

**FINANCIAL ACCOUNTING
FOR
NEW JERSEY CHARTER SCHOOLS**

THE AUDIT PROGRAM

2011-12

**STATE OF NEW JERSEY
DEPARTMENT OF EDUCATION
OFFICE OF SCHOOL FINANCE
PO BOX 500
TRENTON, NEW JERSEY 08625-0500**

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SIGNIFICANT CHANGES FOR 2011-12

- Audit Summary (Audsum) for June 30, 2012 is an electronic submission of audited data that will be completed through a web application available in NJDOE Homeroom beginning September 2012. Charter school auditors must request a web user name and password from each of their charter school clients' web administrators in order to access Audsum.
 - The Audsum numbering system has been revised so that there are adequate lines for sequential programs and the line numbers agree with the line numbers used by the budget program. There will be a column with the old numbering system next to the new line numbers.
- In response to a recent Office of Legislative Services audit of Preschool Education Aid (PEA) which reported a discrepancy rate of 16%, expanded guidance for the recording and reporting of PEA expenditures and carryover has been included. All discrepancies between PEA expenditures reported on the Schedule of Preschool Education Aid (Exhibit-2) and PEA expenditures reported in Audsum must be resolved by resubmission/retransmission of the Exhibit-2 and/or Audsum.
 - A line has been added in Audsum for the reporting of PEA carryover. Auditors must verify the accuracy and agreement of the PEA carryforward reported on the Exhibit E-2 and in Audsum.
- Charter schools entering into a contract with a food service management company (FSMC) were provided with Sample 2011-12 FSMC Contract, Clause M, requiring the FSMC to obtain a Type 2 report.
- The sample Schedule of Meals Served and Overclaim/Underclaim has been modified to present separate federal and state reporting of meals under/overclaims. Separating the schedules will facilitate verification of the schedule with the Schedule of Expenditures of Federal Awards. Federal (and state) Schedule(s) are presented only where the Child Nutrition Program is a major program audited in the current audit period in accordance with federal OMB Circular A-133.

OTHER CHANGES / UPDATES FOR 2011-12

The following is a summary of changes / updates:

1. General changes are found throughout the document and include:

- Change Division name to Division of Administration and Finance.
- Audsum line number changes.
- Code references have been updated where appropriate.

2. Specific changes are found in the following sections/chapters:

Introduction

- The deadline for submission of June 30, 2012 audits is Wednesday, December 5, 2012.

Section I-2

- Added annually updated Anti-bullying policy as required by P.L. 2010, c. 122 to list board of trustee's policies.

Section I-3

- Emphasized that beginning with the July 2011 cycle submission of the "Program Plans for Bilingual, ESL-only and ELS" to the department is no longer a requirement. The current three-year cycle began July 2011 and will end in 2014. The auditor should verify that the charter school maintains a current Bilingual, ESL or ELS plan on file.
- Added that the Centers for Medicare and Medicaid Services (CMS) instituted several reporting requirements designed to document a charter school's compliance with federal reimbursement regulations. Compliance with these requirements is required for charter schools to maximize SEMI funding.
- Updated 3rd party SEMI program administrator contact information.
- Updated contract bid threshold for transportation contracts for 2011-12 to \$17,500 (from \$17,200).

Section I-5

- P.L. 2011, c.139 amended *N.J.S.A. 52:34-6.2* to permit charter schools to make purchases and to contract for services through the use of a nationally-recognized and accepted cooperative purchasing agreement. Provided link to Local Finance Notice 2012-10 *Using National Cooperative Contracts: Application of P.L. 2011, c. 19* issued by the DCA on May 14, 2012.
- Added reference to LFN 2011-38 "Limits on Bid Acceptance Dates 2012 Federal and State Holidays".
- Revised the threshold for bidding of transportation contracts to \$17,500 from \$17,200
- Updated text for fund balance categories pursuant to a review of purchase orders to include the restricted, committed, and assigned fund balance classifications (GASB Statement No. 54).

Section I-6

- Statement on Standards for Attestation Engagements (SSAE) No. 16, *Reporting on Controls at a Service Organization* supersedes Statement of Auditing Standards No. 70 (SAS 70).

Section I-8

- No change.

Section II-10

- SSAE No. 16 supersedes Statement of Auditing Standards No. 70 (SAS 70).
- Added that effective June 4, 2012, *N.J.A.C. 6A:27-7.10, 7.11 and 7.12* have been amended to permit boards of education to enter into a contract for the sale of advertising space on the exterior sides of school buses.

Section II-20

- Updated the maximum salary subject to FICA for the 2012 calendar year to \$110,100.
- Noted that an estimated rate has been used to complete the sample “TPAF and FICA Reimbursement” form.
- Beginning with the June 30, 2012 Audsum, there is a separate data entry line for Preschool Education Aid (PEA) budgetary carryover. Auditors must verify agreement between the new Audsum carryover entry and Line 8 – (2011-12 PEA Carryover) presented on the E-2 Schedule of Preschool Education Aid.
- Added link to OLS audit report on Preschool Education Aid for the period July 1, 2009 through October 14, 2011.

Section II-30

- No Change.

Section II-40

- No Change.

Section II-50

- No Change.

Section II-60

- Emphasized that for 2011-12 all charter schools entering into a FSMC contract must do so pursuant to the Public School Contracts Law, *N.J.S.A. 18A:18A-1 et seq.* as amended; and the applicable rules under *N.J.A.C. 5:34-1 et seq.* Where the charter school participates in any federally funded Child Nutrition Program(s), procurement of the FSMC contract must also follow the standards prescribed in 7 CFR 3016.36.
- Incorporated SSAE No. 16 *Reporting on Controls at a Service Organization* and the new *SAS Audit Considerations Relating to an Entity Using a Service Organization* into the guidance regarding the responsibilities of the school charter school and the charter school auditor when the charter school enters into a contract with a FSMC.
- Clarified that effective for school year 2011-12, the CNP Direct Certification Process must be done three times per school year in accordance with timelines established by the NJDA Division of Food and Nutrition.
- Clarified that to facilitate the identification of newly eligible students, direct certification matching against updated SNAP (Food Stamp)/TANF data may be performed monthly during the school year.

- Added that effective for school year 2011-12, only one Household Application for Free and Reduced Price Meals and/or Milk is filed for a household with foster children. Foster children are no longer considered to be a family of one and no longer file a separate application.
- Added that effective for school year 2011-12, foster children are categorically eligible for free school meals.
- Clarified that because foster children are categorically eligible for free school meals, a single Household Application may have two different eligibility determinations; one for the foster child/children and a second for all other students in the household.
- Added that effective for the 2011-12 school year, only one SNAP (Food Stamp)/TANF case number is required for the entire household, when applicable.
- Added that beginning with the 2011-12 school year, the eligibility determination associated with a Household Application is effective for the entire school year.
- Added that beginning with the 2011-12 school year, there is no provision for “temporary” eligibility status for zero income Applications.
- Clarified that Seamless Summer Option (SSO) provides for all children at the “free” rate of reimbursement. SSO schools receive only federal reimbursement – no state subsidy is provided.
- Updated lunch/breakfast/snack/milk reimbursement rate schedule for school year 2011-12.

Section II-70

- No Change.

Section II-80

- Provided link to Department of Labor and Workforce Development publication of special reimbursable account rates.

Section II-90

- Emphasized that P.L. 2011 c.78 requires charter schools to establish a cafeteria plan (Section 125 Flexible Spending Accounts) for employee medical or dental expenses not covered by a health benefits plan.

Section II-CA

- No Change.

Section II-LT

- No Change.

Section II-SA

- Provided that the AICPA audit guide, Government Auditing Standards and Circular A-133 Audits (Guide) has been updated through February 2012.
- Added the AICPA issuance of SAS No. 119, *Supplementary Information in Relation to the Financial Statements as a Whole*.
- Clarified that for the “2012 Single Audit Summary” auditor must complete all questions in sections A, C and F for every charter school, and all questions in Section D for charter schools that have a federal and/or state single audit.
- Clarified the reporting of unexpended federal grant funds on the *Schedule of Expenditures of Federal Financial Assistance* (Schedule A):
 1. Funds “released” by the charter school to the DOE should be presented on Schedule A, in the column entitled “Adjustments”

2. Funds that have been received by the charter school but are no longer available for expenditure by the charter school are reported on Schedule A in the column entitled, "Due to Grantor."
 3. All funds that have been refunded during the fiscal year shall be shown on Schedule A, in the column entitled, "Repayment of Prior Year Balances"
- Clarified that Individuals with Disabilities Education Act (IDEA), expends funds on a first-in-first-out basis. Charter schools should expend available carry-over funds first during the fiscal year before expending current year IDEA funds.
 - Included an enhanced discussion of the process for determining the distribution of unexpended IDEA funds.
 - Presented an updated listing of common CFDA numbers and State Grant Account Numbers.

Section III-1

- Transmission to the OFAC CAFR Repository is required for the fiscal year ending June 30, 2012. The charter school must utilize the OFAC CAFR Repository to upload the entire June 30, 2012 audit reporting package to the NJDOE -OFAC. Access is through the NJDOE Homeroom.
- Added link to November 7, 2011 explanatory memo regarding the OFAC CAFR Repository.
- Added table of required file extensions.
- Clarified that the Audit Reporting Package must be filed with the NJ Department of Agriculture only if the charter school received total combined funding in excess of \$100,000 from the State Child Nutrition Programs and/or USDA Foods.

Section III-2

- Referenced update of the AICPA Audit Guide *Government Auditing Standards and Circular A-133 Audits (AICPA Audit Guide – February 1, 2012)*.
- Referenced SAS No. 119, *Supplementary Information in Relation to the Financial Statements as a Whole (AICPA, Professional Standards, AU sec. 551)* and provided a link to AICPA sample report 13-1A issued in relation to SAS No. 119.

Section III-3

- Updated sample Post Retirement Benefit footnote using data presented in the State of NJ June 30, 2011 Basic Financial Statements.

Section III-4

- Updated the sample AMR verbiage to reflect the change in bid threshold for public school student transportation contracts under N.J.S.A. 18A:39-3 to \$17,500.
- Clarified the sample AMR verbiage to reflect current trends in School Food Service Management Company contract performance clause.
- Enhanced the sample Schedule of Meals Served and Overclaim/Underclaim to include a separate line for the state reimbursement in each category (Paid, Reduced, and Free).

Section III-5

- Referenced Audsum is no longer transmitted through DOENET. Audsum is now transmitted using a web application.
- Added a memo collection account for Preschool Carryover in Audsum. This amount must agree with what is reported on the Schedule of Preschool Expenditures as carryover.

Section III-6

- Added to the Checklist for the Annual Audit, evidence of compliance with the requirements for maximum participation in the SEMI program established by the Centers for Medicare and Medicaid Services (CMS).
- Food Services Checklist – Deleted reference to grant award agreement for Food Service Equipment Grant.
- Food Services Checklist – Added requirement to provide documentation supporting current status of all prior year CNP findings (if applicable).
- Added Harassment, Intimidation or Bullying Policy (*N.J.S.A. 18A:37-15*) to list of required policies.
- Added evidence of establishment and maintenance of a cafeteria plan for health benefits required by *N.J.S.A. 18A:16-19.1* as amended by P.L. 2011c.78, section 44 to the Checklist for the Annual Audit (number 23c.).
- Added question number 30 to the Audit Questionnaire, “Does the charter school’s actual audited per pupil legal costs for the year ended June 30, 2011 exceed 130% of the 2010-11 audited statewide average?”

Section III-7

- Added that Certification of Implementation of Corrective Action Plan may be mailed or scanned and emailed to OFAC

Section III-8

- Revised auditor’s report references in the QAR to reflect name change to Division of Administration and Finance, New Jersey Department of Education
- Updated item number 18 of the QAR to include reference to SAS No. 119 (Auditor’s report under Circular A-133 that reflects updated reporting on the schedule of expenditures of federal awards under SAS No. 119)

OVERVIEW

Financial Accounting for New Jersey School Charter Schools (The Audit Program) is updated annually and includes instructions for both charter school personnel and public school accountants regarding preparing for and performing the annual audit. The full text of *The Audit Program* is available on the web site <http://www.state.nj.us/education/chartsch/audit/>.

The *Comprehensive Annual Financial Report* (CAFR) is the basis for the annual audit. New Jersey state law and administrative code (*N.J.S.A.18A:4-14* and *N.J.A.C. 6A:23A-16*) require charter schools to follow generally accepted accounting principles (GAAP). These principles are augmented with the release of statements from the Governmental Accounting Standards Board (GASB). The Outline for Comprehensive Annual Financial Report section at the end of this introduction provides additional information on the CAFR.

Reference Materials

Reference materials published by outside organizations are available to provide guidance in report preparation. The Government Finance Officers Association (GFOA) publishes *Governmental Accounting, Auditing and Financial Reporting*, commonly known as the "blue book" that is used nationwide as a reference tool for CAFR preparation. The American Institute of Certified Public Accountants (AICPA) issues *Checklist and Illustrative Financial Statements for State and Local Governmental Units* that is a recommended reference for disclosure requirements. The Association of School Business Officials International offers a Certificate of Excellence in Financial Reporting by School Systems Program that awards certificates to those annual reports that fully meet the requirements established by GAAP and publishes a self-evaluation worksheet that may also be used as a tool in report preparation.

Responsibility/Government Auditing Standards

N.J.A.C. 6A:23A-16.2(i) requires the issuance of a CAFR by every charter school along with interim financial statements to facilitate management control of financial operations. Financial statements are the responsibility of the charter school's management and are its representation of the financial position at a given point in time and the operations of the charter school during a period of time.

The federal Single Audit Act requires that organizations that expend \$500,000 or more in federal financial assistance have an audit conducted in accordance with guidance provided in the Office of Management and Budget Circular A-133. NJ Circular Letter 04-04-OMB requires that New Jersey school charter schools that expend \$500,000 or more in State and/or federal financial assistance in their fiscal year have an annual single audit performed in accordance with the Single Audit Act, OMB Circular A-133 and State policy. *Government Auditing Standards July 2007 Revision*, commonly referred to as the "Yellow Book", established generally accepted government audit standards (GAGAS) and is available through the website: <http://www.gao.gov/govaud/govaudhtml/index.html>

Submission/Reporting Package

The Department of Education requires the submission of the reports described below on or before the statutory deadline. The statutory submission date is the fifth day after five months (*N.J.S.A. 18A:23-1*) after the end of the school fiscal year. Accordingly, the deadline for submission of June 30 audits is **Wednesday, December 5, 2012**. The Commissioner has statutory authority (*N.J.S.A. 18A:23-6*) to appoint auditors for charter schools failing to meet the statutory due date or invoke other administrative actions but the Commissioner does not have discretion to change a statutory requirement, such as the due date. *N.J.S.A. 18A:7A-55* includes late submission of the annual audit as one of the conditions for appointment of a state monitor.

1. The CAFR

The CAFR is the charter school's official annual report. It should include all funds of the charter school. It is organized into three primary sections: 1) an introductory section, 2) a financial section, and 3) statistical section. If a charter school falls under the reporting requirements of the Single Audit Act of 1984, as amended by the Single Audit Act Amendments of 1996 and the revised OMB Circular 133, and/or the reporting requirements under NJOMB Treasury Circular Letter 04-04, the CAFR will also contain a single audit section. The CAFR will strictly adhere to the Outline of the CAFR located at the end of this introduction. The report must include all sections, letters and exhibits in the applicable sample CAFR as they apply to each charter school as well as any additional statements, schedules, and disclosures required under the circumstances of the charter school. The report must also include all applicable single audit opinion letters prepared by the charter school's auditor in the single audit section. Links to sample single audit letters and New Jersey specific reference are provided in Section III – Chapter 2 of *The Audit Program*.

2. The Auditor's Management Report on Administrative Findings, Financial, Compliance and Performance (AMR)

This separate report will serve as the auditor's report to management. This report must be submitted together with the CAFR to the Department of Education in order to comply with Finance Policy Bulletin 200-1. A sample Auditor's Management Report is located in Section III – Chapter 4.

3. Audit Summary (Audsum)

The Audit Summary (Audsum) for June 30, 2012 is an electronic submission of audited data that will be completed through a web application available in NJDOE Homeroom at <http://homeroom.state.nj.us/> beginning September 2012. Beginning with the year ending June 30, 2012 charter school auditors must obtain a web User ID and Password through each web administrator at each of their client charter schools. Once the web user ID and Password for a charter school is obtained, Audsum for that charter school may be accessed by the auditor. The auditor is responsible for the entry of data into electronic Audsum and the board secretary/business administrator is responsible for carefully reviewing the reports generated by Audsum. The charter school auditor and the board secretary/business administrator are required to indicate their respective approval of the entered Audsum data through the electronic signature process available on the web application transmittal screen. The charter school's board secretary/business administrator is responsible for the transmission of the Audsum data via the web application to the Department of Education no later than the CAFR due date (December 5, 2012). This information is used by the Department of Education for a variety of purposes, including downloading into the actual column of the budget software issued by the department. **It is very important that auditors and charter school personnel pay particular attention to the accuracy of the**

data to avoid having to resubmit the data. If data is resubmitted due to an error in the CAFR, revised pages of the CAFR must be sent.

Transmission of the reporting package to the OFAC CAFR Repository is mandatory for year end June 30, 2012. The OFAC CAFR Repository may be accessed through NJDOE Homeroom at <http://homeroom.state.nj.us/>. The procedure for submission of the CAFR and the AMR was adopted by the Department of Education to conform to the common practice for CAFR presentation followed by other charter schools throughout the country. The two reports have separate, distinct purposes. The CAFR is the financial report presented to the board for conformance with GAAP. The AMR is the auditor's report to the charter school board of trustee of his/her findings and recommendations as a result of the audit. In accordance with OMB Circular A-133, the CAFR will also be submitted to the Federal Audit Clearinghouse as part of the reporting package along with the data collection form in cases where a federal single audit of the charter school is required. In conformity with the federal due date, the Federal Data Collection Form (SF-SAC) may be submitted to the New Jersey Department of Education within 30 days after the audit report is filed with the charter school board of trustee Accordingly, CD-ROMs, associated audit items, and the upload of audit files transmitted to the OFAC CAFR Repository may be submitted on time without including the archived copy of the SF-SAC. When available, the archived copy of the SF-SAC must be submitted on a CE-ROM under separate cover, and also uploaded to the OFAC CAFR Repository.

