

BOARD OF EDUCATION
WARREN COUNTY SPECIAL SERVICES SCHOOL DISTRICT
COUNTY OF WARREN
STATE OF NEW JERSEY

REPORT OF ADMINISTRATIVE FINDINGS
FINANCIAL, COMPLIANCE AND PERFORMANCE

JUNE 30, 2017
REVISED March 2, 2018

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

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REPORT OF INDEPENDENT AUDITORS

Honorable President and
Members of the Board of Education
Warren County Special Services School District
County of Warren, 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 Warren County Special Services School District in the County of Warren for the year ended June 30, 2017, and have issued our report thereon dated March 2, 2018

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 Warren County Special Services School District 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.

A handwritten signature in cursive script, appearing to read 'Anthony Ardito'.

Date: March 2, 2018

Licensed Public School Accountant No. 239
ARDITO & CO., LLP

ADMINISTRATIVE FINDINGS-FINANCIAL, COMPLIANCE AND PERFORMANCE

Scope of Audit

The audit covered the financial transactions of the Board Secretary/School Business Administrator, 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 coverage was carried in the amounts as detailed on Exhibit J-20, Insurance Schedule contained in the district's CAFR.

Official Bonds

<u>Name</u>	<u>Position</u>	<u>Amount</u>
Julie Mumaw	Interim Business Administrator/Board Secretary	\$130,000
Nancy DeRiso	Treasurer	\$166,000

Insurance coverage was carried in the amounts as detailed on Exhibit J-20, Insurance Schedule contained in the district's CAFR.

Tuition Charges

A comparison of tentative tuition charges and actual certified tuition charges was made. For special education classes, tuition adjustments in accordance with N.J.A.C.6A:23-17.7 are made no later than the end of the second school year, following the contract year. Adjustments required by June 30, 2017, for the actual costs through fiscal year 2013-2015 were reflected in the financial statements as of June 30, 2017.

Financial Planning, Accounting and Reporting

Examination of Claims

The State purchase order system is fully operational in that purchase orders are issued for the financial transactions of the Board.

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

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

Salary withholdings were promptly remitted to the proper agencies, including health benefits withholding due to the current fund.

The Board, at present, processes the payroll through an approved off-site computer system.

Reserve for Encumbrances 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:23-16.2f 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 transaction error rate was noted and no additional procedures were deemed necessary to test the propriety of expenditure classification.

Board Secretary's/Treasurer's Records

The financial records, books of accounts and minutes maintained by the Secretary were in very good condition. The bank reconciliation records were examined and were found to be in agreement with the records of the Secretary.

Finding:

Several budgetary line accounts were over-expended during the fiscal year and at June 30 despite the Board Secretary's monthly certification to the contrary (N.J.A.C. 6A:23A-16.10). The cause of the over-expenditures were in part a result of re-allocating expenditures from the Enterprise Fund to the General Fund after the end of the fiscal year.

Recommendation:

Approved budgetary line accounts should not be over-expended. The Board Secretary should not approve the issuance of purchase orders that would cause over-expenditure in the line account to be charged, prior to the board approving the requested transfer of additional appropriations to cover such orders.

The Board Secretary should file monthly certifications of the budgetary line item status which are consistent with the actual budgetary records.

Elementary and Secondary Education Act (E.S.E.A.), Improving America's Schools Act (IASA) as reauthorized by the No Child Left Behind Act of 2001

The E.S.E.A./NCLB 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 II of the Elementary and Secondary Education Act, as amended.

Other Special Federal and/or State Projects

The district's Special Projects were approved as listed on Schedule A and Schedule B located on pages 9 and 10 of this report.

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 contained within the Special Revenue Section of the CAFR. This section of the CAFR documents the financial position pertaining to the aforementioned special projects.

T.P.A.F. Reimbursement

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

There were no TPAF employee salaries charged to federal award expenditures that would require reimbursement to the State of New Jersey for TPAF Pension or FICA paid on-behalf of the district.

School Purchasing Programs

Contracts and Agreements Requiring Advertisement for Bids

Effective April 17, 2000, *N.J.S.A.* 18A:18A (Public School Contracts Law) was revised by P.L.1999,c.440 (originally known as Assembly Bill No. 3519). Rules and regulations pertaining to the amended law are to be promulgated by the Division of Local Government Services, with consultation from the Commissioner of Education.

