting documentation.

Payroll Account

The accounting for payroll was included as part of the shared services contract with the Borough of Stratford School District. The net salaries of sampled employees of the School District were transferred to the net payroll account of the Borough of Stratford School District. Employees' payroll deductions and the employer's share of fringe benefits were deposited in the payroll agency account of the Borough of Stratford School District.

Sampled payrolls were approved by the State Monitor and were certified by the Board Secretary / School Business Administrator.

Sampled salary withholdings were promptly remitted to the proper agencies. No employees were included in the health benefit plan.

Sampled payrolls were delivered to the Board Secretary who then deposited with warrants in separate bank accounts for net payroll and withholdings.

A certification (E-CERT1) of compliance with requirements for income tax on compensation of administrators (Superintendent and Business Administrator) to the N.J. Department of Treasury was not required by the March 15th due date.

FINANCIAL PLANNING, ACCOUNTING, AND REPORTING (CONT'D)

Employee Position Control Roster

The School District does not maintain an Employee Position Control Roster. During fiscal year ended June 30, 2017, the only employees were the State Monitor and Board Treasurer.

Encumbrances and Accounts Payable

A sample of outstanding issued purchase orders was made as of June 30 for proper classification of orders as encumbrances and accounts payable. Our sample did not indicate any reportable noncompliance with respect to classification of orders. Included in accounts payable was a material amount of prior year tuition and transportation billings and adjustments.

Travel

There were no travel expenditures during the fiscal year under audit.

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 randomly sampled expenditure transactions. We also tested the coding of all expenditures included in our compliance and single audit sampling procedures. In addition, a sample was selected that specifically targeted administrative coding classifications to determine overall reliability and compliance with N.J.A.C. 6A:23A-8.3. Our samples did not indicate any reportable noncompliance with respect to classification of expenditures.

Board Secretary's Records

Our audit of the financial and accounting records maintained by the Board Secretary indicated that they were not in satisfactory condition.

Acknowledgement of the Board's receipt of the Board Secretary and Treasurer's monthly financial reports was included in the minutes.

Monthly financial certifications of the Board Secretary for positive line item account status certifications (N.J.A.C. 6:2-2.13) were performed. Budgetary line item account transfers were approved monthly to cover anticipated deficits, where possible.

Finding 2017-001

As of June 30, 2017, three general fund budgetary line items were over-expended, thus contributing to an overall general fund unassigned fund balance deficit.

Recommendation

The Board of Education should consult with the New Jersey Department of Education, along with the appointed state monitor, to develop a formal corrective action plan that seeks to adequately fund future operating budgets and eliminate the current budget basis deficit in the amount of \$363,861.94.

The Board Secretary attempted to maintain the appropriate record of budget transfers and acquire approval from the County Superintendent for transfers, where they were cumulatively in excess of 10% of advertised amounts as defined in N.J.A.C. 6A:23-21(f). As a result of increasing tuition and transportation costs, adequate unspent funds were not available in other budget line items, sufficient to cover these unbudgeted costs.

Treasurer of School Moneys' Records

Our audit of the financial and accounting records maintained by the Treasurer of School Moneys indicated that they were in satisfactory condition.

FINANCIAL PLANNING, ACCOUNTING, AND REPORTING (CONT'D)

Elementary and Secondary Education Act (E.S.E.A.) / Improving America's Schools Act (I.A.S.A.) as reauthorized by the No Child Left Behind Act (N.C.L.B.) of 2001

There were no federal or state grants awarded during the year.

Other Special Federal and / or State Projects

The School District did not receive an award for any federal or state special projects to be listed on Schedule A or Schedule B located in the CAFR.

Our audit of special projects indicated that obligations and expenditures were incurred during the fiscal year or project period for which the project was approved. There was only one local program with expenditures totaling \$2,063.54.

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 other special projects.

The audit of compliance for other special projects did not indicate any reportable noncompliance.

TPAF Reimbursement

Our audit of payroll charges did not indicate any TPAF wages and therefore, no reimbursement was required to be filed with the Department of Education.

TPAF Reimbursement to the State for Federal Salary Expenditures

There were no federal programs awarded to the School District.