USOMB Circular A-133 and NJOMB Circular Letter 04-04 require that the Schedule of Findings and Questioned Costs contain, but not be limited to, significant deficiencies in internal control over major programs, material non-compliance with the provisions of laws, regulations, contracts, or grant agreements related to a major program, and known questioned costs which meet the threshold as defined in Circular A-133. *N.J.S.A.* 18A:23-9 states that the auditor "...report any error, omission, irregularity, violation of law, together with recommendations, to the charter school of each charter school Accordingly, the AMR must include **all** findings, including any items contained in the Schedule of Findings and Questioned Costs.

OUTLINE FOR COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

New Jersey statute (*N.J.S.A.18A:4-14*) requires that charter school maintain bookkeeping consistent with generally accepted accounting principles (GAAP) established by the Governmental Accounting Standards Board (GASB). The financial reporting requirements of GAAP include the issuance of a CAFR.

The financial statements are the responsibility of the charter school's management. The General Accounting Office (GAO) *Government Auditing Standards* (see the Introduction to this *Audit Program*) provide that an auditor may not audit financial statements prepared by that same auditor.

Charter schools should reference the NJ Department of Education (NJDOE) website at www.state.nj.us/njded/finance/fp (click on CAFR) for selected sample statements, including the basic financial statements and budgetary comparisons which are in excel files that can be downloaded by charter school staff. Information on Management Discussion and Analysis (MD&A) requirements and guidance on financial reporting for charter schools required to use school-based budgeting are also available at that web site to assist auditors and charter school staff. **The illustrative statements and schedules are not intended to be boilerplate nor inclusive of every situation.**

The NJDOE requires that each governmental fund be treated as a major fund in the fund statements for GASB 34 presentation. Questions relating to the preparation of NJ charter school CAFRs may be emailed to charterfinance@doe.state.nj.us.

The format of the CAFR should adhere to the Outline and numbering of the exhibits as shown on the following pages. If a section or exhibit is not applicable to the charter school, the notation "N/A" should be indicated against that item in the Table of Contents.

The CAFR includes the Introduction, Financial, Statistical, and Single Audit Sections. The contents of each section are as follows:

Introductory Section – Although not required by GAAP, this section is used by the GFOA “Blue Book” and is intended to familiarize the reader with the organizational structure of the charter school and information useful to the reader to evaluate the charter school's financial condition. It is important that the letter of transmittal avoid duplicating information already provided in detail elsewhere in the CAFR.

Financial Section – This section includes the: 1) independent auditor's report, 2) MD&A, 3) basic financial statements including the charter school-wide statements (accrual basis for governmental and business-type activities), fund statements (modified accrual basis for governmental funds, accrual basis for proprietary funds and for fiduciary funds), and notes to financial statements, 4) Required Supplementary Information (RSI) other than MD&A including budgetary comparison schedules, 5) Other Supplementary Information including combining and individual fund statements, and additional schedules. Certain combining schedules may not be applicable. For example, if a charter school has only two programs in the Proprietary Fund, a combining schedule would not be necessary.

Statistical Section – This section is intended to provide CAFR users with a broader and complete understanding of the charter school and its financial matters than is possible from the financial statements and supporting schedules included in the financial section. GASB Statement No. 44 (GASB 44) revised the statistical schedules effective for the June 30, 2006 CAFRs. Sample schedules and guidance for preparing the schedules can be found on the NJDOE web site www.state.nj.us/njded/finance/fp (click on CAFR). The Outline of the CAFR reflects these revisions. Statistical information to assist charter schools and auditors in preparing this section is posted on that web site (click on Audit Information, and then 2011-12 Audit Program).

Single Audit Section – This section includes independent auditor’s reports on compliance and internal control, schedules of expenditures for federal and state grants, notes to the schedules of expenditures of federal and state grants, schedule of findings and questioned costs, and a summary schedule of prior audit findings. This information is required by OMB Circular A-133 and New Jersey OMB Circular Letter 04-04.

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SECTION I – GENERAL COMPLIANCE
CHAPTER I

APPOINTMENT, SCOPE AND DECLARATION

Appointment of Auditor

N.J.S.A. 18A:23-8 requires that an audit of the accounts of a charter school be made only by a registered municipal accountant or a certified public accountant of New Jersey who holds an uncanceled registration license as a public school accountant for New Jersey.

A charter school should refer to *N.J.A.C.* 6A:23A-16.2(i)(1), for regulations on obtaining audit firm peer reviews <http://www.nj.gov/education/code/current/title6a/chap23a.pdf> . The code requires that charter schools engage only licensed public school accountants who have had a peer review performed in accordance with *Government Auditing Standards, (Yellow Book)* and that charter schools obtain a copy of the audit firm's peer review and letter of comment. The charter school is required to review the report prior to the engagement of the annual audit, and to acknowledge its review of the report in the minutes that authorizes the engagement of the public school accountant. Generally when a request for proposal (RFP) is issued for annual audit services, audit firms will submit their peer review with the RFP. A returning audit firm will generally submit their peer review with the engagement letter.

Government Auditing Standards July 2007 Revision (The Yellow Book) updates the quality control and peer review sections in Chapter 3 and is applicable for financial audits of periods beginning on or after January 1, 2008. Earlier implementation is permitted and encouraged. *The Yellow Book* is available in electronic format at the Government Accountability Office (GAO) website <http://www.gao.gov/govaud/govaudhtml/index.html>. The website also contains a link to a summary of major changes. Printed versions of the July 2007 Yellow Book can be ordered through the Government Printing Office (GPO) online or by calling 202-512-1800 or 1-866-512-1800 toll free. Guidelines for audits of federal awards include the requirement that generally accepted government auditing standards (GAGAS) be followed when a Single Audit is required (See Section II-SA of this Audit Program for further information on Single Audits).

Rules of Professional Conduct

The public school auditor must follow the rules of professional conduct required by *N.J.A.C.* 13:29-3 et seq. and promulgated by the Board of Accountancy, Department of Law and Public Safety.

Cooperation with the Auditor

Because the compensation of the auditor is determined by the amount of time required to complete the audit, the auditor should not perform routine office work. Charter school personnel are expected to perform certain actions and have certain documents ready in advance of the audit. See Section III-6 for a copy of the Board Secretary/Treasurer Checklist. The Auditor Questionnaire incorporates those actions and documents listed in the Board Secretary/Treasurer Questionnaire. Irregularities shown by answers given to questions in the Auditor Questionnaire must be covered by a comment and recommendation in the Auditor's Management Report.

Scope of Audit

The audit shall include an audit of the books, accounts, and moneys and a verification of all cash and bank balances of the charter school, and of any officer or employee thereof, and of any organization of public school pupils conducted under the auspices of the charter school.

1. General Fund
2. Special Revenue Funds
3. Capital Projects Funds
4. Permanent Funds
5. Enterprise Funds and Internal Service Funds
6. Private Purpose Trust and Agency Funds
7. Student Activity Funds

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Auditors should consider the materiality of closely related organizations such as an education foundation or booster club, when determining whether to discretely present the statements of that organization in the charter school's CAFR as a component unit. Paragraph 6 of GASB 39 states, "It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrant inclusion in the reporting entity."

The areas of responsibility concerning completion of the audit and timely submission of the CAFR, the Auditor's Management Report, the Data Collection Form (if applicable) and the Audit Summary Worksheet diskette are as follows:

Responsibility for the preparation of the CAFR rests with the charter school. A sample CAFR is available on the website <http://www.nj.gov/education/finance/fp/cafr/>.

The Audit Summary (Audsum) for June 30, 2012 is an electronic submission of audited data that will be completed through a web application available in NJDOE Homeroom at <http://homeroom.state.nj.us/> beginning September 2012. Prior to gaining access to a client charter school's Audsum, auditors must obtain a unique web user identification code and password through each web administrator at their client charter school(s). The auditor is responsible for the entry of data into electronic Audsum and the board secretary/business administrator is responsible for carefully reviewing the reports generated by Audsum. The charter school auditor and the board secretary/business administrator are required to indicate their respective approval of the entered Audsum data through the electronic signature process available on the web application transmittal screen. The charter school's board secretary/business administrator is responsible for the transmission of the Audsum data via the web application to the Department of Education no later than the CAFR due date (December 5, 2012).

The auditor's responsibility is to perform an audit for the purpose of rendering an opinion on the fairness of the basic financial statements. The audit is to be performed in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the Single Audit Act of 1984 as amended by the Single Audit Act Amendments of 1996; USOMB Circular A-133, NJOMB Circular Letter 04-04, and audit requirements as prescribed by the Division of Finance, Department of Education, State of New Jersey. The auditor is also responsible for reviewing the unaudited sections of the CAFR. Adjustments required as a result of the audit procedures performed should be reflected in the CAFR issued by the charter school. See Section II-SA for required submission of reports.

Risk Assessment/Internal Controls

The AICPA's Statement on Auditing Standards (SAS) No. 105 *Amendment to Statement on Auditing Standards No. 95, Generally Accepted Auditing Standards* supercedes SAS No. 1 section 150. This has been codified as AU 150.02 and states that an auditor "must adequately plan the work and must properly supervise any assistants. The auditor must obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures." SAS No. 99 established standards and provides guidance to auditors in fulfilling that responsibility, as it relates to fraud, in an audit of financial statements conducted in accordance with generally accepted auditing standards. Guidance includes additional inquiries of management, not just the business office, additional documentation of the auditor's work in consideration of fraud, and identifying and assessing risks of fraud –incentives/pressures, opportunities, and attitudes/rationalizations.

The AICPA issued eight risk assessment standards SAS 104 through SAS 111; collectively known as the Risk Assessment Standards, in March 2006. These standards are first effective for June 30, 2008 school charter school audits.

According to the AICPA, "the primary objective of these Statements is to enhance auditors' application of the audit risk model in practice by specifying, among other things:

- More in-depth understanding of the entity and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate them.
- More rigorous assessment of the risks of material misstatement of the financial statements based on that understanding.
- Improved linkage between the assessed risks and the nature, timing, and extent of audit procedures performed in response to those risks."

Charter schools that expend \$500,000 or more in federal financial assistance or state financial assistance are required to have an annual single audit performed in accordance with the federal Single Audit Act and the OMB Circular No. A-133 and state policy. Charter schools that expend \$100,000 or more in state and/or federal financial assistance must have either a financial statement audit performed in accordance with *Government Auditing Standards (Yellow Book)* or a program-specific audit performed in accordance with the Single Audit Act and OMB Circular A-133 and state policy.

The federal Circular A-133 has included guidance for single audits and defines internal control as a process, affected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (1) Effectiveness and efficiency of operations,
- (2) Reliability of financial reporting, and
- (3) Compliance with applicable laws and regulations.

Section -500(c) of Circular A-133 under "Scope of Audit" states (1) "In addition to the requirements of GAGAS [generally accepted government auditing standards] the auditor shall perform procedures to obtain an understanding of internal control over federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs."

The Circular A-133 further states at (d)(1)- "In addition to the requirements of GAGAS - the auditor shall determine whether the auditee has complied with laws, regulations, and the provisions of contracts or grant agreements that may have a direct and material effect on each of its major programs" and at (d) (4)

“The compliance testing shall include tests of transactions and such other auditing procedures necessary to provide the auditor sufficient evidence to support an opinion on compliance.”

Significant deficiencies or material weaknesses must be communicated to the board of trustees and must be followed up with a corrective action plan prepared by the board. The increased understanding of the audited charter school’s internal controls will also enhance management’s efficiency and effectiveness.

The Yellow Book requires that when an opinion or disclaimer is expressed on financial statements, auditors must also report on internal control over financial reporting and on compliance with laws, regulations and provisions of contracts or grant agreements.

In October 2008, the AICPA Auditing Standards Board (ASB) issued Statement on Auditing Standards (SAS) No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, which supersedes SAS No. 112 of the same title. This SAS is effective for audits of financial statements for periods ending on or after December 15, 2009. SAS No. 115 amends SAS No. 112 and was issued by the Auditing Standards Board to provide guidance to auditors with respect to what should be communicated to management and those charged with governance in an organization. The key differences between SAS No. 115 and SAS No. 112 are revisions to the definitions of material weaknesses and significant deficiencies to better align them with PCAOB Auditing Standard No. 5; with the most significant change being to the definition of significant deficiencies. Guidance for making the determination as to whether a deficiency is a material weakness or significant deficiency has also been updated. SAS No. 115 requires the auditor make communications, in writing, to management and those charged with governance regarding significant deficiencies and material weaknesses in internal controls that you note in your audits.

<http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-00325.pdf>

During December 2009, the AICPA Auditing Standards Board (ASB) issued Statement on Auditing Standard (SAS) No. 117, *Compliance Audits*. SAS No. 117 supersedes SAS No. 74, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*. It applies to single audits and other similar compliance audits for fiscal periods ending on or after June 15, 2010. The SAS was developed in response to findings in a federal study on single audit quality that showed improvements were needed in many areas. SAS No. 117 is available from the AICPA.

Declaration of Accountant

N.J.S.A. 18A:23-9. Declaration of Accountant. "No person shall undertake the auditing of the accounts of any school district (charter school) unless he shall have qualified as a public school accountant for New Jersey upon proof that he is either a registered municipal accountant or a certified public accountant, of New Jersey, and by subscribing to the following declaration:

- a. That he is fully acquainted with the laws governing the fiscal affairs of charter schools of New Jersey and is a competent and experienced auditor; and
- b. That he will honestly and faithfully audit the books and accounts of any charter school when engaged to do so, and report any error, omission, irregularity, violation of law, discrepancy or other nonconformity to the law, together with recommendations, to the board of trustees of such charter school."

SECTION I – GENERAL COMPLIANCE
CHAPTER 2

MEETINGS AND MINUTES

Meetings of Public Bodies - The Sunshine Law

In enacting the Open Public Meetings Act, the legislature declared that secrecy in public affairs undermines public faith in government and that the right of the public to witness in full detail all phases of the deliberation, policy formulation and decision-making of public bodies is vital to the proper functioning of the democratic process. (*N.J.S.A.* 10:4-6 et seq.)

In general, the statute requires that the public be given advance notice of and the right to attend meetings of public bodies and that all discussions and official actions, unless specifically exempted, take place in public.

Minutes must be kept of all meetings, which at a minimum must include the announcement of the presiding person at the commencement of the meeting, the time and place of the meeting, and the names of the members present, the subjects considered, the actions taken and the vote of each member on any items voted upon. The following should be detailed in the minutes.

- a. A list of all employees, salaries and wages approved by the board.
- b. The final approved budget.
- c. Details of the annual organization meeting of the board.
- d. Lists of claims approved for payment by the board.
- e. Summary of monthly financial statements of the secretary and the treasurer (if the charter school has a treasurer).
- f. Authorization for advertising for bids, with summary of the bids received and subsequent award of same.
- g. Full detail of budget transfers, including affirmative vote by two thirds of board for applicable transfers.
- h. Capital Improvement Authorizations, Proposals and/or Adoptions.
- i. Required Board of Trustees Policies (including but not limited to the following):
 - Travel and expense reimbursement
 - Public Relations and Professional Services
 - SEMI Reimbursement
 - Nepotism
 - Anti-Bullying (updated annually)
 - Contributions and Contracts Awards
 - Policy on Exceeding Purchase Order Amounts

Minute Records

The proceedings of the meeting of the board of trustees should be recorded in a bound or an acceptable loose-leaf type minute book and signed by the secretary. The minutes should be reviewed by the auditor. This procedure is necessary to check on the actions of the board of trustees, particularly with respect to the submission of monthly financial reports, the approval of claims, adoption of the budget, budget amendments, advertisements for bids and other financial matters of importance to the auditor. Minutes must include as a minimum the requirements of the “Sunshine Law” per *N.J.S.A. 10:4-6 et seq.*

SECTION I – GENERAL COMPLIANCE
CHAPTER 3

CHARTER SCHOOL AID

Pursuant to *N.J.S.A.* 18A:36A-12(b), the school district of residence shall pay directly to the charter school for each student enrolled in the charter school who resides in the district an amount equal to 90% of the sum of the budget year equalization aid per pupil and the prebudget year general fund tax levy per pupil inflated by the CPI rate most recent to the calculation. In addition, the school district of residence shall pay directly to the charter school the security categorical aid attributable to the student and a percentage of the district's special education categorical aid equal to the percentage of the district's special education students enrolled in the charter school and, if applicable, 100% of preschool education aid.

Pursuant to *N.J.S.A.* 18A:36A-12(d), first year charter school students who attended non-public schools and students that were home schooled last year are funded by the state with direct payments to the charter school.

School Register

The school district of residence must enroll charter school students in the school register and treat them as resident students for purposes of state aid. The charter school's responsibility is to ensure the attendance of those students enrolled in their school in accordance with *N.J.A.C.* 6A:23A-15. A student who has been absent 10 days for an unknown reason must be reported as a dropout and the charter school must immediately notify the school district of this condition in writing.

All copies of source documents related to the determination of state aid (i.e. Application for Free and Reduced Meals and Free Milk, workpapers listing bilingual education students) must be maintained in both the school district of residence and the charter school.

The auditor is required to review the charter school's registers, workpapers and supporting documentation for all registered students for accuracy.

Enrollment Counts

Pursuant to *N.J.A.C.* 6A:23A-15 charter schools are required to conduct enrollment counts on October 15 and the last day of the school year. A charter school shall submit each count through the live web-based Charter School Enrollment System, available through the NJ Homeroom website, for the purposes of determining average daily enrollment. Accurate maintenance of the enrollment system is vital so that the resident districts can rely on the accuracy of the payment schedules.

The requirements for the auditors will be to conduct an audit of the two enrollment counts. The importance of these counts was discussed previously concerning the fact that the school register is the source document for which revenue is derived in a charter school.

The Schedule of Audited Enrollments is included in the Auditors' Management Report as a supplementary schedule and is subjected to the same auditing procedures applied in the examination of the charter school's basic financial statements.

Charter schools must complete the enrollment count submission, which documents the compilation of register data for the purposes of charter school aid calculation and provides an audit trail for the auditor to use as a basis for testing. Charter schools are required to prepare written internal procedures, which

should provide a description of the count process for the two required enrollment counts. The procedures should describe how the count was taken, who was responsible for compiling the data, completing the enrollment count submission, and detail the various assigned responsibilities for collection of the data and the follow-up procedures to identify student information to be corrected in the subsequent count. The workpapers, original supporting documentation and internal procedures should be maintained on file for a period of seven years.

Sampling Methods/Sizes - Audit Procedure

Testing should include samples from each of the enrollment count dates, i.e. October 15, 2011, and the last day of school 2012. The sample selected for the enrollment submission will result in testing all the specifics to the student selected in that sample. The two enrollment submissions are based on actual enrollment into the charter school; therefore, the audit of both counts sampled will be verification of the number of days enrolled and agreement to the school register.