N.J.S.A. 18A:18A-3 is amended to read as follows:

- a. When the cost or price of any contract awarded by the purchasing agent in the aggregate, does not exceed in the contract year the total sum of \$17,500, the contract may be awarded by a purchasing agent when so authorized by resolution of the board of education without public advertising for bids and bidding therefore, except that the board of education may adopt a resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations. If the purchasing agent is qualified pursuant to subsection b. (pending before the Legislature as section 15 of this bill) of section 9 of P.L.1971,c.198(C.40A:11-9) the board of education may establish that the bid threshold may be up to \$36,000. Such authorization may be granted for each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section.
- b. Commencing in the fifth year after the year in which P.L.1999,c.440 takes effect, and every five years thereafter, the Governor, in consultation with the Department of Treasury, shall adjust the threshold amount and the higher threshold amount which the board of education is permitted to establish as set forth in subsection a. of this section or the threshold amount resulting from any adjustment under this subsection, in direct proportion to the rise or fall of the index rate as that term is defined in N.J.S.18A:18A-2(pending before the Legislature as section 50 of this bill), and shall round the adjustment to the nearest \$1,000. The Governor shall notify all local school districts of the adjustment no later than June 1 of every fifth year. The adjustment shall become effective on July 1 of the year in which it is made.

Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to paragraph (1) of subsection a. of N.J.S.18A:18A-5 may be awarded for a period not exceeding 12 consecutive months.

N.J.S.A. 18A:18A-4 (as amended) states, "Every contract or agreement for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded only by resolution of the Board of Education to the lowest responsible bidder after public advertising for bids and bidding therefore, except as is provided otherwise in this chapter or specifically by any other law.

Effective July 1, 2015 and thereafter 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 currently \$18,800.

The Board of Education has the responsibility of determining whether the expenditures in any category will exceed the statutory thresholds within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, the Solicitor's opinion should be sought before a commitment is made.

Within the state budgeting structure and general ledger accounting system, payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies are not accumulated by category type. As such, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed.

The results of our examination indicated that no individual payments, contracts or agreements were made "for the performance of any work or the furnishing or hiring of any materials or supplies", in excess of the statutory thresholds where there had been no advertising for bids in accordance with the provisions of N.J.S.A. 18A:18A-4.

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

Within the state budgeting structure and general ledger accounting system, payments are not accumulated for purchases for which the school board used contracts entered into by the State Department of Purchase and Property pursuant to Ch. 114, P.L. 1977, therefore, the extent of such purchases could not reasonably be ascertained. Our examination did reveal, however, that the following purchases were made through the use of State contracts:

Furniture and Equipment
Computer Equipment

Application for State School Aid

Our audit procedures included a test of the information reported in the October 15, 2016, Application for State School Aid (A.S.S.A.) for on-roll, private schools for the handicapped, low-income and bilingual. We also performed a review of the district procedures related to its completion. The information on the A.S.S.A. was compared to the district workpapers without exception. The information that was included on the workpapers was verified 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 procedures for the recording of student enrollment data.

Pupil Transportation

Our audit procedures included a test of on-roll status reported in the 2016-2017 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 services.

Enterprise Funds

Finding:

The District has had a recurring deficit net position in its Personal Aides, Related Services and Life Skills Enterprise Funds that raises substantial doubt about the ability for these Enterprise Funds to continue as a going concern.

The Personal Aides Enterprise Fund reflected a deficit unrestricted net position at June 30, 2017 of \$2,329,697 which was entirely due to the net pension liability and related deferred inflows and outflows the district records in accordance with GASB No. 68. Excluding the effects of the pension liability and deferred pension items, the unrestricted deficit net position was \$95,619 at June 30, 2017. The Personal Aides Enterprise Fund had an operating loss for the current year of \$292,162.

The total deficit in unrestricted net position at June 30, 2017 in the Related Services Fund is \$423,852. Excluding the net pension liability and related deferred inflows and outflows the district had a deficit net position of \$333,283 from operations which deteriorated from the prior year's deficit net position from operations of \$259,661. The Related Services Enterprise Fund had an operating loss for the current year of \$78,043.

The total deficit in unrestricted net position at June 30, 2017 in the Life Skills Fund is \$159,832 which deteriorated from the prior year's deficit net position from operations of \$108,512. The Related Services Enterprise Fund had an operating loss for the current year of \$51,320.

The total unrestricted positive net position at June 30, 2017 in the Transportation Fund is \$335,861. Excluding the net pension liability and related deferred inflows and outflows the district had a positive net position of \$517,013. The Transportation Fund had an operating profit for the current year of \$59,750.