SCHOOL PURCHASING PROGRAMS

Contracts and Agreements Requiring Advertisement for Bids

N.J.S.A. 18A:18A-1 et seq. (Public School Contracts Law), the associated rules and related information on the statute, and the school contracts in general, are available on the following website:

<http://www.state.nj.us/dca/divisions/dlgs/programs/lpcl.html>

Current statute is posted on the New Jersey Legislature website at:

http://lis.njleg.state.nj.us/cgi-bin/om_isapi.dll?clientID=1319801&depth=2&expandheadings=off&headingswithhits=on&infobase=statutes.nfo&oftpage=TOC_Frame_Pg42

The bid thresholds in accordance with N.J.S.A. 18A:18A-2 and 18A:18A-3(a) are \$40,000.00 (with a Qualified Purchasing Agent) and \$29,000.00 (without a Qualified Purchasing Agent), respectively. The law regulating bidding for public school student transportation contracts under N.J.S.A. 18A:39-3 is \$18,800.00 for 2016-17.

The School District's Board of Education 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 audit, 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, amended.

Resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services" per N.J.S.A. 18A:18A-5.

SCHOOL FOOD SERVICE

Not applicable. Hi-Nella School District is a Non-Operating School District.

STUDENT BODY ACTIVITIES

Not applicable. Hi-Nella School District is a Non-Operating School District.

APPLICATION FOR STATE SCHOOL AID

Our audit procedures included a sample of information reported in the October 14, 2016 Application for State School Aid (A.S.S.A.) for on-roll, private schools for the disabled, low-income, and bilingual. We also performed an inspection of the School District procedures related to its completion. The information on the A.S.S.A. was compared to the School 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 School District maintained workpapers on the prescribed State forms or their equivalent.

The School District has adequate written procedures for the recording of student enrollment data.

PUPIL TRANSPORTATION

Our audit procedures included a sample of on-roll status reported in the 2016-2017 District Report of Transported Resident Students (DRTRS). The information that was reported 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 sample of transportation related contracts and purchases. Based on our sample, the School District complied with proper bidding procedures and award of contracts. No exceptions were noted in our sample of transportation related purchases of goods and services.

FACILITIES AND CAPITAL ASSETS

There were no capital assets noted and therefore, no depreciation was reported during the year.

MISCELLANEOUS

Continuing Disclosure Agreements

Not applicable - no outstanding bonds

Testing for Lead of All Drinking Water in Education Facilities

Not applicable. Hi-Nella School District is a Non-Operating School District and does not have any education facilities.

FOLLOW-UP ON PRIOR YEAR'S FINDINGS

In accordance with *Government Auditing Standards*, our procedures included a review of all prior year recommendations. Corrective action had been taken on all prior year findings with the exception of the following, which is repeated in this year's recommendations noted as current year finding 2017-001.

Finding 2016-003

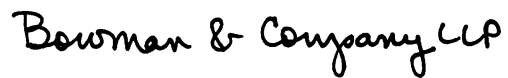
As of June 30, 2016, seven general fund budgetary line items were over-expended, thus contributing to an overall general fund unassigned fund balance deficit.

There were no Office of Fiscal Accountability and Compliance audit reports issued during the fiscal year ended June 30, 2017.


ACKNOWLEDGMENT

We received the complete cooperation of all of the officials of the School District and we greatly appreciate the courtesies extended to the members of the audit team.

Respectfully submitted,



BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants



Carol A McAllister
Certified Public Accountant
Public School Accountant No. CS 00238400

BOROUGH OF HI-NELLA SCHOOL DISTRICT
 Application for State School Aid Summary
 Schedule of Audited Enrollments
 Enrollment as of October 14, 2016

	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	Errors	Sample Selected from Workpapers	Verified to Application and Register	Sample Errors	Reported on A.S.S.A. as LEP Low Income	Reported on Workpapers as LEP Low Income	Errors	Sample Selected from Workpapers	Verified to Application, Test Score and Register	Sample Errors
Half Day Preschool	8	8		8	8							
Full Day Preschool	4	4		4	4							
Half Day Kindergarten	4	4		4	4		1	1		1	1	
Full Day Kindergarten	2	2		2	2		1	1		1	1	
One												
Two												
Three												
Four												
Five												
Six												
Seven												
Eight												
Nine												
Ten												
Eleven												
Twelve												
Post-Graduate												
Adult H.S. (15+CR.)												
Adult H.S. (1-14CR.)												
Subtotal	58	58	-	58	58	-	2	2	-	2	2	-
Special Education-Elementary	9	9		9	9							
Special Education-Middle School	7	7		7	7							
Special Education-High School	6	6		6	6							
Subtotal	22	22	-	22	22	-	-	-	-	-	-	-
Co. Voc. - Regular												
Co. Voc. Ft. Post Sec.												
Subtotal	-	-	-	-	-	-	-	-	-	-	-	-
Totals	80	80	-	80	80	-	2	2	-	2	2	-
Percentage Error												