The auditor must audit 100% of the records over the two enrollment counts utilizing a “sampling without replacement” method. This means that once a student record is randomly selected for testing, that record is excluded from the sample pool for the subsequent counts. Utilizing this “non-replacement” method ensures that the auditor examines 100% of the student records. For example, if total charter school enrollment is 500 students, the October 15 sample is 250 out of the 500 records. The last day of school count sample is the remaining 250 students. The auditor should pay particular attention to students that have either enrolled into or transferred out of the charter school during the school year to ensure that they are included in the testing and that the enrolled days are accurate.

Note: Since student enrollment is the source data for charter school funding, auditors are advised to be diligent in verifying the accuracy of the information. Any discrepancies are to be documented and reconciled. Enrollment Count Submission (See Appendix B)

On Roll -

Samples from each enrollment count must be tested to verify that the number of pupils enrolled agrees with the associated number reflected on the charter school's workpapers. The auditor will attest to the number of days that the child was enrolled.

Through review of transfer cards, the auditor will verify that the enrolled students are in the appropriate district of residence to ensure that the proper school district is reflected in the payment schedule.

For students in grades 9 to 12, auditors are required to inquire as the status of any students enrolled in a county vocational program and verify that the final enrollment count reflects the corresponding reduction in Average Daily Enrollment.

Special Ed/ Bilingual -

For each student tested where there was a submission of Special Ed/Bilingual, the auditor must verify the documentation to support the classification and verify the numbers of days the services were rendered to that child.

Auditors are required to inquire as to the status of any special education student in outside placements. **NOTE: If a charter school student has been placed in a Private School for the Disabled, the auditor must:**

- 1. Verify that the IEP requires the private placement;**
- 2. Verify that the student record in the Charter School Enrollment System (CHE) is coded as “Attending a Private School” and that the Average Daily Enrollment (ADE) is zero.** The financial costs for educating these students are borne by the school district of residence.

Low Income Limited English Proficient (LEP) Students (kindergarten through 12)

For each student tested where there was a submission of Low Income LEP, the auditor must verify the documentation to support the classification and verify the number of days the services were rendered to that child.

Limited English Proficient (LEP) students (not low income-kindergarten through 12)

For each student tested where there was a submission of LEP not low-income, the auditor must verify the documentation to support the classification and verify the number of days the services were rendered to that child.

Special Education Tiers No Longer Applicable

Prior to October 15, 2008 educationally disabled students were reported by tiers. Subsequent to October 15, 2008, they are reported by grade groupings – elementary, middle school, or high school. The IEP should be reviewed to determine that the student has been classified as special education, but subsequent to October 15, 2008 auditors no longer need to review for classification in tiers. Auditors are to ensure that special education students are not counted twice as both graded and special education students.

Auditor’s Note – In respect of the confidentiality provision involving a student’s IEP, we recommend that the auditor not make photocopies of IEP’s chosen as part of the test sample. The auditor may suggest that a representative of the charter school be present to ensure compliance with the aforementioned provision. Additionally, the charter school may require the auditor to sign the pupil access record to document the disclosure of this information.

Educationally disabled students who are graded (Resource Center) are reported based on the following grade level table:

<u>Grade Level (as of 10/14/11)</u>	<u>School</u>
preK-5	Elementary School
6-8	Middle School
9-12	High School

Educationally disabled students who are un-graded (Self-Contained) are reported based on the following age based table:

<u>Age (as of 6/30/12)</u>	<u>School</u>
11 and under	Elementary School
12-14	Middle School
15-21	High School

Private Schools for the Disabled-- Pursuant to N.J.S.A.18A:36A-11(b) A charter school shall comply with the provisions of chapter 46 of Title 18A of the New Jersey Statutes concerning the provision of services to handicapped students; except that the fiscal responsibility for any student currently enrolled in or determined to require a private day or residential school shall remain with the district of residence.

Pursuant to N.J.S.A.18A:36A-11(c) Within 15 days of the signing of the individualized education plan, a charter school shall provide notice to the resident district of any individualized education plan which results in a private day or residential placement. The resident district may challenge the placement within 30 days in accordance with the procedures established by law.

Auditors are required to inquire as to the status of any special education student in outside placements. If a charter school student has been placed in a Private School for the Disabled or a residential program, the auditor must: 1. Verify that the IEP requires the private placement 2. Verify that the student record in the Charter School Enrollment System is coded as “Attending a Private School” and that the related Average Daily Enrollment (ADE) is zero. The costs for educating these students are borne by the school district of residence.

Auditor’s Note – In respect of the confidentiality provision involving a student’s IEP, we recommend that the auditor not make photocopies of IEPs. The auditor may suggest that a representative of the charter school be present to ensure compliance with the aforementioned provision. Additionally, the charter school may require the auditor to sign the pupil access record to document the disclosure of this information.

County Vocational School Students-For students in grades 9 to 12, auditors are required to inquire as the status of any students also enrolled in a county vocational program part-time and verify that the final enrollment count reflects the corresponding reduction in Average Daily Enrollment (ADE). The Charter School Enrollment System record of students who were enrolled in the charter school for the entire school year, and who were also attending a vocational program, should reflect an ADE of 0.5. This ADE would be prorated accordingly for students who were only enrolled in the charter school for part of the school year. This reduction should be reflected on the 2011-2012 Final Enrollment Count. Any exceptions should be noted in the Schedule of Audited Enrollments.

Low-Income Students -- Obtain the low-income workpapers (by grade) prepared by the charter school and reconcile total low-income eligible students listed to the low-income eligible students reported on the ASSA.

Low-income eligible students are resident and nonresident students eligible for free or reduced price meals or free milk, and are part of the charter schools' enrollment. Students eligible for free or reduced price meals or free milk are those students who have been determined to be eligible under the National School Lunch Act and the Child Nutrition Act as of the last school day prior to October 16, (October 14, 2011).

The district and charter school should have the documentation on file for free or reduced lunch information. The paperwork should be filed in the charter school and the district. **It is the responsibility of the charter school to provide the district with the necessary documentation for purposes of state aid and submission of ASSA to the state.**

Errors detected in income classifications during the testing of applications for the school child nutrition program which impact the free classifications should be applied to the low-income count when applicable. The verified count reported on the Schedule of Audited Enrollments must reflect all adjustments discovered during the above procedures. If the workpapers do not agree with the Charter School Enrollment System, those variances must be reported on the Schedule of Audited Enrollments as well.

Bilingual Education -- Bilingual education programs are provided to students identified as limited English proficient (LEP) to help them develop academic skills while acquiring English language skills. There are currently three programs as follows:

- Bilingual programs with content area instruction in the native language provided when there are 20 or more LEP students of a single language group in a charter school.
- ESL-only (ESL) programs are provided when there are 10 or more LEP students in a charter school.
- English Language Services (ELS) programs are provided when there is at least 1, but fewer than 10, LEP students in a charter school.

Program Plans for Bilingual, ESL-only and ELS programs are developed every three years. Charter schools are required to develop plans and maintain them on file in the charter school. Beginning with the July 2011 cycle, submission of the plan to the department is not required. The current three-year cycle began in July 2011, and will end in 2014. All programs operate from September to June. The auditor should also verify that the charter school maintains on file a current Bilingual, ESL or ELS plan which included the year ending June 30, 2012.

Bilingual, ESL or ELS programs are provided to students identified as LEP by a state established standard on an English language proficiency test. The following students who are enrolled in the charter school as of October 14, 2011 are eligible to be reported:

- Resident and nonresident students identified as LEP, in accordance with *N.J.A.C. 6A:15-1.3(c)*, who are participating in an approved bilingual, ESL, or ELS program and
- Students who continue to need and participate in bilingual, ESL or ELS program services on the basis of multiple indicators as per *N.J.A.C.6A:15-1.10(b)*.

The number of eligible students must be supported by a listing which includes each student's name and the number of the register on which they are enrolled. Beginning with the October 15, 2008 ASSA, LEP students with an IEP counted in bilingual education are also permitted to be counted as special education students.

Based on the total LEP students reported, the auditor should use the table on page I-3.2 to determine an appropriate sample size. Trace the LEP students selected to the registers to ensure that the students were on roll as of October 15 (October 14, 2011). LEP students are listed on the Charter School Enrollment as either low income or not low income. Auditors should check the low income eligibility of the LEP students in the sample. See the preceding Section 3 in this chapter on low income eligibility. The results of the LEP testing are reported in the Schedule of Audited Enrollments that is required to be included in the Auditors' Management Report.

LEP Placement Criteria:

The bilingual education code (*N.J.A.C. 6A:15-1.10*) states that the process to determine the readiness or inability of the individual student to function successfully in an English only program shall be initiated by the student's level of English proficiency as measured by a department established standard on one of the accepted English language proficiency tests listed below. The readiness of the student shall be further assessed on the basis of the multiple indicators, also listed below. Thus, students may be retained for program services even though their language proficiency test scores on the LAS, LAS – Links, IPT, MACII, ACCESS for ELLs, CELLA, W-APT are at the standard. Charter schools may continue to report these students as LEP if other indicators support the decision to continue language assistance program services. Testing of each LEP student reported in the enrollment count must be documented as part of Charter School Enrollment System supporting documentation.

2011-12 English Language Proficiency Tests:

- Language Assessment Scales (LAS), published by CTB/McGraw Hill
- Language Assessment Scales Links (LAS-Links) published by CTB/McGraw Hill
- IDEA Proficiency Test, published by Ballard & Tighe Publishing Company
- MAC II Test of English Language Proficiency, published by Questar Assessment, Inc. (formerly Touchstone Applies Science Associates, Inc.)
- WIDA ACCESS for ELLS Placement Test (W-APT)
- Assessing Comprehension and Communication in English State to State for English Language Learners (ACCESS for ELLs™)
- Comprehensive English Language Learning Assessment (CELLA), published by Accountability Works, Inc.
- WIDA MODEL TEST

The standards for these are outlined below. Additional information for the tests above is on the website: www.nj.gov/education/bilingual/resources/prof_tests.htm.

Using Multiple Criteria for Program Entry and Exit

Charter schools must use multiple indicators, as specified in code (*N.J.A.C. 6A:15-1.3(c)* and *6A:15-1.10(b)*) to determine which students need English as a Second Language (ESL) and/or bilingual program support and which students can function independently in a monolingual English classroom. These indicators must be used for both identification of LEP students and for determining readiness to exit from bilingual/ESL/ELS program services. Use of the multiple indicators is particularly important when a student's test score is close to a cut point (as determined by the standard error of measurement (SEM)). These other indicators include:

- Reading level;
- Previous academic (classroom) performance;
- Achievement on standardized tests in English; and
- Teacher judgment.

Language Assessment Scales (LAS) - CTB/McGraw Hill Publishers

Use the LAS Language Proficiency Index (LPI) to determine program placement.

LPI (RW/O)	Category	Description
1/2 1/3	LEPa	low-level R and W skills mid-level (limited) L and S skills
1/4 1/5	LEPb	low-level R and W skills high-level (proficient) L and S skills
2/2 2/3	LEPc	mid-level R and W skills mid-level (limited) L and S skills
2/4 2/5	LEPd	mid-level R and W skills high-level (proficient) L and S skills
3/2 3/3	LEPe	high-level R and W skills mid-level (limited) L and S skills
3/4	FEP	high-level R and W skills high-level (proficient) L and S skills

Standard

Any student that places below the FEP (Full-English Proficient) category and has at least one other indicator as per *N.J.A.C. 6A:15-1.3(c)* is limited English proficient.

LAS Links Language Assessment System- CTB McGraw-Hill Publishers

For each grade, there are score ranges for each language domain and for each language proficiency level.

Grade (e.g., 5)	1 Beginning	2 Early Intermediate	3 Intermediate	4 Proficient	5 Above Proficient
Overall					
Listening					
Speaking					
Reading					
Writing					

Standard: Any student that scores below the proficient range on the **Overall** score and has at least one other indicator (listed above) as per *N.J.A.C. 6A:15 1.3(b)* is limited English proficient.

The *LAS Links* Student Profile Sheet can be used for placement of students, and is available in an electronic version and a printed version. If the student's score is below the Proficient range (e.g., Beginning, Early Intermediate, or Intermediate), they are considered LEP.

IDEA Proficiency Test (IPT) - Ballard and Tighe Publishers

Use the IPT designations to determine program placement.

- Oral Tests
 - Non-English Speaker
 - Limited-English Speaker
 - Fluent-English Speaker
- Reading Tests
 - Non-English Reader
 - Limited-English Reader
 - Competent-English Reader
- Writing Tests
 - Non-English Writer
 - Limited-English Writer
 - Competent-English Writer

Standard

Any student who falls in the “limited” category or below, in any of the tests, oral, reading, or writing and has at least one other indicator (listed above) as per *N.J.A.C. 6A:15 1.3(b)* is limited English proficient.

MACII Test of English Language Proficiency – Questar Assessment, Inc (formerly Touchstone Applied Science Associates, Inc.) Publishers

Use the Standard Score Cut Points to determine program placement.

Standard Score Cut Points*				
Test Level	Grade	Fall	Spring	SEM**
Red	K	210	220	8
	1	566	588	14
Blue	2	548	564	12
	3	558	574	12
Orange	4	543	559	10
	5	556	569	11
Ivory	6	545	557	10
	7	551	562	10
	8	555	567	10
Tan	9	549	560	10
	10	558	570	11
	11	568	583	11
	12	580	593	11
*For grades 1-12, cut points are set for Total Battery scores. For grade K, cut points are set in terms of total Speaking and Listening scores.				

**The standard error of measurement (SEM) of a test is a measure of reliability that represents the amount by which a score may vary due to errors of measurement. Thus, the larger the SEM the greater the likelihood that a student might be misclassified. The SEM can be used to establish a band within which errors are most probable. For students whose scores fall within the band defined by the cut score plus or minus one SEM (e.g., 539 to 559 for Fall, 9th grade), additional data should be used to corroborate the placements.

WIDA-ACCESS Placement Test (W-APT)

The WIDA-ACCESS Placement Test (W-APT)TM is an adaptive test that can gauge students' proficiency up to and beyond level 5 of the WIDA ELP Standards. Like ACCESS for ELLs[®], there are five grade level clusters (Kindergarten, 1-2, 3-5, 6-8, and 9-12). Unlike the ACCESS for ELLS[®], all scoring of the W-APT is completed on site by the test administrator. All sections of the test are scored as the test is administered. After completion of the Speaking, Listening, Reading and Writing, the Test Administrator will use the instructions on the scoring sheet to calculate the students' overall Proficiency Level.

Grades 1-12

The regulation mandating the use of multiple criteria for identifying and exiting students from language assistance programs services is still required. For students in grades 1 through 12, a W-APT proficiency level of **4.5** or higher is recommended for exiting a program if multiple criteria support the decision.

Kindergarten

The Kindergarten test is organized into parts (A through E), each progressively more difficult. If the student successfully completes a part (e.g., A) they move on to the next part. The score sheet indicates the criteria for successful completion and will indicate how far the student progresses in the adaptive administration. For example to successfully complete part D of the Listening and Speaking exam, a student must answer at least 3 questions correctly in Part A, 3 questions correctly in Part B, 3 questions correctly in Part C, and 4 questions correctly in Part D.

The W-APT may be used to help determine eligibility of a kindergarten student for language assistance or to help identify when a student is able to exit a language assistance program. Eligibility may be determined at any time during the school year. However, the Reading and Writing sections of the W-APT test are only appropriate during the second half of the Kindergarten year.

For example, eligibility for language assistance program services for a student tested in September is contingent on students NOT successfully completing any Parts A, B, and C of the Listening and Speaking Test. If a student is tested in February, the student will take the Listening and Speaking, Reading and Writing tests. If the student does not successfully complete the appropriate parts in any one of the three tests, the student is eligible for language assistance. Charter schools should consider other indicators in making their placement decision.

To exit language assistance program a student is expected to meet the criteria in all three test sections. The following chart demonstrates the standards for program entry and exit in kindergarten:

	Eligibility for Language Assistance Kindergarten		Exit Language Assistance
Test Section	Administered Before January 1 of the School Year	Administered After January 1 of the School Year	Administered at the End of Kindergarten
Listening and Speaking	Does not successfully complete parts A, B, C, and D	Does not successfully complete parts A, B, C, and D OR	Successfully complete parts A, B, C, and D AND answer at least 3 questions correctly in Part E AND

Reading		Does not successfully complete parts A, B, and C OR	Successfully complete parts A, B, C, and D AND
Writing		Does not successfully complete parts A, B, and C	Successfully complete parts A, B, C, and D

Assessing Comprehension and Communication in English State to State for English Language Learners (ACCESS for ELLs™)

The ACCESS for ELLs English Language Proficiency test is required to be administered annually to all LEP students to measure progress in the English language. The test is administered during a six-week window each spring and scored by an outside vendor. Charter schools receive score reports during the summer, and can make tentative placement decisions based on other indicators until the score reports are received. For more information on the ACCESS for ELLS go to the website:http://www.nj.gov/education/bilingual/ells/score/entry_exit.htm

Comprehensive English Language Learning Assessment (CELLA)

CELLA Proficiency Levels

A student scoring below English Proficient and has at least one other indicator as per N.J.A.C. 6A:15-1.3(c) is considered limited English proficient.

Listening and Speaking Proficiency Levels

Beginning students speak in English and understand spoken English that is below grade level and require continuous support.

Low Intermediate students speak in English and understand spoken English that is at or below grade level and require some support.

High Intermediate students, with minimal support, speak in English and understand spoken English that is at grade level.

English Proficient students speak in English and understand spoken English at grade level in a manner similar to non-ELL students.

Reading Proficiency Levels

Beginning students read below grade level text and require continuous support.

Low Intermediate students read at or below grade level text and require some support.

High Intermediate students read at grade level text with minimal support.

English Proficient students read at grade level text in a manner similar to non-ELLs.

Writing Proficiency Levels

Beginning students write below grade level and require continuous support.

Low Intermediate students write at or below grade level and require some support.

High Intermediate students write at grade level with minimal support.

English Proficient students write at grade level in a manner similar to non-ELLs.

WIDA MODEL TEST

The WIDA Model for Kindergarten has two main purposes:

- To identify students who may be candidates for ESL and/or bilingual services; and
- To determine the academic English language proficiency level of students new to a school or to the U.S. school system in order to decide appropriate levels and amounts of instructional services.