All enterprise funds collectively used \$662,786 in cash, bringing the enterprise deficit cash balance to \$1,225,004 as of June 30, 2017, and the overall district deficit cash balance (all funds) to \$871,254.

Management plans to implement monthly reconciliation procedures to ensure customer billings are matched with related costs, with any resulting losses being identified and billing rates adjusted accordingly.

Recommendation:

It is recommended that the district conduct a thorough review of the operations of the Enterprise Funds for their future viability as a going concern. If it is determined that the operations of these Enterprise Funds can continue to be viable then continuing efforts need to be made to seek ways to enhance revenue sources and curtail expenses of each of these Enterprise Funds.

Follow-up on Prior Years' Findings

In accordance with *government auditing standards*, our procedures included a review of all prior year recommendations. All prior year findings were corrected except as noted below under "Recommendations", which is repeated from the prior year.

Recommendations

1. It is recommended that the district conduct a thorough review of the operations of the Enterprise Funds for their future viability as a going concern. If it is determined that the operations of these Enterprise Funds can continue to be viable then continuing efforts need to be made to seek ways to enhance revenue sources and curtail expenses of each of these Enterprise Funds.
2. Approved budgetary line accounts should not be over-expended. The Board Secretary should not approve the issuance of purchase orders that would cause over-expenditure in the line account to be charged, prior to the board approving the requested transfer of additional appropriations to cover such orders.

Acknowledgement

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

WARREN COUNTY SPECIAL SERVICES SCHOOL DISTRICT

APPLICATION FOR STATE SCHOOL AID SUMMARY
ENROLLMENT AS OF OCTOBER 15, 2016

	<u>2017-2018 Application for State School Aid</u>						<u>Sample for Verification</u>						<u>On Roll-Related Services</u>			<u>Private Schools for Handicapped</u>				<u>Private Schools-Related Services</u>			
	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		Sample for Verifi- cation	Sample Verified	Sample Errors	Reported on A.S.S.A. as Private School	Sample for Verifi- cation	Sample Verified	Sample Errors	Sample for Verifi- cation	Sample Verified	Sample Errors	
	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared	Full	Shared											
Sp. Ed. Elementary	9		9					8		8													
Sp. Ed. Middle	10		10					9		9													
Sp. Ed. High	13		13					11		11													
Subtotal	32	0	32	0	0	0	28	0	28	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Totals	32	0	32	0	0	0	28	0	28	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Percentage Error					<u>0.00%</u>	<u>0.00%</u>				<u>0.00%</u>	<u>0.00%</u>			<u>0.00%</u>					<u>0.00%</u>			<u>0.00%</u>	

WARREN COUNTY SPECIAL SERVICES SCHOOL DISTRICT

APPLICATION FOR STATE SCHOOL AID SUMMARY
ENROLLMENT AS OF OCTOBER 15, 2016

	<u>Low Income</u>			<u>Sample for Verification</u>			<u>Bilingual Education</u>			<u>Sample for Verification</u>		
	Reported on A.S.S.A. as Low <u>Income</u>	Reported on Workpapers as Low <u>Income</u>	<u>Errors</u>	Sample Selected from <u>Workpapers</u>	Verified to Application and <u>Register</u>	Sample <u>Errors</u>	Reported on A.S.S.A. as Bilingual <u>Education</u>	Reported on Workpapers as Bilingual <u>Education</u>	<u>Errors</u>	Sample Selected from <u>Workpapers</u>	Verified to Test Score and <u>Register</u>	Sample <u>Errors</u>
Totals	N/A	N/A	N/A	N/A	N/A	Bilingual Students	0	0	0	0	0	0
Percentage Error			<u>0.00%</u>			<u>0.00%</u> Percentage Error			<u>0.00%</u>			<u>0.00%</u>

	<u>Transportation</u>					
	Reported on DRTRS by <u>DOE</u>	Reported on DRTRS by <u>District</u>	<u>Errors</u>	<u>Tested</u>	<u>Verified</u>	<u>Errors</u>
Totals	N/A	N/A	N/A	N/A	N/A	N/A
Percentage Error						<u>0.00%</u>

WARREN COUNTY SPECIAL SERVICES SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards
for the Fiscal Year ended June 30, 2017