Transportation					
Reported on DRTS by DOE/County	Reported on DRTS by District	Errors	Tested	Verified	Errors
2	2		2	2	
6	6		6	6	
8	8		8	8	
Totals	8	-	8	8	-
Percentage Error					

Reg. - Public Schools, Col. 1	Reg. - SpEd, Col. 4	Transported - Non-Public, Col. 3	Special Needs, Col. 6	Reported	Re-Calculated
				4.8	4.8
				4.8	4.8
				5.3	5.3

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

BOROUGH OF HI-NELLA SCHOOL DISTRICT
 Application for State School Aid Summary
 Schedule of Audited Enrollments
 Enrollment as of October 14, 2016

	Resident LEP NOT Low Income			Sample for Verification		
	Reported on A.S.S.A. as NOT Low Income	Reported on Workpapers as NOT Low Income	Errors	Sample Selected from Workpapers	Verified to Test Score and Register	Sample Errors
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. (1-14CR.)						
Subtotal	-	-	-	-	-	-
Special Education-Elementary						
Special Education-Middle School						
Special Education-High School						
Subtotal	-	-	-	-	-	-
Co. Voc. - Regular						
Co. Voc. Ft. Post Sec.						
Subtotal	-	-	-	-	-	-
Totals	-	-	-	-	-	-
Percentage Error						

EXCESS SURPLUS CALCULATION

REGULAR DISTRICT / CHARTER SCHOOL / RENAISSANCE SCHOOL PROJECT

SECTION 1

2% Calculation of Excess Surplus

2016-17 Total General Fund Expenditures Reported on CAFR Exhibit C-1	\$ 2,555,288.67 (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	- (B2a)
Assets Acquired Under Capital Leases	- (B2b)
Adjusted 2016-17 General Fund Expenditures [(B)+(B1s)-(B2s)]	<u>2,555,288.67 (B3)</u>
2% of Adjusted 2016-17 General Fund Expenditures [(B3) times .02]	<u>51,105.77 (B4)</u>
Enter Greater of (B4) or \$250,000	<u>250,000.00 (B5)</u>
Increased by: Allowable Adjustment *	<u>21,342.00 (K)</u>
Maximum Unassigned Fund Balance [(B5) + (K)]	<u>\$ 271,342.00 (M)</u>

SECTION 2

Total General Fund - Fund Balances at June 30, 2017 (Per CAFR Budgetary Comparison Schedule, Ex. C-1)	\$ (363,861.94) (C)
Decreased by:	
Year-End Encumbrances	- (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 - Designated for Subsequent Year's Expenditures	- (C5)
Additional Assigned Fund Balance - Designated for Subsequent Year's Expenditures July 1, 2017-August 1, 2017	- (C6) *****
Total Unassigned Fund Balance [(C)-(C1)-(C2)-(C3)-(C4)-(C5)-(C6)]	<u>(363,861.94) (U1)</u>

SECTION 3

Restricted Fund Balance - Excess Surplus *** [(U1)-(M)] IF NEGATIVE ENTER -0-	<u>\$ (635,203.94) (E)</u>
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Recapitulation of Excess Surplus as of June 30, 2017

Restricted - Excess Surplus - Designated for Subsequent Year's Expenditures **	\$ - (C3)
Restricted - Excess Surplus *** [(E)]	<u>(635,203.94) (E)</u>
Total Excess Surplus [(C3)+(E)]	<u>\$ (635,203.94) (D)</u>

EXCESS SURPLUS CALCULATION (CONT'D)

REGULAR DISTRICT / CHARTER SCHOOL / RENAISSANCE SCHOOL PROJECT

Footnotes:

* Allowable adjustment to expenditures on line K must be detailed as follows. This adjustment line (as detailed below is to be utilized when applicable for:

(H) Federal Impact Aid. The passage of P.L.2015, c.46 amended N.J.S.A. 18A:7F-41 to permit a board of education to appropriate federal impact aid funds to establish or supplement a federal impact aid legal reserve in the general fund. Accordingly, effective for the year ending June 30, 2016 the Federal Impact Aid adjustment to expenditures is limited to the portion of Federal Impact Aid Section 8002 and Section 8003 received during the fiscal year and recognized as revenue on the General Fund Budgetary Comparison Schedule, but not transferred to the Federal Impact Aid Reserve – General (8002 or 8003) by board resolution during June 1 to June 30 of the fiscal year under audit. Amounts transferred to the reserve are captured on line (C4);

(I) Sale and Lease-back (Refer to the Audit Program Section II, Chapter 10);

(J1) Extraordinary Aid;

(J2) Additional Nonpublic School Transportation Aid;

(J3) Recognized current year School Bus Advertising Revenue; and

(J4) Family Crisis Transportation Aid.

Notes to auditor: Refer to the Audit Program Section II, Chapter 10 for restrictions on the inclusion of Extraordinary Aid, Family Crisis Transportation Aid, and Additional Nonpublic School Transportation Aid.

Detail of Allowable Adjustments

Federal Impact Aid	\$ - (H)
Sale & Lease-back	- (I)
Extraordinary Aid	<u>21,342.00 (J1)</u>
Additional Nonpublic School Transportation Aid	- (J2)
Current Year School Bus Advertising Revenue Recognized	- (J3)
Family Crisis Transportation Aid	- (J4)
 Total Adjustments [(H)+(I)+(J1)+(J2)+(J3)+(J4)]	 <u>\$ 21,342.00 (K)</u>

** This amount represents the June 30, 2016 Excess Surplus (C3 above) and must be included in the Audit Summary Line 90031. This amount was to be appropriated in the 2017-2018 general fund budget.

*** Amounts must agree to the June 30, 2017 CAFR and must agree to Audit Summary Line 90030.

Amount for Other Restricted Fund Balances must be detailed for each source. Use in the excess surplus calculation of any legal reserve that is not state mandated or that is not legally imposed by another type of government, such as the judicial branch of government, must have departmental approval. District requests should be submitted to the Division of Administration and Finance prior to September 30.

Increase in Assigned Fund Balance - Designated for Subsequent Year's expenditures July 1, 2017 to August 1, 2017 resulting from decrease in state aid after adoption of 2017-18 district budget. Refer to Commissioner's Broadcast and to page I-4.2 of this Audit Program.

Detail of Other Restricted Fund Balance

Statutory restrictions:	
Approved unspent separate proposal	\$ -
Sale/lease-back reserve	-
Capital reserve	-
Maintenance reserve	-
Emergency reserve	-
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 reserves	-
[Other Restricted Fund Balance not noted above]****	-
 Total Other Restricted Fund Balance	 <u>\$ - (C4)</u>

BOROUGH OF HI-NELLA SCHOOL DISTRICT
Audit Recommendations Summary
For the Fiscal Year Ended June 30, 2017

Recommendations:

1. Administrative Practices and Procedures

None

2. Financial Planning, Accounting and Reporting

Finding 2017-001

The Board of Education should consult with the New Jersey Department of Education, along with the appointed state monitor, to develop a formal corrective action plan that seeks to adequately fund future operating budgets and eliminate the current budget basis deficit in the amount of \$363,861.94.

3. School Purchasing Programs

None

4. School Food Service

Not Applicable

5. Student Body Activities

Not Applicable

6. Application for State School Aid

None

7. Pupil Transportation

None

8. Facilities and Capital Assets

Not Applicable

9. Miscellaneous

Not Applicable

10. Status of Prior Year Audit Findings/Recommendations

A review was performed on the prior year recommendations and corrective action was taken on all prior year findings, with the exception of the following, which is repeated in this year's recommendations:

Finding 2016-003

The Hi-Nella Board of Education should consult with the New Jersey Department of Education, along with the appointed state monitor, in order to develop a formal corrective action plan that seeks to adequately fund future operating budgets and eliminate the budget basis deficit in the amount of \$1,186,643.