For either purpose, the WIDA Model should be considered one of several elements in the decision-making process regarding ELL identification and placement in instructional services. The Listening and Speaking components of the WIDA MODEL provide an Oral Proficiency score, which can be used to determine the level and extent of services appropriate for each student. The results of the Reading and Writing (literacy) components provide diagnostic information that may be used as additional criteria to guide instruction and service delivery.

The WIDA MODEL for Kindergarten is one of New Jersey's approved language proficiency tests for identifying students for language assistance programs. This test is designed for children entering Kindergarten. Prior to January 1 of the Kindergarten school year, Kindergarten students can be administered only the listening and speaking sections of the WIDA MODEL for Kindergarten.

N.J.A.C. 6A:15-1.3(c) mandates the use of multiple indicators for identifying and exiting limited English proficient students from language assistance programs. For students taking the Kindergarten MODEL test **prior to January 1**, the standard for the oral proficiency level score (listening and speaking sections only) is a **5.0 oral language proficiency level and at least one other indicator**.

For students taking the Kindergarten MODEL **after January 1**, the standard is a **4.5 overall composite proficiency level and multiple indicators** as per N.J.A.C.6A15:1.10(c). This score is based on the student taking all parts (listening, speaking, reading, and writing) of the K MODEL.

ADDITIONAL AUDIT PROCEDURES TO BE PERFORMED ON THE CHARTER SCHOOL ENROLLMENT

In addition to the testing of enrollment reported, the public school accountant must also verify that the charter school maintains written internal procedures which provide a description of the enrollment count process.

These written procedures must include the following information:

- 1) How the count was taken,
- 2) Who was responsible for compiling the data and submitting the enrollment count, and
- 3) The various personnel assigned responsibilities for collecting the data.

If the charter school did not use the sample workpapers or develop an alternative audit trail, the auditor shall include a comment that the necessary verifications and sampling could not be performed and a recommendation that the workpapers be used or an alternative audit trail (which is acceptable to the auditor) be established for future audits. The auditor should include a comment and recommendation for any differences noted on the Schedule of Audited Enrollments.

ADDITIONAL PROCEDURES FOR SCHOOL-BASED MEDICAID REIMBURSEMENT PROGRAMS

Section 1903(c) of the U. S. Code allows Medicaid reimbursement for medically necessary school-based health services provided to Medicaid-eligible students. The services must be covered in the State plan for Medicaid, as approved by the Centers for Medicare and Medicaid Services (CMS), and provided by qualified practitioners with credentials which meet State and Federal requirements.

The State of New Jersey, Department of the Treasury administers two separate and distinct school-based Medicaid reimbursement programs: the Special Education Medicaid Initiative (SEMI) Program, including Cost Settlement Requirements, and Medicaid Administrative Claiming (MAC). The SEMI Program allows for the recovery of costs associated with the delivery of related services and evaluation services to special education students. Cost settlement, mandated by CMS, requires all states to demonstrate that rates paid for school-based Medicaid services are not higher than the actual cost of providing medical services. MAC allows for the recovery of costs associated with a wide range of Medicaid outreach activities eligible for administrative claiming.

The CMS has instituted several reporting requirements designed to document a charter school's compliance with federal reimbursement regulations. The CMS requires that each charter school designate an employee who is responsible for the coordination of the charter school's SEMI program with the third party billing administrator identified by the Department of Treasury. The CMS compliance requirements for charter school are pertinent to the charter school achieving maximum participation and include:

- Submission by the charter school designated employee who is responsible for the coordination of the charter school's Semi Coordinator of the quarterly updates and certification of the Staff Pool List (SPL) to the third party billing administrator
- Staff represented on the SPL that are selected for completion of the quarterly Random Moment Time Study (RMTS) are required to complete the RMTS in a timely manner
- Identification by the charter school of the charter school personnel responsible for the submission of the quarterly and annual financial information (salary and fringe benefits) of the staff listed on the SPL to the third party billing administrator
- Timely submission and certification by the identified charter school personnel of the quarterly and annual financial information of the staff listed on the SPL to the third party billing administrator

Under the SEMI Program, related services, evaluation services, and specialized transportation are activities for which a charter school may submit claims. A student must have a valid IEP that documents the need for related services that have been submitted for reimbursement. In addition, charter schools are required to have all necessary documentation on file for review to support all claims for services performed as indicated in the applicable chapters of the SEMI Provider Handbook. Specific reference is to Chapter 4 of the SEMI Provider Handbook, "Covered Services and Practitioner Qualifications" and to Chapter 5, "Service Documentation Requirements." The SEMI Provider Handbook is available through a link to "Special Education Medicaid Initiative" on the New Jersey Department of Education (NJDOE) website (Special Education/Information for Districts and Parents): <http://www.nj.gov/education/specialed/info/>.

Public Consulting Group (PCG) is the vendor that the Department of Treasury selected to submit billing services on behalf of charter schools. Effective October 1, 2005, charter schools began documenting services via PCG's proprietary 3rd party administrator system. PCG's 3rd party administrator system is a web based application used to document related services and evaluation services. A select group of related services (audiology, occupational therapy, speech therapy, physical therapy, nursing and counseling) as well as and evaluation services are reimbursable only when delivered by Medicaid qualified practitioners. See Chapter 5, "Service Documentation Requirements" of the SEMI Provider Handbook for the documentation required when using PCG's 3rd party administrator system. The primary contact at PCG is Kattrina Bravo (609-275-0250, ext 3964, email kbravo@pcgus.com) or Bryan Hawkom (800-210-6113, email bhawkom@pcgus.com).

Audit procedures involve testing to determine that documentation is being maintained by charter schools. Auditors should also consider the Medicaid assistance when planning the single audit. The Schedule of Federal Expenditures of Federal Awards included in the Single Audit chapter of The Audit Program includes the Medicaid Assistance Program as a line in the general fund.

In accordance with *N.J.S.A.* 18A:55-3 charter schools are required to maximize their participation in the Special Education Medicaid Initiative (SEMI) Program. The adopted Accountability Regulations specified in *New Jersey Administrative Code* (N.J.A.C.) 6A:23A-5.3 include programmatic guidelines and standards for charter schools to maximize participation in the SEMI Program.

The charter school shall recognize as revenue in its annual budget no less than 90 percent of SEMI revenue projections provided by the department, unless the charter school has received a waiver or submitted and received approval for an alternative SEMI revenue projection.

A charter school may seek a waiver of the requirements to maximize the SEMI Program if it can show that as per the October 15 Special Education Student Count for the previous school year (FYE 6/30/12 refer to October 15, 2010 count), it had 40 or fewer Special Education-Medicaid eligible students, or that efforts to participate in SEMI would not provide a cost benefit to the charter school. This information must be based on reliable evidence and on the revenue projection provided by the NJDOE of the charter school's eligible students or available SEMI reimbursement for the budget year. For the year ended 6/30/12, charter schools received \$298.02 for eligible evaluation services/IEP meetings and \$10.33 per date of eligible related services. The Executive County Superintendent will render a decision on waivers within 20 days of receipt of the waiver request.

A charter school may seek approval from the Executive County Superintendent to develop its own alternate SEMI revenue projections upon demonstration that the numbers it used in calculating the revenue projections are more accurate than those provided by the department. All alternate revenue projection proposals must be submitted to the Executive County Superintendent no less than 45 days prior to the submission of the charter school's proposed budget.

In accordance with *N.J.A.C.* 6A:23A-5.3(f), each charter school that has not achieved maximum participation in the SEMI Program or failed to comply with all program requirements set forth in *N.J.A.C.* 6A:23A-5.3(e), shall demonstrate a good faith effort to achieve maximum participation and to maximize available SEMI revenue by submitting a SEMI Action Plan to the Executive County Superintendent for review and approval as part of the charter school's proposed budget submission. Maximum participation in the SEMI Program is defined in the regulations as obtaining 90 percent return rate of parental consent forms for all SEMI eligible students.

SECTION I – GENERAL COMPLIANCE
CHAPTER 4

BUDGET & TRANSFERS

The Budget

Preparation of the budget is one of the most important functions of the charter school board of trustees. The approved budget should be detailed on the 108 line item budget summary form prescribed by the Department of Education in the New Jersey Charter School Application. All revenue data and expenditure data items and their classifications are explained in a narrative description with the budget summary in the charter school application.

Budget Transfers

Line-item transfers must be made whenever the line item is in danger of going into a deficit condition. A charter school may not approve encumbrances or expenditures that will create deficits in line items. A charter school may transfer amounts necessary to effectuate the approval of encumbrances or expenditures from line item accounts with available appropriation balances and pursuant to *N.J.A.C. 6A:23A-13.3*. A charter school may by resolution, designate the chief school administrator to approve transfers between meetings of the board. Transfers approved by the chief school administrator shall be reported to the board, ratified, and duly recorded in the minutes at a subsequent meeting of the board but not less than monthly.

For all line-item transfers from an appropriation account as defined under *N.J.A.C. 6A:23A-13.3(e)*, a two-thirds affirmative vote of the authorized membership of the board is required pursuant to *N.J.S.A. 18A:22-8.1*.

Transfers to food service fund

In situations where a charter school charges for meals or receives state or federal meal subsidies, the activity of its food service operations must be accounted for in an enterprise fund. Charter schools have been provided accounting guidance in Chapter 14 of the *GAAP Technical Systems Manual*. All costs related to the program must be shown in the enterprise fund. Any board contribution, including the payment of certain salaries or other identified specific expenditures should be budgeted and expended as a transfer to cover deficit in account 11-000-310-930. A separate line has been provided in the audsum for this account. For CAFR presentation, the budgeted and actual transfer should be presented as a general fund operating transfer.

Interfund balances

Charter school-wide statements (accrual basis)

GASB 34, paragraph 58 requires eliminations of interfund receivables and payables in the *Statement of Net Assets* except for the net residual amounts due between governmental and business-type activities, which should be presented as internal balances. Amounts reported in the funds as receivable from or payable to fiduciary funds should be included in the *Statement of Net Assets* as receivable from and payable to external parties rather than as internal balances. Paragraph 59 requires eliminations in the *Statement of Activities* to remove the “doubling-up” effect of internal service fund activity.

Funds statements (modified accrual basis)

For governmental funds, interfund transfers should be reported as other financing uses in the funds making the transfers and as other financing sources in the funds receiving transfers. In proprietary funds, revenues from transfers should be reported separately after nonoperating revenues and expenses. (GASB 34 Paragraph 112).

Interfund Note disclosures

GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, Paragraphs 14 and 15 require specific disclosures on interfund balances and transfers.

“Governments should disclose in the notes to the financial statements the following details about interfund balances reported in the fund financial statements:

- a. Amounts due from other funds by individual major fund, nonmajor governmental funds in the aggregate, nonmajor enterprise funds in the aggregate, internal service funds in the aggregate, and fiduciary fund type
- b. The purpose for interfund balances
- c. Interfund balances that are not expected to be repaid within one year from the date of the financial statements

Governments should disclose in the notes to the financial statements the following details about interfund transfers reported in the fund financial statements:

- a. Amounts transferred from other funds by individual major fund, nonmajor governmental funds in the aggregate, nonmajor enterprise funds in the aggregate, internal service funds in the aggregate, and fiduciary fund type
- b. A general description of the principal purposes of the government’s interfund transfers
- c. The intended purpose and the amount of significant transfers that meet either or both of the following criteria:
 - Do not occur on a routine basis – for example, a transfer to a wastewater enterprise fund for the local match of a federal pollution control grant
 - Are inconsistent with the activities of the fund making the transfer – for example, a transfer from a capital projects fund to the general fund.”

SECTION I – GENERAL COMPLIANCE
CHAPTER 5

BIDS & CONTRACTS/PURCHASING

Thresholds

Local Finance Notice (LFN) 2011-16 *The Qualified Purchasing Agent Law and Boards of Education*, issued by the Department of Community Affairs (DCA) on May 5, 2011, provides current guidance to boards of trustees concerning bid thresholds and the issuance of Qualified Purchasing Agent (QPA) certificates. LFN 2010-13R *Adjustment of Public Bidding Threshold July 1, 2010* was also issued by the DCA on May 5, 2011, and provides that effective July 1, 2010 under the Public Schools Contracts Law (*N.J.S.A. 18A:18A-2*), boards of trustees operating without a QPA have a \$26,000 maximum bid threshold for contracting. LFN 2010-13R provides that boards of trustees that have appointed a QPA pursuant to *N.J.S.A. 40A:11-9(b)* may have their maximum bid threshold increased to \$36,000 as of July 1, 2010 pursuant *N.J.S.A. 18A:18A-3(a)*.

LFN 2010-13R also provides that effective July 1, 2010, the maximum threshold for quotations for a board of trustees without a QPA is \$3,900; and for a board with a QPA the maximum threshold for quotations is \$5,400.

Recent Developments

Approved and effective on November 7, 2011, P.L. 2011, c.19 allows boards of trustees to utilize national cooperative contracts as a method of procurement. LFN 2012-10 *Using National Cooperative Contracts: Application of P.L. 2011, c. 19* was issued by the DCA on May 14, 2012 and is available on the DCA website at <http://www.state.nj.us/dca/divisions/dlgs/lfns/12/2012-10.pdf>.

Select Local Finance Notices (LFN)

LFN 2010-3, *Guidance on Current Issues in Local Government and Board of Education Procurement*, was issued during January 2010 by the DCA and provides guidance related to public procurement practices and law. Matters specific to Public School Contracts Law include:

- Political Contribution Disclosure Regulations for Boards of Education. To facilitate the disclosure of contributions to board members by vendors, boards of trustees are required to update their contracting procedures to adapt the Business Entity Disclosure Certification (BED-C) or extend the use of the Political Contribution Disclosure form to all contracts by including one of the forms in all bid specifications, RFPs and RFQs. (*N.J.A.C. 6A:23A-6.3*)
- Competitive Contracting for School and Professional Development Services (*N.J.A.C. 5:34-4.4*)
- Clarified Board of Education Procurement Rules for Professional Services (*N.J.A.C. 6A:23A-5.2(a)*)
- Boards of Education Federal Procurement Requirements

LFN 2008-9 was issued in April 2008 by the DCA and provides updated information and instructions regarding the use of online auctions to sell personal surplus property. Since the introduction of the pilot program pursuant to P.L. 2001, c.30, DCA's Division of Local Government Services (DLGS) has approved several internet-based vendors for such online auctions. For more detailed information regarding this process, please read the LFN which is available at <http://www.nj.gov/dca/lgs/lfns/08lfns/2008-9.doc>.

LFN 2007-12 with updated information regarding prevailing wage laws (see Page 2): <http://www.nj.gov/dca/lgs/lfns/07lfns/2007-12.pdf> P.L. 2009,c.249 amended *N.J.S.A.* 34:11-56.26, is effective January 12, 2010, and extends prevailing wage requirements to contracts for “maintenance-related projects” over \$50,000.

LFN 2006-3 and 2007-11 provide guidance to assist boards of trustees and their legal counsel in complying with P.L. 2005, c. 271 (Pay-to Play Law) that was signed into law on January 5, 2006. These notices, and other pay-to-play documents, are posted on the DLGS Pay-to-Play website at: www.nj.gov/dca/lgs/p2p. A key element of this law allows boards of trustees to adopt their own pay-to-play laws (*N.J.S.A.* 40A:11-51). A second, equally important element requires disclosure of political contributions by any business entity bidding or negotiating thereon for certain purchases over \$17,500 that are not publicly bid (*N.J.S.A.* 19:44A-20.26). The requirement to seek the approval of the State Treasurer prior to completing an emergency purchase for goods or services in accordance with *N.J.S.A.* 19:44A-20.12 is not applicable to boards of education.

Highlights of *N.J.S.A.* 18A:18A (Public School Contracts Law)

N.J.S.A. 18A:18A-1 et seq. (Public School Contracts Law) and the associated rules can be found at www.state.nj.us/njded/pscl.

N.J.S.A. 18A:18A-2 contains definitions for terms used throughout *N.J.S.A.* 18A:18A-1 et seq. It includes as subsection (p) the term ‘competitive contracting,’ which is defined as “the method described in *N.J.S.A.* 18A:18A-4.1 through 18A:18A-4.5 and in rules promulgated by DCA at *N.J.A.C.* 5:34-4 of contracting for specialized goods and services in which formal proposals are solicited from vendors; formal proposals are evaluated by the purchasing agent or counsel or school business administrator; and the charter school awards a contract to a vendor or vendors from among the formal proposals received.” Also, subsection (aa) defines the term ‘concession’ to exclude vending machines.

N.J.S.A. 18A:18A-3(a) sets forth the bid threshold and requires award by board resolution. There is a higher threshold when there is a “Qualified Purchasing Agent” (QPA) in the charter school as defined at *N.J.A.C.* 5:34-1.1 and certified upon approval of an application submitted to DCA. Pursuant to *N.J.S.A.* 18A:18A-3(b), the bid threshold may be adjusted by the Governor, in consultation with the Department of Treasury, every five years.

Effective July 1, 2010 the bid threshold for charter schools without a QPA was \$26,000.

For charter schools that have a QPA, the bid threshold is \$36,000 as of July 1, 2010.

N.J.S.A. 18A:18A-3(b) – provides for the base contract period.

“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.A.* 18A:18A-5 may be awarded for a period not exceeding 12 consecutive months.”

N.J.S.A. 18A:18A-4 sets forth the requirement for advertising, and was amended to address the disqualification of a vendor. This statute permits a charter school to disqualify a low bidder if any charter schools or, in the case of a contract for a school facilities project, the New Jersey Economic Development Authority has had a “prior negative experience” with the bidder.

“Every contract 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 charter school

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.

The charter school may, by resolution approved by a majority of the charter and subject to subsections (b) and (c) of this section, disqualify a bidder who would otherwise be determined to be the lowest responsible bidder, if the board of trustees finds that any board or, in the case of a contract for a school facilities project, the New Jersey Economic Development Authority, has had prior negative experience with the bidder within the past 10 years, as reported in a contractor evaluation submitted pursuant to N.J.S.A. 18A:18A-15 or in a school facilities project performance evaluation submitted pursuant to regulations of the Department of the Treasury or section 62 of P.L. 2000, c. 72 (C.18A:7G-36), as appropriate.”

N.J.S.A. 18A:18A-4.1 provides boards of trustees the ability to use competitive contracting in lieu of public bidding for the procurement of specialized goods and services above the bid threshold for the following purposes:

- proprietary computer software;
- hiring of a non-profit entity or not-for-profit entity under Title 15A;
- services performed by an energy services company;
- telecommunications transmission or switching services;
- specialized machinery or equipment of a technical nature;
- food services.

