

**INDEPENDENT AUDITORS MANAGEMENT
REPORT ON ADMINISTRATIVE FINDINGS**

**FINANCIAL, COMPLIANCE AND
PERFORMANCE**

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

JUNE 30, 2017

**GALLEROS KOH LLP
CERTIFIED PUBLIC ACCOUNTANTS**

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

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INDEPENDENT AUDITORS' REPORT

Honorable President and
Members of Board of Trustees
Academy for Urban Leadership Charter School
County of Middlesex, New Jersey

We have audited, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Board of Trustees of the Academy for Urban Leadership Charter School (the "Charter School") in the County of Middlesex, State of New Jersey for the year ended June 30, 2017, and have issued our report thereon dated November 29, 2017.

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

November 29, 2017
Cream Ridge, New Jersey

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

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

Scope of Audit

The audit covered the financial transactions of the Board Secretary/School Business Administrator and the Treasurer of School Moneys, the activities of the Board of Trustees of Academy for Urban Leadership Charter School (the "Charter School"), and the records of the various funds under the auspices of the Board of Trustees.

Administrative Practices and Procedures

Insurance

Required insurance coverages are carried in the amounts as detailed on Exhibit J-20, Insurance Schedule contained in the Charter School's CAFR.

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

<u>Name</u>	<u>Position</u>	<u>Amount</u>
Johnny Rosa	School Business Administrator	\$175,841

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 we noted that claims were approved by designated individuals, certified and supporting documents were maintained. No exception noted.

Finding 2017-001*

In our review of cash disbursements and various transactions comprising certain expenditure amounts, there were 17 out of 60 claims tested have purchase order dates the same or after the invoice/contract dates.

Recommendation

We recommend that the Charter School consistently implement the purchasing policies where purchase orders are approved prior to procurement of services and payment.

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

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

Financial Planning, Accounting, and Reporting - Continued

Payroll Account

The net salaries of all employees of the Board were deposited in the Payroll Account. Employees' payroll deductions and employer's share of fringe benefits were deposited in the Payroll Agency Account.

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

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

Payrolls were delivered to the secretary of the board who then deposited with warrants in separate bank accounts for net payroll and withholdings.

Reserve for Encumbrances and Accounts Payable

A review of outstanding purchase orders was made as of June 30, 2017, 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 by the Board as required by *N.J.A.C. 6A:23A A-6.13* and *N.J.S.A. 18A:11-12*.

Classification of Expenditures

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

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

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

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

Financial Planning, Accounting, and Reporting - Continued

Finding No. 2017-002 (CAFR 2017-001)*

During our test of cash disbursements and expenditures, we noted the following exceptions:

- a. Substitute teachers' salaries were recorded in support services instead of instructional expense.
- b. Nurse supplies were recorded as instructional supplies.

Recommendation:

The Charter School should reference *The Uniform Minimum Chart of Accounts for New Jersey Public Schools*, 2008 Edition and other available reference materials, such as the Budget Guidelines for the proper classifications required to be in compliance with N.J.A.C. 6A:23A-16.2(f).

Finding No. 2017-003*

In our review of the Charter School's instructional expense ratio to the total expenditures, we noted that it is below the 60% minimum threshold (actual is 54.54%)

Recommendation

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

Board Secretary's Records

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

Finding No. 2017-004 (CAFR 2017-002)

The fiscal year 2016 audit adjustments were not recorded in the Charter School's accounting system. The beginning balances were corrected during the fieldwork.

Recommendation

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

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

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

Financial Planning, Accounting, and Reporting - Continued

Treasurer's Records

Finding No. 2017-005 (CAFR 2017-002)

The cash balances indicated on the Treasurer's reports were not in agreement with the cash balances on the Board Secretary's report. We also noted that the transactions recorded in payroll agency cash account were missing certain interfund and payroll-related transactions. The cash balances and reconciliation were corrected during fieldwork. Adjusting journal entries were proposed to correct the balances.

Recommendation

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

Elementary and Secondary Education Act (ESEA)/ Improving America's Schools Act (IASA) as reauthorized by the No Child Left Behind Act of 2001

The ESEA/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 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. We noted no exceptions.

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

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

Financial Planning, Accounting, and Reporting – Continued

TPAF Reimbursement to the State for Federal Salary Expenditures

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

Finding 2017-006

During the audit, we noted that the TPAF reimbursement to State for Federally Funded Programs for the year ended June 30, 2016 was not subsequently paid in fiscal year 2017.

Recommendation

The Charter School should adopt internal control procedures designed to ensure that reimbursement(s) of TPAF/FICA paid by the State on-behalf of TPAF employees charged to federal grants are properly reported in the current year's Final Report(s) for all federal awards and are encouraged to remit payment within the 60 day grant liquidation period and/or certainly within the statutory 90 day liquidation period.

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 \$18,800 for 2016-17.

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.

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

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

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.

It was noted that for the fiscal year ended June 30, 2017, the Charter School wrote-off uncollectable food service receivables amounting to \$45,307 due to late submission from prior year.

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

Charter School Enrollment System/Charter School Aid

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

Facilities and Capital Assets

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

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.