Schedule A

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA No.	FAIN Number	Grant or State Project Number	Program or Award Amount	Grant Period		Balance At June 30, 2016	Carryover/ Walkover Amount	Cash Received	Budget Expend.	Adjust.	Repayment of Prior Years' Balances	Balance at June 30, 2017			Cumulative Total Expenditures		
					From	To							Accounts Receivable	Deferred Revenue	Due to Grantor			
U.S. Department of Health and Human Services:																		
General Fund:																		
Medical Assistance Aid	93.778	1705NJ5MAP	N/A	9,082	7/1/16	6/30/17			\$ 9,082	\$ (9,082)							\$ 9,082	
Total General Fund							-	-	9,082	(9,082)	-	-	-	-	-	-	9,082	
U.S. Department of Education Passed- Through State Department of Education:																		
Special Revenue Fund																		
Rural Education Achievement Program	84.358A	S358B160030	S358A168414	20,000	7/1/16	9/30/17			20,000	(120)							\$ 19,880	120
Rural Education Achievement Program	84.358A	S358B150030	S358A158414	20,000	7/1/15	9/30/16	\$ (120)		20,000	(19,880)								
Total Special Revenue Fund							(120)	-	40,000	(20,000)	-	-	-	-	-	-	19,880	120
TOTAL FEDERAL FINANCIAL AWARDS							\$ (120)	-	\$ 49,082	\$ (29,082)	-	-	-	\$ 19,880	-	\$ (8,962)		

The accompanying Notes to Schedules of Expenditures of Awards and Financial Assistance are an integral part of this schedule.

Note: This Schedule was not subject to an audit in accordance with Uniform Guidance.

WARREN COUNTY SPECIAL SERVICES SCHOOL DISTRICT

Schedule of Expenditures of State Financial Assistance
for the Fiscal Year ended June 30, 2017

Schedule B

STATE GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	GRANT OR STATE PROJECT NUMBER	GRANT PERIOD	AWARD AMOUNT	BALANCE 6/30/2016	CARRY- OVER AMOUNT	CASH RECEIVED	BUDGET. EXPEND.	ADJUST.	REPAYMENT OF PRIOR YEARS' BALANCES	BALANCE AT JUNE 30, 2017			MEMO		
										(ACCTS. RECEIV.)	DEFER. REVENUE	DUE TO GRANTOR	BUDGETARY RECEIVABLE	CUMULATIVE TOTAL EXPENDITURES	
State Department of Education															
General Fund:															
On Behalf TPAF Pension	16-495-034-5094-002	7/1/15-6/30/16	143,922			\$ 143,922	\$ (143,922)								*
On Behalf TPAF Pension PMR	16-495-034-5094-001	7/1/15-6/30/16	119,920			119,920	(119,920)								*
On Behalf TPAF Pension Non-Contrib Ins	16-495-034-5094-004	7/1/15-6/30/16	815			815	(815)								*
Reimbursed TPAF Soc.Secur.Contrib	16-495-034-5094-003	7/1/15-6/30/16	76,419	\$ (4,364)		76,940	(76,419)			\$ (3,843)					*
Total General Fund				<u>(4,364)</u>		<u>341,597</u>	<u>(341,076)</u>	<u>-</u>	<u>-</u>	<u>(3,843)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	*
Total State Financial Assistance				\$ (4,364)	-	\$ 341,597	\$ (341,076)	-	-	\$ (3,843)	-	-	-	\$ 341,076	*
Less: TPAF On Behalf Pension <u>264,657</u>															
State Financial Assistance Subject to Major Program Determinator <u>\$ (76,419)</u>															

The accompanying Notes to Schedules of Expenditures of Awards and Financial Assistance are an integral part of this schedule

Note: This Schedule was not subject to an audit in accordance with NJ OMB Circular 15-08.

WARREN COUNTY SPECIAL SERVICES 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

Approved budgetary line accounts should not be over-expended. The Board Secretary should not approve the issuance of purchase orders that would cause over-expenditure in the line account to be charged, prior to the board approving the requested transfer of additional appropriations to cover such orders.

3. School Purchasing Programs

None

4. School Enterprise Funds

It is recommended that the district conduct a thorough review of the operations of the Enterprise Funds for their future viability as a going concern. If it is determined that the operations of these Enterprise Funds can continue to be viable then continuing efforts need to be made to seek ways to enhance revenue sources and curtail expenses of each of these Enterprise Funds.

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. Status of Prior Year Audit Findings/Recommendations

A review was performed on the prior year recommendations. The School Enterprise Fund recommendation is repeated from the prior year.