N.J.S.A. 18A:18A-4.4 provides boards of trustees the authority to pass a resolution authorizing the use of competitive contracting. “In order to initiate competitive contracting, the charter school shall pass a resolution authorizing the use of competitive contracting each time specialized goods or services enumerated in section 45 of .L. 1999, c.440 are desired to be contracted.”

N.J.S.A. 18A:18A-5 contains exceptions to the requirement for advertising and includes the below exceptions; this section should be referenced by the auditor for more details on these and other changes.

- expenses for travel/conferences;
- support/maintenance of proprietary computer software/hardware;
- purchase of goods/services at rates set by Universal Service Fund – FCC;
- student funded and benefited projects, e.g. yearbooks, class rings, class gift;
- food services pursuant to procedures established by the New Jersey Department of Agriculture; and
- vending machines for food and drink;
- Goods/services for which the lowest of three quotes is at least 10 percent less than the state contract price (see subsection (e) for award requirements).

N.J.S.A. 18A:18A-7 addresses emergency contracts that exceed the bid threshold, and requires the person in charge of the facility where the emergency occurs to notify the purchasing agent in writing of the circumstances and the need to invoke such action. Pursuant to this statute, charter schools must also comply with the implementing regulations at *N.J.A.C. 5:34-6.1* and *N.J.A.C. 6A:26-3.16*.

N.J.S.A. 18A:18A-10 permits the use of state contracts, and requires a board resolution for authorization for a charter school to do so.

N.J.S.A. 18A:18A-15 addresses general specifications for goods/services and was amended by P.L. 1999 c.440 primarily in the following areas:

- establishes the requirement for a prospective bidder to challenge bid specifications in writing no less than three business days prior to bid opening.
- subsection (c) defines the discrimination clause to include creed, color, ancestry, marital status, affectional or sexual orientation, etc.

- allows that goods/services purchased by funds from a bequest, legacy or gift that specifies a manufacturer or vendor may be treated as an exception to the bidding requirement.

N.J.S.A. 18A:18A-21 addresses the requirements for advertising bids and sets forth requirements for notification of revisions or addenda to advertisements or bid documents. P.L. 2005, c.191 amended *N.J.S.A.* 18A:-18A-21 and makes uniform the period of notice for revisions or addenda to advertisements for bids for certain contracts. The law provides that notices of revisions or addenda shall be published no later than seven days, Saturdays, Sundays and holidays excepted, prior to the date for acceptance of bids. P.L. 2007, c. 4 (No-Bid Monday Law) prohibits the receipt of bids on Mondays or any day following a state or federal holiday. The law was signed on January 17, 2007 and amended *N.J.S.A.* 18A:18A-21(a). Auditors and charter school administrators should review Local Finance Notices 2011-1 and 2011-38 at <http://www.state.nj.us/dca/lgs/lfns/lfnmenu.shtml> for current guidance and a 2011-2012 Table of Bid Holiday Acceptance Dates.

N.J.S.A. 18A:18A-22 establishes a list of criteria as bases on which a charter schools may reject all bids.

N.J.S.A. 18A:18A-37 describes the awarding of contracts below the bid threshold. Subsection (a) describes the requirements for awarding contracts below the bid threshold.

“For all contracts that in the aggregate are less than the bid threshold but 15 percent or more of that amount, and for those contracts that are for subject matter enumerated in subsection (a) of *N.J.S.A.* 18A:18A-5, except for paragraph (1) of that subsection concerning professional services and paragraph (3) of that subsection concerning work by employees of the charter school , the purchasing agent shall award the contract after soliciting at least two competitive quotations, if practicable.”

Subsection (c) describes the requirements for small purchases.

“If authorized by the charter school by resolution, all contracts that are in the aggregate less than 15 percent of the bid threshold may be awarded by the purchasing agent without soliciting competitive quotations.” This section should be referenced by the auditor for more details on these and other changes.

Charter schools must comply with *N.J.S.A.* 18A:18A-37 and 42.1 and 7 CFR. 210.16 when entering into School Food Service Management Company Contracts.

Pursuant to *N.J.S.A.* 18A:39-3, the threshold for bidding of transportation contracts is \$17,500. 18A:18A:49.1 states “the provisions of this chapter shall not apply to contracts for the transportation of pupils to and from school, which contracts are regulated by Chapter 39 of this Title.”

N.J.S.A. 18A:18A-42 allows contracts of 3 years or less to include extension provisions for no more than one two-year or two one-year extensions, provided the charter schools adopts a resolution complying with a set of conditions. The cost increase in extended contracts is limited to index rate percentages as posted by DCA at www.state.nj.us/njded/pscl. No contract can be extended so that it runs more than a total of five consecutive years.

The following are basic categories of such extensions with the corresponding aggregate terms. The statute should be referenced for specific limitations and restrictions.

<u>ITEM</u>	<u>AGGREGATE TERMS (YEARS)</u>
(1) Fuel for Heating	3
(2) Fuel/Oil for Vehicles	3
(3) Thermal Energy (Approved by Board of Public Utilities)	40
(4) Removal of Snow and Ice	3
(5) Garbage Collection	3
(6) Data Processing Services	7
(7) Insurance	3
(8) Leasing of equipment in accordance with rules and regulations of the State Board of Education	5
(9) Sale and lease-back of textbooks and non-consumable instructional materials	5
(10) Voice, Data, Transmission and Switching Services	5
(11) Driver Education	3
(12) Goods and Services for the purpose of conserving energy	15
(13) Any single project for construction, reconstruction or rehabilitation of any public building for length of time authorized for completion of actual construction.	Length of Time Authorized
(14) Laundry Service	3
(15) Purchases under contract awarded by Division of Purchase and Property in Treasury	Term not to exceed term of Contract

N.J.S.A. 18A:18A-45 addresses manner and method of sale of personal property, and requires, in addition to the board resolution, a sealed bid or public auction process; it also provides that if the estimated value exceeds 15 percent of the bid threshold, it must be sold at public auction. The auditor should refer to this section for additional information and changes.

N.J.S.A. 40A:11-23.1(d) provides for base and alternate bids for public works contracts over \$500,000. While the law does not amend the Public School Contracts Law, boards of trustees are urged to follow its requirements to provide a higher level of contract award integrity by specifying the procedure for contracting units to select the lowest responsible bidder in instances where alternates or base bids with options are used for public works projects. It requires the bid specification to set out clear criteria or a procedure the governing body will use to select the lowest responsible bidder, given the amount of funds available for the project. *N.J.S.A.* 40A:23.1(d) applies only to projects with a value of more than \$500,000.

N.J.S.A. 18A:18A-5 provides that the purchase order relating to a contract must include a notation that the item was purchased at least 10 percent below the state contract price. Also, the board will make available to the director, upon his request, any documents relating to the solicitation and award of the contract.

Energy Service Contracts

Pursuant to *N.J.S.A.* 18A:18A-4.1c and the implementing regulations at *N.J.A.C.* 5:34-4.5, charter schools can use the competitive contracting process to obtain the services performed by an energy services company (ESC), which includes the design, measurement, financing and maintenance of energy savings equipment or renovations. (*N.J.A.C.* 5:34-4.5(a) lists the types of projects for the provision or performance of physical improvements where the competitive contracting process cannot be used.)

N.J.S.A. 18A:18A-4.6(c), Implementation of an energy savings improvement program by a charter school, provides the authority for charter school to finance an energy savings improvement program through a lease-purchase agreement or through the issuance of energy savings obligations pursuant to this subsection.

The Division of Local Government Services has published guidance on the “Implementing an Energy Savings improvement Program” P.L 2009, c.4. This can be found in Local Finance Notice 2009-11 at this website: <http://www.nj.gov/dca/lgs/lfns/09lfnlis.shtml>.

Review of Purchase Orders

All public school accountants are required to give utmost consideration to encumbrances on the charter school’s books at year end through a thorough review and analysis of open purchase orders.

As discussed in Section I, Chapter 8, “Year-End Procedures”, charter schools should have ready for the auditor a listing of each type of order:

- 1) Those that represent orders for which the goods have been received or the services have been rendered at June 30 but that have not been paid (accounts payable);
- 2) Those that represent orders which will be honored in the subsequent year;
- 3) All others

Orders in category 1 must be charged against the current year budget, the related encumbrances reversed, and a liability (accounts payable) established. Orders in category 2 will be rolled over into the next fiscal year and will be included in the restricted, committed, and assigned fund balance classifications (GASB Statement No. 54) in the June 30 balance sheet. As a general rule, for other than construction contracts, the liquidation of these orders should be within 60-90 days of year end. In most cases, any other orders should be canceled.

As documentation of the review, charter schools must provide the auditor with separate listings of the category 1 orders and category 2 orders for each governmental fund. The total of each category 1 list must agree with the June 30 balance in the general ledger balance sheet account for accounts payable of the applicable fund. The total of each category 2 list must agree with the June 30 balance in the general ledger balance sheet account for the reserve for encumbrances of the applicable fund and included in the restricted, committed, and assigned fund balance classifications (GASB Statement No. 54) of the June 30 Balance Sheet. Charter school auditors must review the lists and their related documentation and challenge the propriety of the charter school’s classifications. Particular attention must be given to the subsequent liquidation of the orders to determine if an audit adjustment is necessary for additional orders that should be canceled.

(Note: Additional entries are necessary for outstanding special revenue fund purchase orders as explained in Section I, Chapter 8. Also, for CAFR presentation, in the special revenue fund, the reserve for encumbrances is grouped with deferred revenue in the GAAP balance sheet.)

A purchase order represents a commitment against an appropriation. Purchase orders should not be issued without an underlying contract or actual order of goods or services. Blanket purchase orders should not be issued. The auditor's review of orders for blanket purchase orders should not be limited to purchase orders outstanding at June 30. The issuance of a blanket purchase order at any time during the year should be reported as an audit finding and recommendation in the Auditors' Management Report.

Credit Cards

Neither charter school nor charter school officials may use credit cards for the purchase of goods and services. Statutory requirements direct how charter schools may purchase goods and services and establish the procedures to follow in paying for the purchase of goods and services. Purchases made by charter schools must comply with *N.J.S.A. 18A:18A-1 et seq.*, the Public School Contracts Law. The payment of claims by a board of education (charter school) must also comply with *N.J.S.A. 18A:19-1 et seq.*, "Expenditure of Funds; Audit and Payment of Claims." These regulations are intended to ensure that competitive bidding procedures are followed and certifications regarding the authenticity of claims are received. Pursuant to *N.J.S.A. 18A:19-13* and *N.J.A.C. 6A:23A-16.8*, a board of education (charter school) may establish a petty cash fund on July 1 of each year, or as needed, for the purpose of making immediate payments of comparatively small amounts. Large purchases should be made through the contractual order system.

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SECTION I – GENERAL COMPLIANCE
CHAPTER 6

CHART OF ACCOUNTS/EXPENDITURE CLASSIFICATION

Prescribed System of Double-Entry, GAAP Reporting and Bookkeeping Records

New Jersey statute (*N.J.S.A.* 18A:4-14) requires that New Jersey charter schools maintain bookkeeping consistent with the financial accounting and classifications established by the National Center of Educational Statistics (NCES) and with generally accepted accounting principles (GAAP), which includes a double-entry, self balancing set of accounts and records. The New Jersey Administrative Code, *N.J.A.C.* 6A:23A, Subchapter 16 prescribes further regulation regarding the accounting.

N.J.A.C. 6A:23A-16.2(f) requires that the charter school adopt a chart of accounts that is prepared in conformity with the guidelines established by the Department of Education consistent with NCES reporting requirements. The minimum level of detail (minimum outline) for expenditure accounts to be maintained in the chart of accounts for compliance with Department of Education and federal reporting requirements is presented in Appendix A of *The Uniform Minimum Chart of Accounts for New Jersey Public Schools (2008 Edition)*. This updated Chart of Accounts (COA) can be found on the website <http://www.nj.gov/njded/finance/fp/af/coa/> and was effective July 1, 2009.

The Department of Education publication entitled *GAAP for New Jersey School Districts, A Technical Systems Manual* must be utilized in the evaluation of a charter school's maintenance of the double-entry system of accounting in accordance with *N.J.S.A.* 18A:4-14. The Department of Education does not prescribe a standard format for the ledgers and journals used to maintain the accounting records. The Department instead provides general descriptions of each in the technical manual. Charter school auditors must be adequately familiar with the publication to perform the annual audit.

Additional references for GAAP accounting include the Government Finance Officers Association (GFOA) *Governmental Accounting, Auditing and Financial Reporting*, commonly known as the "Blue Book" and Governmental Accounting Standards Board (GASB) statements and pronouncements.

N.J.A.C. 6A:23A-16.6 requires that charter schools which contract for electronic data processing bookkeeping services shall annually have an audit prepared or obtain a copy of an audit of the internal controls of the service company. Such audit shall be as prescribed by Statement on Standards for Attestation Engagements (SSAE) No. 16, *Reporting on Controls at a Service Organization*. SSAE No. 16 was issued by the AICPA in April 2010 and is effective for service organization auditor reports for periods ending on or after June 15, 2011. SSAE No. 16 supersedes *Statement of Auditing Standards No. 70 (SAS 70)*, as amended by SAS 88, of the American Institute of Certified Public Accountants.

Expenditure Classifications and Reporting

Expenditures must be reported in the proper fund in the minimum outline format.

Under GASB 34, the *Statement of Revenues, Expenditures, and Changes in Fund Balance* (Exhibit B-2) reflects the governmental funds (including the general fund and the special revenue fund) revenues and expenditures on the GAAP modified accrual basis.

The *General Fund Budgetary Comparison Schedule* (Exhibit C-1) reflects the GAAP modified accrual basis for revenues.

The *Special Revenue Budgetary Comparison Schedule* (Exhibit C-2) reflects revenues and expenditures on a budgetary basis where encumbrances at fiscal year end are recorded as expenditures and corresponding revenue is recognized.

The original budget as well as the final approved budget as of June 30 must be reported in the budgetary comparison schedules. The variance is required by NJDOE, as is the transfer column between the original and the final.

Expenditures must be checked and verified, properly authorized by the board and recorded in the minutes. Expenditure classifications must be in accordance with *The Uniform Minimum Chart of Accounts for New Jersey Public Schools (2008 Edition) [Chart of Accounts]*, and the terms and conditions of the grant award. New accounts were added to the *Chart of Accounts* effective for July 1, 2009, but charter schools were given the option to adopt the new coding in 2008-09. Auditors should refer to Appendix F “Minimum Chart of Accounts Descriptions by Budgeting Line Item under Each Program/Function” in the *2011-12 Budget Guidelines* and use it as a reference tool in the coding of expenditures. Also included in the *2011-12 Budget Guidelines* is the section “Detailed Appropriations Grid” and it should also be used as a reference tool.

The restricted entitlement Preschool Education Aid (PEA) must be accounted for and reported in the CAFR and Audsum in accordance with guidance issued by the department and addressed in the September 20, 2011 memo to school districts available at <http://www.nj.gov/education/finance/fp/audit/1112/program/Preschool2011.pdf>. There are three categories of preschool children funded by the various state aids. Preschool general education children are funded by PEA and recorded in the special revenue fund 20. Preschool disabled inclusion children are funded by various aid categories including equalization aid, special education categorical aid and security aid. Special revenue fund 20 is used to record and report the general education portion of the preschool disabled inclusion child. Those expenditures are funded by a transfer from the general fund to fund 20. The expenditures for support services related to the preschool disabled inclusion child’s disability such as aides or other support services are recorded and reported in the general fund. Preschool disabled children in self-contained classrooms are funded by various aid categories including equalization aid, special education categorical aid and security aid. Expenditures for educating a preschool child in a self-contained classroom are recorded and reported in the general fund in the applicable program code.

Page 24 of the *2011-12 Budget Guidelines* provides guidance for recording and reporting preschool tuition revenue.

An audit of 2008-09 and 2009-10 preschool education expenditures reported by school districts was completed by the Office of Legislative Services during December 2011. The results of the audit reported a sixteen percent discrepancy rate between the CAFR Schedule E-2 *Preschool Education Aid Schedule of Expenditures* and Audsum for 2008-09 and 2009-10 in the reporting of preschool education expenditures. To address the high discrepancy rate, a preschool expenditure collection line has been added to the June 30, 2012 Audsum. A comparison will be made between expenditures reported on the E-2 and expenditures entered into Audsum and all discrepancies will require auditor reconciliation and the submission of a revised E-2 and/or retransmission of Audsum. In order to minimize the discrepancy rate, charter schools and auditors are encouraged to refer to the September 2011 memo referenced in the preceding paragraph. Auditors must verify that preschool education expenditures reported on the E-2 match preschool education expenditures reported in Audsum.

The activity related to each restricted grant, from either local, state or federal sources must be accounted for in the special revenue fund in the minimum outline format. Summarized information related to all state and federal grants and entitlements must also be reported in the schedules of expenditures of federal awards and state financial assistance.

The auditor's procedures should include tests of the appropriate classification of expenditures in accordance with the prescribed chart of accounts and supporting guidance (e.g. Appendix F of the *2011-12 Budget Guidelines*). Improper coding of expenditures is considered noncompliance with *N.J.A.C. 6A:23A-16.2(f)* and noted instances must be reported in the Auditor's Management Report. Auditors are directed to test the proper coding of expenditures during their review of the charter school's internal controls and the application of standard testing methods, as well as during compliance testing and the performance of single audit procedures. That is, each general fund or special revenue fund expenditure transaction tested for those procedures must also be tested for propriety of classification. Exceptions should not be reported for instances where the department has not given specific coding guidance in the aforementioned documents. The sample should be expanded if significant coding problems are noted.

Reclassification of Miscoding

Auditors are required to include a comment about expenditure coding in the Auditor's Management Report summarizing their sample selection process, conclusions reached and additional procedures performed, if any. Auditors are also required to include a summary of expenditure classification test results in the Audit Questionnaire indicating the dollar value of items tested, dollar value of exceptions noted and the error rate.

When a coding error is noted by the auditor, the expenditure must be reclassified for financial statement presentation, even if the reclassification will put the proper line item account into a deficit position and regardless of materiality of the error. The appropriation would not be reclassified with the expenditure unless there is a clear indication that the charter school misbudgeted the appropriation. In cases where it is clearly supported by charter school budget development workpapers that a budgeting error was made, the appropriation should be reclassified to the proper line item account. Accordingly, if the reclassification creates a line item deficit, the auditor's finding in the Auditor's Management Report must include an explanation that the deficit was not due to intentional overspending of the line item, but rather was generated due to a reclassification of expenditures to the proper line item account. In cases where there clearly was a miscoding in the development of the budget as well as the expenditure, the finding must include an explanation that the expenditure was miscoded and misbudgeted, and the appropriate entries were made to reclassify both to the proper line item account. Board action is not required. The rationale for and documentation of procedures performed and conclusions reached should be included in the auditor's workpapers and available for review by the department.