Follow-up on Prior Year's Findings

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

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

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

Acknowledgment

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

Respectfully submitted,



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



GALLEROS KOH LLP
Certified Public Accountants

November 29, 2017
Cream Ridge, New Jersey

**ACADEMY FOR URBAN LEADERSHIP CHARTER SCHOOL
SCHEDULE OF AUDITED ENROLLMENT
APPLICATION FOR CHARTER SCHOOL AID
ENROLLMENT COUNT AS OF OCTOBER 15, 2016**

Submission to		Sample													
Grades	CHE 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	
Eighth	99	99	99	-	182	-	1	1	-	182	-	78	78	-	
Ninth	108	108	108	-	182	-	2	2	-	182	-	89	89	-	
Tenth	100	100	100	-	182	-	2	2	-	182	-	87	87	-	
Eleventh	102	102	102	-	182	-	2	2	-	182	-	83	83	-	
Twelfth	91	91	91	-	182	-	2	2	-	182	-	77	77	-	
Total	500	500	500	-	-	-	9	9	-	-	-	414	414	-	
Percentage				0.0%		0.0%			0.0%		0.0%			0.0%	

**ACADEMY FOR URBAN LEADERSHIP CHARTER SCHOOL
SCHEDULE OF AUDITED ENROLLMENT
APPLICATION FOR CHARTER SCHOOL AID
ENROLLMENT COUNT AS OF JUNE 30, 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	
Eighth	95	95	95	-	182	-	1	1	-	182	-	73	73	-	
Ninth	106	106	106	-	182	-	2	2	-	182	-	86	86	-	
Tenth	100	100	100	-	182	-	2	2	-	182	-	86	86	-	
Eleventh	102	102	102	-	182	-	2	2	-	182	-	83	83	-	
Twelfth	90	90	90	-	182	-	2	2	-	182	-	77	77	-	
Total	493	493	493	-	-	-	9	9	-	-	-	405	405	-	
Percentage				0.0%		0.0%			0.0%		0.0%			0.0%	

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

EXCESS SURPLUS CALCULATION

June 30, 2017

SECTION 1

A. 2% Calculation of Excess Surplus

2016-17 Total General Fund Expenditures per the CAFR, Ex. C-1	\$ 7,467,496 (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	\$ 590,919 (B2a)
Assets Acquired Under Capital Leases	\$ _____ - (B2b)
Adjusted 2016-17 General Fund Expenditures [(B)+(B1s)-(B2s)]	<u>\$ 6,876,577 (B3)</u>
2% of Adjusted 2016-17 General Fund Expenditures [(B3) times .02]	\$ 137,532 (B4)
Enter Greater of (B4) or \$250,000	\$ 250,000 (B5)
Increased by: Allowable Adjustment *	\$ _____ - (K)
Maximum Unassigned/Undesignated-Unreserved Fund Balance [(B5)+(K)]	<u>\$ 250,000 (M)</u>

SECTION 2

Total General Fund - Fund Balances @ 6/30/2017 (Per CAFR Budgetary Comparison Schedule C-1)	\$ 2,477,297 (C)
Decreased by:	
Year-end Encumbrances	\$ 133,755 (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>\$ 2,343,542 (U1)</u>
Excess Surplus at June 30, 2017	<u>\$ 2,093,542</u>

SECTION 3

Restricted Fund Balance – Excess Surplus*** [(U1)-(M)] IF NEGATIVE ENTER -0-	\$ _____ - (E)
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Recapitulation of Excess Surplus as of June 30, 2017

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."

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

AUDIT RECOMMENDATIONS SUMMARY

FOR THE YEAR ENDED JUNE 30, 2017

I. Administrative Practices and Procedures

There are none.

II. Financial Planning, Accounting and Reporting

1. We recommend that the Charter School should always follow the purchasing policy where purchase orders are approved first before services are rendered and payments made.
2. Charter Schools should reference The Uniform Minimum Chart of Accounts for New Jersey Public Schools, 2008 Edition and other available reference materials, such as the Budget Guidelines for the proper classifications required to be in compliance with N.J.A.C. 6A:23A-16.2(f).
3. We recommend that the Charter School review its support and administrative expenses to improve its instructional expense ratio (54.54% in FY 2017) to total expenditures.
4. The Charter School should record audit adjustments in its accounting system and in the correct period.
5. The Treasurer should reconcile his cash records with the reconciled bank statements and the cash records of the Board Secretary and Board Secretary should record agency transactions on a timely basis. Each month, the Treasurer should determine cash balances by performing cash reconciliations for the general operating account, payroll account, and the payroll agency account (N.J.S.A. 18A:17-9) and the accounting records should reflect the adjusted balance.
6. The Charter School should adopt internal control procedures designed to ensure that reimbursement(s) of TPAF/FICA paid by the State on-behalf of TPAF employees charged to federal grants are properly reported in the current year's Final Report(s) for all federal awards and are encouraged to remit payment within the 60 day grant liquidation period and/or certainly within the statutory 90 day liquidation period.

III. School Purchasing Programs

There are none.

IV. School Food Service

There are none.

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

AUDIT RECOMMENDATIONS SUMMARY

FOR THE YEAR ENDED JUNE 30, 2017

V. Charter School Enrollment System/Charter School Aid

There are none.

VI. Facilities and Capital Assets

There are none.

VII. Miscellaneous

There are none.