In addition, special revenue fund coding errors are not considered questioned costs if the expenditures are approved under the terms and conditions of the grant award. The miscoding must be reported in the Auditor's Management Report in the expenditure coding comment. The comment must clearly state that the expenditures were consistent with the approved award and the changes were the result of miscoding. Charter school final grant close-out reports should reflect the corrected coding of expenditures, including reclassifications of the original budgeted figures, if it was determined that the approved budget was based on the miscoding and the reclassification was made by the auditor in the CAFR. Charter schools should submit with the grant closeout report a copy of the auditors' expenditure coding comment to support the propriety of the reclassification in the closeout report. The charter school does not need grantor approval for the reclassifications made by the auditor. However, if the auditor determines that any expenditure was not consistent with the approved grant award the cost must be included in the Auditor's Management Report, and if the finding meets the audit finding criteria as defined in USOMB Circular A-133 and/or NJOMB Circular Letter 04-04, as applicable, it must be included in the Schedule of Findings and Questioned Costs in the Single Audit Section of the CAFR. Such miscoding will thus appear in two places in the Auditor's Management Report.

Specific to charter schools, the Budget Summary statement was designed to keep financial reporting requirements at a minimum, while at the same time, enabling charter schools to be in compliance with monitoring standards and maintain comparability to public school financial data. All revenue data and

expenditure data items and their classifications are explained in the Budget Summary Key of the Charter School Application. There are four major expenditure categories to be reported in the general fund: Instruction, Administration, Support Services, and Capital Outlay. These four categories are required in reporting expenditures in the budget form and the CAFR. However, for internal accounting reporting purposes, the charter school is required to use State Department of Education's publication entitled *The Uniform Chart of Accounts for New Jersey Public Schools*, which is available from the publication office. The charter school should utilize only the accounts deemed necessary.

The auditor's procedures should include tests of the appropriate classification of expenditures in accordance with the prescribed budget summary. Expenditure coding errors noted will be reclassified for financial statement presentation in accordance with the guidance provided under Section V – Conducting the School Audit. Auditors are required to include a comment about expenditure coding in the Auditors' Management Report.

N.J.A.C. 6A:23A-16.10 Overexpenditure of Funds

Auditors should refer to *N.J.A.C. 6A:23A-16.10* for detailed controls that charter school must implement over budgeted revenue and appropriations.

The budget status certification requirements, which are explained in detail in Division of Finance Policy Bulletin 200-11, must be fully implemented or else appropriate comments and recommendations must be included in the annual audit report.

SECTION I – GENERAL COMPLIANCE
CHAPTER 7

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SECTION I – GENERAL COMPLIANCE
CHAPTER 8

YEAR-END PROCEDURES

Closing Out for GAAP

Based on the suggested accounting procedures illustrated in the *GAAP for New Jersey School Districts, A Technical Systems Manual (Technical Systems Manual)*, throughout the year charter schools record transactions on a cash basis. Other revenues are recognized upon the receipt of cash, and expenditures are recognized when the invoice is paid. Certain adjustments are necessary to convert the records to the modified accrual basis and to the accrual basis for reporting under GASB 34, for inclusion in the charter school's annual report, the Comprehensive Annual Financial Report (CAFR). The public school accountant as part of the audit procedures will review these adjustments.

Various reference materials are available to assist charter schools in making the required adjusting and closing entries. Sample adjusting and closing entries for each fund are contained in the *Technical Systems Manual*. This *Audit Program* includes a discussion of general procedures that should be followed for all funds, standard adjusting and closing entries, as well as the additional entries required in the special revenue fund. Applicable pages of the *Technical Systems Manual* are referenced for more specific examples of entries to be made. *The Audit Program* is not meant to be all-inclusive. Charter schools should reference the aforementioned materials for the specific entries that must be made in other funds. Charter schools should also consult their software vendors to determine how the illustrated entries are entered into their system.

It should be noted that the closing entries for the general fund as shown in the *Technical Systems Manual* on Page 5.16 were revised in Q.153 of the June 11, 1993 questions and answers papers. The revised entries close the actual revenues against the budgeted revenues and the actual expenditures against the budgeted appropriations.

General Procedures for All Funds (Other than Special Revenue)

1) Review the Status of Purchase Orders Open at Year-End:

All prior year purchase orders should be closed or canceled as of June 30. Only under extreme extenuating circumstances should any balance be remaining in account XX-754 "Reserve for Encumbrances - Prior Year" which was used to track the liquidation of purchase orders from the prior fiscal year that were rolled over to the current fiscal year. Under GAAP accounting the differences between the purchase order and the actual invoice amounts are flowed through the expenditure account where the order was originally recorded, increasing or decreasing the available balance in that appropriation account.

Under normal circumstances, the amounts reflected in the "Reserve for Encumbrances - Current Year" account should represent orders that are expected to be liquidated within a reasonable period. Open purchase orders must be reviewed to determine their status.

The first step is to identify those purchase orders for which the goods/services have been received/rendered yet payment has not been made prior to year-end. These items must be charged as expenditure against the current year budget and established as an accounts payable at June 30. The accounts payable is recorded at the invoice amount. If the invoice has not been received the amount must be estimated. When payment is made in the subsequent year, the accounts payable account will be

charged rather than the expenditure account. The next step is to review any remaining purchase orders to identify those orders which will be honored the following year (i.e.- the goods/services are still necessary) and which will be canceled (i.e.- the goods/services are no longer necessary). As a general rule, for other than construction contracts, the liquidation of these orders should be within 60 to 90 days of year-end. All purchase orders that are no longer considered necessary and/or will not be honored within that time frame in the subsequent year must be canceled. No entries are necessary to carry open purchase orders as encumbrances in the current fiscal year. The entries to adjust the subsequent year's budget will be made in that year. The charter school should have ready for the auditor a listing of each type of order - 1) those that represent accounts payable and 2) those that represent orders that will be honored in the following year. Auditors are urged to perform a thorough review and analysis of open purchase orders in conformity with the Year-End Encumbrance Hotline issued September 16, 2003. The Hotline is available on the DOE website at:

<http://www.state.nj.us/education/finance/fp/af/hotline.pdf>

2) Accrue Any Revenues That Have Been Earned and Not Collected:

Charter schools are instructed to accrue revenues and establish receivables at the beginning of the fiscal year for those revenues for which collection amounts are known. Charter schools may also have established accounts receivable balances in the prior year for items that should have been collected by June 30. At year-end entries must be made to accrue revenues and establish receivables for any revenues that have been earned but are uncollected as of June 30 in order to bring the accounting records into accordance with GAAP. An example would be interest earned on investments. Charter schools must also determine the collectability of any uncollected accounts receivable balances as of June 30. Uncollected charter school aid balances should be investigated.

3) Analyze Balance Sheet Account Balances:

Charter schools must be able to provide their auditors with the detail of what comprises each balance sheet account at June 30. In other words, for each asset and liability account, the charter school should prepare a schedule (list) of what individual amounts comprise the total balance shown in the general ledger account. Accounts receivable amounts should be detailed by what is owed to the charter school, by whom and for what; each investment should be listed along with the identity of the trustee(s) or Institution(s) holding such assets. Accounts payable amounts should be detailed by amount and vendor, etc. During the preparation of these analyses, the charter school should address the propriety of the amounts being included on the schedules, taking into consideration such things as which accounts should have debit balances and which accounts should have credit balances. If an account balance cannot be supported it should be investigated and adjusted appropriately. Part of the public school accountant's audit will be to examine and test these detailed schedules (lists).

The presentation of prior period adjustments under GAAP is not made directly to fund balance. The correction of immaterial errors is recorded as miscellaneous income or expenditures of the current year. The correction of material errors is shown in the balance sheet as a prior period adjustment, with a restatement of the opening July 1 fund balance. The use of prior year's surplus in the current year budget is tracked in the recapitulation of balances section of the board secretary's report. No adjustment is made to fund balance for the estimated use of surplus. The actual use of surplus is adjusted to fund balance as part of the year-end closing entries. As such, the preliminary (preclosing) June 30 balance in the fund balance account should equal the June 30 balance per the prior year audit.

Included in the Board Secretary's audit checklist of documents to have available for the audit, Chapter III-6 of this *Audit Program*, is a schedule of capital assets to support the amount reported on the line "Capital Assets, net" (cost of the assets less accumulated depreciation) in the governmental funds and the business like activities columns of the *Statement of Net Assets* (Exhibit A-1). Charter school staff will need to prepare a conversion from the modified accrual fund balance presentation in the Governmental Funds Balance Sheet (B-1) to Net Assets presentation in the Statement of Net Assets (A-1).

Standard Adjusting Entries

To Establish Accounts Payable:

(*Note:* The reversal of the encumbrance and reserve is made in the amount of the original order; the accounts payable is recorded in the amount of the invoice, which may differ.)

Dr. Reserve for Encumbrances (XX-753)
 Cr. Encumbrances (XX-603)
 Reverse Encumbrance (with appropriate reversals made in the expenditure subsidiary ledger)

Dr. Expenditures (XX-602)
 Cr. Accounts Payable (XX-421)
 Establish Payable (with appropriate entries made in the expenditure subsidiary ledger)

To Cancel Purchase Orders:

Dr. Reserve for Encumbrances (XX-753)
 Cr. Encumbrances (XX-603)
 Reverse Encumbrance (with appropriate reversals made in the expenditure subsidiary ledger)

To Accrue Revenues:

Dr. Applicable Accounts Receivable (XX-1XX)
 Cr. Revenues (XX-302)
 Record Revenue (with appropriate entries made in the revenue subsidiary ledger)

Closing Entries

Closing Budgetary Accounts

Two entries are needed to close the temporary budgetary accounts to fund balance:

- Estimated revenues, budgeted fund balance, and actual revenues are reversed, with the difference being recorded as an increase or decrease in unreserved fund balance.
- Budgeted appropriations, expenditures, and encumbrances are reversed, with the difference being recorded as an increase or decrease in unreserved fund balance.

An example, after the adjusting entries have been recorded, of the general fund trial balance would appear as follows:

<u>A/C</u>	<u>DEBIT</u>	<u>CREDIT</u>
101 Cash in Bank	\$117,000	
106 Cash Equivalents	1,134,576	
111 Investments	570,600	
114 Interest Receivable on Investments	25,400	
142 Intergovernmental A/R - Federal	65,000	
301 Estimated Revenues	49,929,100	
302 Revenues		\$49,911,100
303 Budgeted Fund Balance	568,300	
421 Accounts Payable		60,000
601 Appropriations		50,497,400
602 Expenditures	49,893,100	
603 Encumbrances	65,000	
753 Reserve for Encumbrances - Current Year		65,000
770 Unreserved Fund Balance		1,834,576

The entry to close the budgeted revenues against the actual revenues is:

Dr. Unreserved Fund Balance (XX-770)	586,300	
Dr. Revenues (XX-302)	49,911,100	
Cr. Estimated Revenues (XX-301)		49,929,100
Cr. Budgeted Fund Balance (XX-303)		568,300

(With the appropriate entries being made in the revenue subsidiary ledger.)

The entry to close the budgeted appropriations against the actual expenditures and encumbrances is:

Dr. Appropriations (XX-601)	50,497,400	
Cr. Expenditures (XX-602)		49,893,100
Cr. Encumbrances (XX-603)		65,000
Cr. Unreserved Fund Balance (XX-770)		539,300

(With the appropriate entries being made in the expenditure subsidiary ledger.)

In this example, the actual use of fund balance (deficit) was \$47,000, which is calculated as the net debit to Unreserved Fund Balance (\$586,300 less \$539,300) in comparison to the budgeted deficit of \$568,300.

Each year the budgetary accounts are closed with these entries. The opening balances of those accounts in the subsequent year are always zero. The other balance sheet accounts are not zeroed. No journal entry is needed to open the books. The unaudited ending balances from the prior fiscal year will be carried forward and used as opening balances. If necessary, these amounts will be adjusted for the result of findings of the audit when the CAFR is issued.

Other Issues/Entries

Internal Accounting Records

The June board secretary's report may be prepared using preliminary amounts. Charter schools do not have to include final adjusting and closing entries in the report. The report should include normal monthly adjusting entries. Charter schools must remember to run final reports, ledgers, journals, etc. prior to posting the closing entries for the year.

Capital Assets and Long Term-Debt

Charter schools should refer to the *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification), Section 1400 (Reporting Capital Assets), Section 1500 (Reporting Liabilities) and Section C60 (Compensated Absences) for guidance on reporting these. The following is a brief overview and is not intended to address the conversion at the end of the year:

- School wide Financial Statements (Accrual Basis) - the balance for capital (fixed) assets net of accumulated depreciation is reported in the charter school wide *Statement of Net Assets* (Exhibit A-1). Depreciation is reported in the *Statement of Activities* (Exhibit A-2). Liabilities whose average maturities are greater than one year should be reported in two components – the amount due within one year and the amount due in more than one year. This includes compensated absences. Charter schools and auditors should refer to GASB Codification C60 for guidance on calculating the liability for compensated absences and reporting the amount due within one year separately from the amount due in more than one year in the *Statement of Net Assets*.
- Fund Financial Statements (Modified Accrual Basis) - charter schools will continue to report capital outlay in the governmental fund statements. Liabilities for compensated absences are normally liquidated with expendable available financial resources, and a governmental fund liability and expenditure should be recognized as payments come due each period upon the occurrence of relevant events, such as employee resignations and retirements. Charter schools and auditors should refer to GASB Codification C60 for additional guidance on reporting in the governmental funds statements.

Opening Balances

At the beginning of each year, the certified budget amounts are adjusted for the outstanding purchase orders from the prior year that will be honored in the subsequent year. This is done by making the following entries on July 1:

Dr. Encumbrances (XX-603)

Cr. Appropriations (XX-601)

Dr. Reserve for Encumbrances - Current Year (XX-753)

Cr. Reserve for Encumbrances - Prior Year (XX-754)

(With the appropriate entries being made in the expenditure subsidiary ledger.)

These entries increase the budgeted appropriations, reestablish the encumbrances as a restriction of the adjusted current year appropriations, and transfer the reserve for encumbrances balance from the current year account into the prior year account. The entries have no impact on the available balance and there is no need to issue new purchase orders for these prior year items.

Reference Materials

The below listed pages in the *Technical Systems Manual* should be referenced for specific examples of adjusting and closing entries in the various funds. As previously noted, the closing entries for the general fund as shown in the *Technical Systems Manual* on Page 5.16 were revised in Q.153 of the June 11, 1993 questions and answers papers. The sample entries on Pages I-8.4 and I-8.5 of this Audit Program reflect the revised entries.

General Fund	pp. 5.14 to 5.16, 5.18, 5.20 to 5.21, 5.23 to 5.24
Special Revenue Fund	pp. 9.12 to 9.13
Capital Projects Fund	pp. 11.8 to 11.10
Enterprise / Internal Service Fund	pp. 14.12 and 14.15
Trust and Agency Funds	pp. 15.2 to 15.4, 15.7 and 15.10

Special Revenue Fund

When doing the year-end adjusting and closing entries, the following points should be noted:

- The special revenue fund is unique as the accounting records are maintained on the budgetary basis rather than on the GAAP basis. The budgetary basis differs from GAAP in that the budgetary basis recognizes encumbrances as expenditures in the year an order is placed, whereas the GAAP basis does not.
- Budgetary revenues must equal expenditures as funds are not considered earned until they are obligated.

The accounting treatment for expenditures in excess of the grant award differs from the manner explained on page 9.1 of the *Technical Systems Manual*. **There are no transfers from the general fund to the special revenue fund for excess expenditures.** The appropriate account in the general fund budget should be charged for the excess.

Throughout the year charter schools record grant revenue on a cash basis. As such, in addition to the standard accruals for revenues and expenditures at year end, additional entries are needed to adjust the revenues recorded when the cash was received for any amounts that are deferred to the next fiscal year and any amounts that are due back to the grantor. Entries may also be necessary to establish receivables for grants where the expenditures have been funded through interfund loans and reimbursement has not been received from the grantor. Examples of the calculation of these amounts are included in Chapter 9 of the *Technical Systems Manual* systems manual and should be carefully reviewed.

Charter schools must perform the year-end review of special revenue fund purchase orders that was discussed earlier in this chapter and make the necessary entries as illustrated on Page I-8.6 to cancel any unnecessary orders and to reverse the reserve for encumbrances and record the expenditures and the accounts payable related to the unpaid orders for which the charter school has received goods and services as of June 30. An additional entry will be needed to record the orders that will be honored in the following year as current year budgetary basis expenditures. Remember that under the budgetary basis used in the special revenue fund, an item is chargeable to the grant and considered expenditure when it becomes an obligation.

GAAP expenditures are calculated as budgetary expenditures plus 6/30 prior year encumbrances less 6/30 current year encumbrances. (Note: this calculation must be done separately for each of the three expenditure categories included in the *Statement of Revenues, Expenditures and Changes in Fund Balances*: instruction, undistributed expenditures, and capital outlay.) The balance sheet figures are GAAP. No reserve for encumbrances is shown. Any balance in that account should be grouped with deferred revenue for CAFR presentation. The final general ledger balances are budgetary basis amounts. Entries are not made to the general ledger to derive GAAP amounts. Again, the examples contained in Chapter 9 of the *Technical Systems Manual* should be reviewed.

The charter school wide *Statement of Net Assets* and the *Statement of Activities* (accrual basis) include the special revenue fund in the governmental activities column. The modified accrual basis special revenue fund is included in the governmental funds *Balance Sheet* and *Statement of Revenues, Expenditures, and Changes in Fund Balances*. The *Budgetary Comparison Schedule – Special Revenue Fund* will reflect the revenues and expenditures of this fund on the budgetary basis.

When analyzing balance sheet accounts in the special revenue fund it should be noted that for budgetary basis there is no fund balance in the special revenue fund. Any excess of cash received over expenditures is either deferred revenue, due to grantor, or an interfund payable. Adjustments should have been made to the certified budget to spend the July 1 deferred revenue and the deferred revenue subsequently recognized as revenue during the year. An example of the journal entries necessary to budget and recognize the deferred revenue is provided in Chapter 9 of the *Technical Systems Manual* and should be carefully reviewed.

A credit balance appearing in the cash account must be investigated to determine if interfund loans need to be recorded. Charter schools should also ensure that certificates of debit and credit have been properly recorded during the year. It should be ascertained that any necessary adjustments have been recorded.

Special Revenue Fund Adjusting Entries

The following entries assume that grant revenue was recorded on a cash basis throughout the year.

Assuming that the cash received exceeds the total of the expenditures and the encumbrances, the entry would be as follows:

- If carryover is allowed:

Dr. Revenue (20-302)
 Cr. Deferred Revenue (20-481)

- If carryover is not allowed:

Dr. Revenue (20-302)
 Cr. Intergovernmental Accounts Payable (20-41X)

(With the appropriate entries being made in the revenue subsidiary ledger.)

In situations where the total of the expenditures and encumbrances exceeds the cash received, the entry would be:

Dr. Intergovernmental Accounts Receivable (20-14X)
 Cr. Revenue (20-302)

(With the appropriate entries being made in the revenue subsidiary ledger.)

In addition to the entries necessary to establish the accounts payable for the goods/services that were received as of June 30, an entry is also needed to recognize the encumbrances outstanding at June 30 as expenditures for the preparation of budgetary-basis financial statements:

Dr. Expenditures (20-602)

Cr. Encumbrances (20-603)

(With the appropriate entries being made in the expenditure subsidiary ledger.)

Special Revenue Fund - Other Issues/Entries

As mentioned earlier, when preparing GAAP financial statements, the reserve for encumbrances does not appear in the balance sheet, but instead is grouped with (added to) the deferred revenue amount and appears on that line of the GAAP modified accrual basis *Balance Sheet* and accrual basis *Statement of Net Assets* in the basic financial statements section of the CAFR.

Opening Balances

On July 1, an entry is required to transfer the reserve for encumbrances balance from the current year to the prior year account as illustrated below. The reserve for encumbrances - prior year (20-754) account is used to track the liquidation of the prior year encumbrances that were outstanding as of June 30, acting similar to accounts payable. The rollover of these orders does not require an adjustment to the subsequent year's certified budget since the orders were charged as expenditures during the current year under the budgetary basis.

To transfer the reserve for encumbrances balance from the current year to the prior year account the entry would be:

Dr. Reserve for Encumbrances - Current Year (20-753)

Cr. Reserve for Encumbrances - Prior Year (20-754)

Grant Year

Grant revenues and expenditures must be identifiable based on award year and as to original, summer, or carryover allocation. The chart of accounts is structured to allow for unique program codes to be assigned to the various grant allocations that may be running simultaneously. Although specific program codes are not listed for summer programs, charter schools must select a program code from the ranges provided to account for the summer portion of grants that overlap fiscal years. During the year, charter schools should remember to budget and account for grant activity in the appropriate program codes, making adjustments to the revenue and expenditure subsidiary ledgers to account for budget revisions necessary as a result of the shift of funds between the original, summer, and carryover allocations. This information is necessary for the completion of the Schedules of Financial Assistance included in the Single Audit Section of the CAFR. Chapter 9 of the *Technical Systems Manual* provides an illustration of the shift of funds into a carryover period. The same entries apply to the shift of funds to a summer program.

All Funds

In summary, charter schools should make the appropriate adjusting and closing entries. The public school accountant may suggest changes to the amounts reflected in the charter school's figures based on the results of his/her audit. In those instances, the auditor should provide the charter school with the necessary post-closing adjusting entries to correct the July 1 opening balances. Charter schools are reminded that the entries shown above represent what should be recorded in the accounting records. How those entries are actually made differ from software system to software system. It is advised that charter schools have a clear understanding of how to key those adjusting and closing entries into their accounting software package.

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SECTION II – SPECIFIC COMPLIANCE

CHARTER SCHOOL BOOKKEEPING

The State Board of Education has, in accordance with law, prescribed a uniform double-entry system of bookkeeping for use in all charter schools and is authorized to compel its use. (*N.J.S.A. 18A:4-14 and N.J.A.C. 6A:23A-16*)

The Uniform Minimum Chart of Accounts for New Jersey Public School (2008 Edition) (COA) was originally published in 1992 and revised effective July 1, 2009. The revised COA is available on the website <http://www.nj.gov/njded/finance/fp/af/coa/>.

GAAP distinguishes between funds which benefit the charter school (Permanent funds) and those for which the charter school acts as a trustee or agent, but where the resources benefit other governments, individuals, or organizations (Trust or Fiduciary funds). Governmental fund 50 should be used to record the accounting for Permanent funds. Expendable trusts that benefit the charter school should be included in the Special Revenue fund. The Proprietary funds use fund 60 and fund 70, and the Fiduciary funds use funds 80, 90, and 95. When the charter school uses the reimbursable or pay as you go method for unemployment, the Unemployment Compensation Trust would be included in fund 80. The resources and changes in net assets of a private purpose scholarship fund would also be reported here. The Fiduciary funds are not included in the accrual level statements (A - series) since they are not assets of the charter school.

The following is a listing of funds using the revised chart of accounts structure effective July 1, 2004:

Governmental Funds

- Fund 10 (General fund)
- Fund 20 (Special revenue fund)
- Fund 30 (Capital projects fund)
- Fund 40 (Debt service fund)
- Fund 50 (Permanent fund)

Proprietary funds

- Fund 60 (Enterprise fund)
- Fund 70 (Internal service fund)

Fiduciary funds

- Fund 80 (Trust funds)
- Fund 90 (Agency funds)
- Fund 95 (Student activity funds)

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SECTION II – SPECIFIC COMPLIANCE
FUND 10 –GENERAL FUND

Optional Treasurer of School Moneys

P.L. 2010, c.39, effective July 2, 2010, made the treasurer of school moneys an optional position. Upon the board's election to eliminate the treasurer's position, the law requires a shifting of internal control and internal reporting responsibilities from the treasurer to the board secretary and chief school administrator. Accordingly, charter schools electing to eliminate the treasurer's position must consider the impact on the charter school's internal controls. This law supplemented chapter 17 of Title 18A and amended various sections of the New Jersey statutes. The following is an overview of responsibilities of the board secretary when the treasurer position is eliminated. For a complete understanding of the changes, see P.L. 2010, c.39.

N.J.S.A. 18A:17-9.1 - the board secretary will receive and hold in trust all school moneys, except any moneys derived from athletic events or other activities of pupil organizations of the charter school.

N.J.S.A. 18A:17-9.2 - the board secretary shall keep a record of the sums received and paid out by him in accordance with the uniform system of bookkeeping prescribed by the State board.

N.J.S.A. 18A:19-9 as amended requires that payrolls must be certified by the president and secretary of the board and the chief school administrator.

N.J.S.A. 18A:19-10 as amended requires the board secretary to draw and deposit the warrants in separate bank accounts as a net payroll account and an agency account for payroll deductions and associated board contributions (agency account); authorized signatories on the payroll account must include the secretary and a board designee.

N.J.S.A. 18A:19-10 amended provides that the board secretary shall draw and deposit the warrants.

Board Secretary and (Optional) Treasurer Reports

In accordance with *N.J.S.A. 18A:17-9(a)* amended, the board secretary shall report to the board at each regular monthly meeting the amount of total appropriations and the cash receipts for each account, the amount for which warrants have been drawn against each account, the amounts of orders or contractual obligations incurred and chargeable against each account year to date, and since the date of the last report, the cash and appropriation balances for each account and fund, and the reconciled bank account balances. At the close of each fiscal year, the board secretary shall present to the board a detailed report of its financial transactions during such year and file a copy with the executive county superintendent on or before August 1st of each year.

For a charter school that elects to maintain the treasurer's position, *N.J.S.A. 18A:17-36* requires the treasurer to report to the board monthly a detailed account of all receipts, the amounts of all warrants signed by him/her since the date of the last report and the accounts against which the warrants were drawn, and the balance to the credit of each account. At the close of each fiscal year, the treasurer shall present an annual report showing the amounts received and disbursed for school purposes during said year and file a copy with the executive county superintendent on or before August 1st of each year.

The separate monthly board secretary and treasurer (where the charter school elects to maintain the position) reports must be reconciled on a monthly basis.

Cash Reconciliation

The cash accounts must be reconciled. *N.J.S.A.18A:17-9* amended, provides that the chief school administrator or board designee other than the secretary must prepare the monthly reconciliations of all bank accounts prior to the completion of the secretary's monthly report. Reconciliation of payrolls and bond and interest accounts are to be made in all charter schools maintaining such accounts and must be permanently recorded and filed for future reference. The auditor must verify the reconciliation of all cash accounts of the charter school.

Bank reconciliation statements are not required to be exhibited in the audit report. Workpapers must be available for review upon request.

Petty Cash Funds

N.J.A.C. 6A:23A-16.8 states "Pursuant to the provisions of *N.J.S.A. 18A:19-13*, a district board of education or charter school board of trustees may establish on July 1 of each year, or as needed, a cash fund or funds for the purpose of making immediate payments of comparatively small amounts."

To be in compliance with the administrative code, the board must establish the amounts authorized for each fund, and set the maximum allowable individual expenditure. The board must designate custodians for each fund and must establish the minimum time period for the custodian to report on fund activity. Petty cash accounts must be closed out at year-end and unexpended cash deposited in the bank by June 30.

Summer Payment Plans

N.J.S.A. 18A:29-3 authorizes a charter school to establish a Summer Payment Plan which will provide for withholding 10 percent of the salary of 10-month employees during the academic year. *N.J.A.C. 6A:23A-16.9* states "The district board of education (charter school) shall ensure that the amount withheld earns interest and is available to the employee either at the end of the academic year or in installments prior to September 1."

SOC 1 Report (Service Organization Controls Report) – Formerly SAS #70 Reports

N.J.A.C. 6A:23A-16.6 requires that charter schools which contract for electronic data processing bookkeeping services including services provided by software vendors, payroll service vendors, and other service organizations, shall annually have an audit prepared or obtain a copy of an audit of the internal controls of the service company. Such audit shall be as prescribed by Statement on Standards for Attestation Engagements (SSAE) No. 16, *Reporting on Controls at a Service Organization*. SSAE No. 16 was issued by the AICPA in April 2010 and is effective for service organization auditor reports for periods ending on or after June 15, 2011. SSAE No. 16 supersedes *Statement of Auditing Standards No. 70 (SAS 70)*, as amended by SAS 88, of the American Institute of Certified Public Accountants. A SOC 1 report (Service Organization Controls Report) is a report on Controls at a Service Organization which are relevant to user entities' internal control over financial reporting. Previously known as SAS #70 Reports, the SOC 1 report may be either a Type 1 or a Type 2 report.

- Type I – Report on policies and procedures placed in operation. This report may be an effective and efficient way for the charter school auditor to gain an understanding of the internal controls of the service organization.
- Type II – Report on policies and procedures placed in operation and tests of operating effectiveness. This report includes a description of the tests of operating effectiveness and the results of those tests. If the controls are present and operating effectively, the charter school's

auditor may choose to assess control risk below the maximum for financial statement assertions related to the service organization transactions. This is a decision made by the charter school auditor.

Auditors are advised to review Chapter 4, Field Work Standards for Financial Audits, of the *Government Auditing Standards* (2007 edition) available electronically at the website <http://www.gao.gov/yellowbook> for further guidance on internal controls.

Third Party Disbursements

N.J.S.A. 52:27D-20.1 Contracts for third-party disbursement services, gives the Local Finance Board, in consultation with the Commissioner of Education, the authority to adopt regulations permitting charter school to contract with a third-party disbursement service organization in order to make payments and execute financial transactions for those purposes.

The rules on third party disbursements can be found in *N.J.A.C. 5:30-17 et seq.* Charter schools are advised to review the rules prior to engaging a third party disbursement service organization.

N.J.A.C. 5:30-17 et seq., Electronic Disbursement Controls for Payroll Purposes can be found at <http://www.state.nj.us/dca/lgs/fiscal/generalpubs/payroll%20agency%20handbook%201.pdf>

N.J.S.A. 18A:19-10 amended, requires charter schools to maintain separate bank accounts for net payroll, and for payroll deductions and associated board contributions (agency account). In a charter school that does not maintain the position of treasurer of school moneys; the secretary shall draw and deposit the warrants. Where the charter school maintains the position of treasurer of school moneys, the treasurer shall deposit the warrants.

N.J.S.A. 18A:19-10 amended, requires that authorized signatories on the payroll account must include the secretary and a board designee.

Investments

Several statutes govern permissible investment of school monies by New Jersey charter schools. In a charter school which appoints a treasurer of school moneys, *N.J.S.A. 18A:17-34* gives the treasurer of the charter school the authority to deposit school moneys in any bank or banking institutions of this state designated as a depository of school monies. In a charter school that does not have a position of treasurer of school moneys, the board secretary when required by the board resolution has that authority (*N.J.S.A. 18A:17-9.1*). Under *N.J.S.A. 17:9-41 et seq.*, the Governmental Unit Deposit Protection Act (GUDPA), a charter school may deposit public funds in a public depository if such funds are secured in accordance with GUDPA. This statute defines a public depository as:

“a State or federally chartered bank, savings bank or an association located in this State or a state or federally chartered bank, savings bank or an association located in another state with a branch office in this State, the deposits of which are insured by the Federal Deposit Insurance Corporation and which receives or holds public funds on deposit.”

N.J.S.A. 18A:20-37 provides for the specific types of securities that the charter school can authorize to be purchased and sets forth general investment practice requirements. It also provides for the specific types of securities which may be purchased and registered in a charter school's name. While the types of securities and requirements are too extensive to list, the statute includes governmental money markets funds and bonds or other obligations having a maturity date of not more than 397 days from the date of

purchase, approved by the Division of Investments in the Department of Treasury for investment by charter schools. The division does not publish a listing of approved investments but charter schools may request approval of a specific security by sending a letter to the address on the following page:

Director
Division of Investments
P.O. Box 290
Trenton, NJ 08625

The Department of Education does not have the authority to determine compliance with GUDPA or review and approve the types of securities a charter school can utilize. Charter schools should consult with their legal counsel and direct any questions on the permissibility of a specific security pursuant to N.J.S.A. 18A:20-37 to the Division of Investments in the Department of Treasury at the above address.

Further information on GUDPA or on banking institutions may be found at the Department of Banking and Insurance website

http://www.state.nj.us/dobi/division_banking/depositories/gudpa.htm. A charter school which is unsure as to whether the bank/institution is certified as a depository should request from the bank/institution a copy of the "Notification of Eligibility" or may contact the Department of Banking and Insurance.

Charter schools were required to implement GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," effective for fiscal year end June 30, 1998. This statement establishes fair value accounting and financial reporting standards for certain types of investments held by governmental entities other than external investment pools. This should have a limited impact on charter schools. For government entities other than external investment pools, this statement establishes accounting and financial reporting standards for the following investments: participating interest-earning investment contracts, external investment pools, open-end mutual funds, debt securities, and equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values.

The implementation of GASB Statement No. 31 did not supersede the required disclosures included in the CAFR in accordance with GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements." It represents a change to the method at which investments are valued for accounting and financial reporting and provides for additional disclosures regarding the valuing of investments.

GASB Statement No. 40, "Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3" is effective for financial statements for periods beginning after June 15, 2004 and states:

"...disclosures generally referred to as category 1 and 2 deposits and investments are eliminated. However, this Statement does not change the required disclosure of authorized investments and it maintains, with modification, the level-of-detail disclosure requirements of Statement 3." Statement 40 is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. The reduction of existing custodial credit risk disclosures follow from federal banking reforms adopted since the release of Statement 3.

Charter school auditors should refer to the statement for further understanding and for illustrations of disclosures.

Revenues and Receipts

Revenues accruing to the charter school for the period under audit must be verified. Receipts for the year and accounts receivable at the close of the year must be verified as to source and disposition. Revenues must be delineated by type and recorded in the proper fund. Common revenues and the funds in which they are reported are included in *The Uniform Minimum Chart of Accounts Handbook for New Jersey Public School Districts*. The auditor must comment in detail on any irregularity in the method of handling receipts and revenues as a result of audit tests performed.

N.J.S.A. 18A:17-9.1 provides that for a charter school that does not maintain the position of treasurer of school moneys, the board secretary will receive and hold moneys. *N.J.S.A. 18A:17-9.2* provides that in a charter school that does not have a treasurer of school moneys, the board secretary will keep a record of the sums received.

Extraordinary Aid

The awards for 2011-12 extraordinary aid (ExAid) were posted in the district's state aid folders on June 4, 2012. Guidance for budgeting and recording the 2011-12 ExAid award was provided to the districts within the June 4 award notification letter. The following link may be used to access the award notice: <http://education.state.nj.us/broadcasts/2012/JUN/04/7123/Ex%20Aid.pdf>

For charter schools who applied for and received extraordinary aid, the amount awarded is reflected in the district's notice.

Extraordinary Aid awards are recorded in the general fund, account 10-3131. Since actual payment will not be made until after the end of the fiscal year; charter schools must also establish a receivable for the appropriate amount of anticipated payment (*N.J.S.A. 18A:7F-55c*).

Audit procedures can be found in the *State Aid/Grants Compliance Supplement* at: <http://www.nj.gov/education/finance/fp/audit/1112>. Charter School extraordinary aid applications are made through the student's resident district, with the department's determination of aid based on the applications submitted for each individual student. Additional information on ExAid including a Frequently Asked Questions document can be found at <https://homeroom.state.nj.us/exaid.htm>.

Tuition

The auditor should verify that the charter school charged no tuition for any student attending the charter school. Examination of before and after school care fees should be performed so as to determine that fees to students in these programs are only the reasonable and necessary amounts for the administration of these programs and must be accounted for in the enterprise fund. If the excess revenues over expenditures of before and after school programs are being utilized to offset general fund expenditures, this excess is determined to be tuition fees charged to the students in these programs. The auditor should document this finding in the Auditor's Management Report and make an appropriate recommendation for the discontinuance of this practice.

Reporting On-Behalf Payments

GASB Statement No. 24 requires that an employer government recognize revenue and expenditures for on-behalf payments for fringe benefits and salaries. On-behalf payments for fringe benefits and salaries are direct payments made by one entity (the paying entity or paying government) to a third-party recipient for the employees of another legally separate entity (the employer entity or employer government). In applying this accounting directive in New Jersey, charter schools are required to include in their CAFR as both a revenue and expenditure both the pension contributions made directly to the TPAF by the state on their behalf, as well as the reimbursed social security amounts related to its employees that are TPAF members. The department annually provides charter school information on the amounts paid on their behalf for employer contributions to the TPAF on the DOE website at <http://www.nj.gov/education/chartsch/audit/>

Charter schools should prepare a schedule of the amounts reimbursed by the state for the current year FICA employer contribution for its TPAF members on an accrual basis. That is, the current year amount equals total cash reimbursement received during the current year less the prior year June 30 receivable amount plus the current year June 30 receivable balance. **The on-behalf payments will be included in the CAFR as non-budgetary revenue and expenditure items, similar to the reporting of assets acquired under capital leases.** Charter schools are not required to include these amounts in their annual school budgets or monthly reports of the board secretary. These amounts should be excluded from the Type A programs threshold calculation. For further guidance, auditors should refer to Section II-SA, Federal and State Audit Requirements, of this Audit Program.

Compensation Reporting

N.J.S.A. 18A:23-2.1 requires that the annual audit include test measures to assure that documentation prepared for income tax related purposes complies fully with the requirements of federal and state laws and regulations regarding the compensation which is required to be reported. See the *State Aid/Compliance Supplement* available on the website: <http://www.nj.gov/education/finance/fp/audit/1112> for suggested audit procedures.

The following links are provided to assist auditors and charter schools in complying with this law: Internal Revenue Service Governmental Entities website - www.irs.gov/govt/fslg/index.html. At that site, select “FSLG Toolkit” for a listing of several tax guides for payroll and fringe benefits (FSLG Taxable Fringe Benefits Guide).

Information on tax filings for the State of New Jersey can be obtained through the website for Department of Treasury, <http://www.state.nj.us/treasury/>, the Division of Revenue link for “Tax and Employer Filings and Payments” <http://www.state.nj.us/treasury/revenue/>, or the Division of Taxation link <http://www.state.nj.us/treasury/taxation/>. Generally, anything regarded as “wages” for federal withholding purposes is subject to withholding for the NJ Income Tax. See also *N.J.S.A.* 54:A1-1 et seq. Auditors are advised to contact the NJ Department of Treasury directly for technical questions regarding taxable compensation for state reporting.

P.L. 2007, c.53 (*N.J.S.A.* 18A:17-14.4) requires the school business administrator, or any other person designated by the charter school, to certify to the Department of Treasury that all documentation prepared for income tax related purposes, in regard to school business administrators, complies fully with the requirements of federal and state laws and regulations regarding the types of compensation which are required to be reported. The certification is due annually on or before March 15 for the certification year (calendar year). The first year for this filing was December 31, 2007, and was due March 15, 2008. The

form and instructions for this certification are available on the Department of Treasury's website http://www.nj.gov/treasury/taxation/pdf/other_forms/misc/e_cert1.pdf.

Pensionable Wages

All defined benefit plans administered by the NJ Division of Pensions and Benefits require that employee contributions be remitted regularly to the Division. For charter schools, these include the TPAF and PERS. Charter schools are issued a Quarterly Report of Contributions to report and reconcile employee pension information and monies each calendar quarter. Charter schools may only include pensionable wages as defined by the Division of Pensions and Benefits. The following discussion is provided to assist auditors when testing payroll and pensionable wages.

The Division of Pensions and Benefits defines pensionable wages or creditable compensation as the compensation of a member subject to pension and group life insurance contributions and creditable for retirement and death benefits administered by the Teachers' Pension and Annuity Fund (TPAF). Creditable compensation is limited to "base salary" which is defined under *N.J.A.C. 17:3-4.1*. Base salary means the annual compensation of a member, in accordance with contracts, ordinances, resolutions, or other established salary policies of the member's employer for all employees in the same position, or all employees covered by the same collective bargaining agreement, which is reported in regular, periodic installments in accordance with the payroll cycle of the employer. Creditable compensation does not include "extra compensation" which is defined in *N.J.A.C. 17:3-4.1*. The Board of Trustees may question the compensation of any member or retiree to determine its creditability where there is evidence that compensation reported as base pay includes extra compensation. The examples of extra compensation listed in the citation above are not meant to be all inclusive.

For the Public Employees' Retirement System (PERS), auditors should refer to *N.J.A.C. 17:2-4.1*, for a similar definition of creditable compensation.

For further guidance, refer to the Division of Pensions and Benefits Employer's Pensions and Benefits Administrative Manual at the website: <http://www.state.nj.us/treasury/pensions/epbam/index.htm>. Under the "Shortcuts" there is a toolbar "Employer Financial Services/Reporting Contributions." Within that link, The Quarterly Report of Contributions (ROC), column #6 defines base salary and extra compensation. The information contained in the manual should not be quoted as "law." For a ruling that involves pension law, please write to the Division of Pensions and Benefits. Inquiries may be made by email at the link in the above website or by writing to the following address:

The Division of Pensions and Benefits
Attn: EPBAM Editor
P.O. Box 295
Trenton, NJ 08625-0295

Refunds

Refunds on current year expenditures are a credit to the applicable expenditure line account. Refunds on prior year expenditures, and sales of books and manual training materials and products, are miscellaneous income, not refunds. Proceeds from the sale of land, buildings and equipment are other financing sources.

Telecommunications Act of 1996 – Universal Service Fund (E-rate)

The Schools and Libraries Universal Service Fund, known as the “E-rate” was created as part of the Telecommunications Act of 1996 to provide affordable access to modern telecommunications and information services to all eligible schools and libraries in the U.S. The School and Libraries Corporation (SLC) was established by the FCC to administer the Schools and Libraries Universal Service Fund. All public and private schools and libraries qualify for funding based on their level of economic disadvantage (based on the percentage of students eligible for the national school lunch program) and their location, rural or urban. The offset to the reduction in the expenditure is either to accounts receivable if a refund is due or to accounts payable if unpaid at June 30, 2012. Additional information is available at the Department of Education, Office of Technology website at www.state.nj.us/njded/techno/toc.htm and at the School and Libraries website at www.sl.universalservice.org.

Cancellations

Cancelled prior year contractual orders are reflected in the audit report as revenues and expenditures, respectively. Cancellations of prior year reserve for encumbrances increase the amount available for expenditure in the current year.

Travel Expenditures

N.J.S.A. 18A:11-12 limits expenditures for travel. Travel regulations (*N.J.A.C.* 6A:23A:7.1 et seq.) provide rules on charter school travel policies and procedures. Charter schools auditors can access this at <http://www.state.nj.us/education/code/current/title6a/chap23a.pdf>. Please note that the travel guidance is applicable to all funds. Charter schools auditors should refer to *The State Aid/Compliance Supplement* for suggested audit procedures related to travel. Commissioner approval of requests for specific conferences is posted at this website: <http://www.state.nj.us/education/genfo/travel/>.

Travel Regulation Circular No. 11-05-OMB effective December 16, 2010 supersedes 08-19-OMB. This circular focuses on efficiencies in travel (one bag per flight per employee, long term parking, reduce mileage reimbursement for normal commute) and includes updated federal per diems.

Entertainment, Meals, and Refreshments Circular No. 11-09-OMB effective January 5, 2011 supersedes 06-14-OMB and allows receptions for awards, retirements, not to exceed \$25 per month per agency.

Health Insurance Policies

The department issued a hotline concerning audit issues/procedures regarding certain insurance policies held by New Jersey school districts dated August 30, 1995. At that time, we were seeking an opinion from the Office of the Attorney General on questions raised regarding the custody of funds and payment of claims. In response to that request, we were advised that the enactment of Chapter 74, P.L. 1995 authorized school districts to enter into minimum premium insurance policies with insurance companies authorized to do business in the state although those policies may involve different cash management methods than those required by existing statute.

The 1995 hotline was issued after review of policy terms and discussions with both public school accountants and insurance company representatives. Based on that review, the following issues were identified:

Charter schools with minimum premium policies commonly have three accounts with the carrier:

- 1) a termination reserve account
- 2) a claims account
- 3) a premium stabilization account

The termination reserve account generally represents funds earmarked for the charter school's liability for claims which have been incurred but not reported (IBNR), also known as the "run-off" liability. The IBNR liability amount is calculated annually by the carrier's actuaries and provided to the policyholder. The claims account is used for the payment of claims filed. The contracted monthly premium estimate (including the employee's contribution to medical premiums) is deposited into this account. The monthly deposit may or may not include the administrative fee paid to the carrier. In some cases, the fee is a separate remittance. The premium stabilization accounts are used as a mechanism to smooth insurance premium payments. Commonly, any funds remaining in the claims account at the end of the year are transferred to the premium stabilization account for use in future years in the event of "premium" increases. Premium stabilization funds are often attached to participating and fully funded policies in which rebates are based on a retrospective review of claims filed during the policy period. These funds (rebates) are maintained in an account, in the charter school's name, and are used to smooth future years' premium payments. Payments from these accounts for other than insurance premiums are prohibited and circumvent the budgetary process.

In the past, the aforementioned accounts may have not been reflected in the charter school accounting records or were inaccurately reported as fund balance. Public school accountants should review the terms of charter school policies and statements/monthly activity reports issued by the carrier. If the charter school has a minimum premium policy a confirmation should be issued to the insurance carrier regarding the following:

- The existence of and amount of June 30 balances in accounts in the charter school's name held on their behalf by the carrier*
- Charter school liability for the IBNR claims at June 30
- Charter school liability for claims that were filed but unpaid at June 30
- Composition of the accounts (what are the types of underlying investments made on the charter school's behalf)*
- Investment income earned during the year on charter school funds held by the carrier*

Auditors may wish to obtain confirmation from the carrier that the expenditures made from the claims accounts were for valid claims if direct testing is not possible from charter school records. Items noted with an (*) should be confirmed in situations where it appears that a premium stabilization account exists under a participating or fully funded policy.

The confirmed information as well as the balances in any accounts related to the policies that are held by the charter school itself should be used to determine the proper presentation in the CAFR. The assets (total of the June 30 account balances) will be compared to the related liabilities (total of the June 30 IBNR claims and claims in process at June 30). Any excess assets should be included in the amount reported as unreserved general fund surplus. If the liabilities exceed the assets, the charter school's unreserved general fund surplus must also be considered. The accrual made for the claims should not put the general fund into a deficit position. That is, the total liabilities should be subtracted from the total of the June 30 unreserved general fund surplus plus the total assets. The amount of liabilities in excess of

the total of surplus and assets should be shown as a liability in the charter school wide *Statement of Net Assets* and the June 30 general fund unreserved surplus reported as zero. For minimum premium policies, the current year expenditures reported for insurance premiums/claims should represent the total of the amount of claims and administrative fees paid in the current year related to the current year, the accrual for the unpaid claims in process, and the change in the June 30 balance in the IBNR liability between the current year and the prior year. For any type of policy, it must not include any excess premium payments transferred to a premium stabilization account.

The funds held by the charter school or the carrier on the charter school's behalf are included in the general fund balance sheet as cash, cash equivalents, or investments.

The June 30 general fund accounts payable balance should include the amount of claims in process as of that date. It should not include the IBNR liability. The IBNR liability should be reported in the general fund balance sheet as an accrued liability labeled "Accrued Liability for Insurance Claims."

The notes to the financial statements should clearly disclose the terms of the policies and provide explanations of the related balance sheet accounts.

Refer to page II-90.1 of this Audit Program for updated audit guidance regarding employee health insurance withholding.

Sale and Lease-back Contracts

N.J.S.A.18A:20-4.2(h) authorizes charter schools to enter into sale and lease-back contracts on certain instructional materials (i.e. textbooks). The charter school can acquire through sale and lease-back textbooks and non-consumable instructional materials provided that the sale price and principal amount of the lease-back do not exceed the fair market value of the textbooks and instructional materials and that the interest rate applied in the lease-back is consistent with prevailing market rates or is less. The lease-back can be for any term not exceeding in the aggregate of five years.

Proceeds from the sale and lease-back of textbooks and non-consumable instructional materials shall not be included in the calculation of excess undesignated general fund balance during the budget year in which they are realized.

Excess Surplus

Auditors are advised to analyze the charter school's ending fund balance to ensure that the charter school does not accumulate excess surplus. Pursuant to N.J.A.C. 6A:23A-22.4, after completion of the school year, the district board of education may petition the Commissioner for a lower rate for the charter school's per pupil amount for the specific grade level if the charter school spends significantly less than budgeted and has accumulated a sizable surplus. The Commissioner may reduce the rate based on a determination of excessive surplus. The criteria for excess surplus is determined by the Commissioner pursuant to N.J.S.A. 18A:7F-7. A charter school may submit comments to the Commissioner regarding the petition for a lower rate for the charter school's budget amount per pupil for the specific grade level from the district of residence of the charter school or non-resident district.

Fund Balance Classifications

In February 2009, the GASB issued GASBS No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Available for purchase from GASB at <https://gasb.org/store> GASB No. 54 is effective for periods beginning after June 15, 2010 and establishes accounting and financial reporting standards for governmental funds (Refer to the *Governmental Funds Balance Sheet, B-1*, from the CAFR Outline). Under GASBS 54, general fund balances are further classified into five overarching categories:

- Nonspendable (assets that are not in spendable form; e.g. inventory)
- Restricted
- Committed
- Assigned
- Unassigned

Charter schools will continue to maintain the existing general ledger fund balance accounts (as appropriate) such as reserve for encumbrances, legal reserve ...etc. For purposes of presentation in the *Governmental Funds Balance Sheet, B-1*, reserve balances are further categorized into one or more of the five fund balance categories according to the degree of restriction placed upon those balances. Unreserved general fund balance is further categorized as either “assigned” or “unassigned”.

For purposes of presentation in the *Governmental Funds Balance Sheet, B-1*, GASB does not consider encumbrances to be a further restriction on fund balances that are already considered restricted, committed or assigned. Accordingly, the reserve for encumbrances account is not displayed as an individual component of overall fund balance. The general ledger balance in the reserve for encumbrances account is reported within the “other purposes” or other appropriate category of committed or assigned fund balance based on the degree of restriction. Significant encumbrances at year-end should be disclosed in the notes to the financial statements, along with other significant commitments. (Par. 24).

Fund balance in the *Governmental Funds Balance Sheet* (Exhibit B-1) reflects the modified accrual basis and under GASB No. 54 should be classified into nonspendable, restricted, committed, assigned or unassigned fund balance. In the accrual basis *Statement of Net Assets* (Exhibit A-1), there are three classifications of net assets: Invested in capital assets, net of related debt, Restricted net assets (with a line item for each fund in which the net assets are restricted), and Unrestricted. Auditors and charter school staff should refer to GASB 34, paragraphs 30 – 37 for further clarification of these classifications.

Auditor’s Note – No appropriation of surplus after June 30, 2012 is to be reflected in the June 30, 2012 balance sheet as designated for subsequent year’s expenditures. The department recommends footnote disclosure in the CAFR.

Under GASB No. 54, the reserved fund balance classification is further categorized as restricted, committed or assigned fund balance. Restricted fund balance will generally include amounts constrained for a specific purpose by external parties, constitutional provision, or enabling legislation, such as state or other government imposed fund balance restrictions. All other legal reserves/restrictions require departmental review and approval. The request for approval should state the amount, source, purpose and legal basis for the reserve/restriction (i.e., why the funds are not available for appropriation in the subsequent year) and the fiscal year in which it will be appropriated. Charter schools should submit requests to the Assistant Commissioner Administration & Finance no later than September 30 if approval is required for the audit period under review.

Fund Balance Classifications – Reserved. Reserved fund balance is further categorized as “Restricted”, “Committed”, and/or “Assigned” on the *General Fund Budgetary Comparison Schedule, C-1*, and *Governmental Funds Balance Sheet (B-1)*

- The **reserve for encumbrances** is maintained in the charter school’s general ledger and represents that amount of fund balance related to orders issued in the current year that will be honored in the subsequent year. In general, for other than construction projects, that liquidation must be made within 60 to 90 days of year-end to be a valid reserve at June 30. This should not include accounts payable, since those orders were charged as expenditures in the current year and should be included in the balance sheet as a liability. Separate lines are provided in the Audsum for the reserve for encumbrances at June 30 for the general fund and capital projects fund. The department issued a Hotline on September 16, 2003 providing additional guidance on auditor reviews of encumbrances. Charter schools should not be encumbering goods and services that relate to the subsequent year. The Hotline is available on the department’s website at: <http://www.state.nj.us/education/finance/fp/af/hotline.pdf>
- The reserve for encumbrances is not separately presented on the *Governmental Funds Balance Sheet (Exhibit B-1)*. GASBS 54 provides that encumbrances are not considered to be an additional restriction on the fund balance where those funds are already restricted, committed, or assigned. Amounts encumbered for a specific purpose for which amounts have not been previously restricted, committed, or assigned, should be classified as either committed or assigned. (par. 24).
- On the fund balance recapitulation presented at the end of the *General Fund Budgetary Comparison Schedule (Exhibit C-1)*, the reserve for encumbrances should be displayed as “Year-end encumbrances” and further categorized as “Committed” and/or “Assigned” fund balance depending on the nature and degree of restriction(s).
- The **emergency reserve** is maintained in the general fund. The emergency reserve account is used to accumulate funds in accordance with *N.J.S.A. 18A:7F-41c(1)* to finance unanticipated general fund expenditures required for a thorough and efficient education. Unanticipated means reasonably unforeseeable and shall not include additional costs caused by poor planning. The maximum balance permitted at any time in this reserve is the greater of \$250,000 or 1 percent of the general fund budget not to exceed \$1 million. Deposits may be made to the emergency reserve account by board resolution at year end of any unanticipated revenue or unexpended line item appropriation or both. The department has defined year end for the purpose of depositing surplus into reserve accounts as an amount approved by the charter school between June 1 and June 30. Withdrawals from the reserve require the approval of the Commissioner unless the withdrawal is necessary to meet an increase in total health care costs in excess of 4 percent. GASBS No. 54 requires the further categorization of the emergency reserve account balance on the *Governmental Funds Balance Sheet (Exhibit B-1)*. The emergency reserve has significant externally imposed restrictions on its withdrawal and should be categorized as “Restricted” fund balance. The same categorization is applicable to the *General Fund Budgetary Comparison Schedule (Exhibit C-1)*
- The **reserved fund balance-legally restricted account(s)** are maintained in the general fund. The legally restricted fund balance account(s) is used to report that portion of the general fund surplus that is legally reserved for specific purposes. In general, funds are legally restricted only when constraints placed on the use are externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law

through constitutional provisions or enabling legislation. This would include reserves established for register audit recoveries and restricted appropriations such as unspent funds from:

- 1) Approved separate proposals as outlined in *N.J.A.C. 6A:23A-12.13*
- 2) Sale/lease-back reserve *N.J.S.A. 18A:7F-7(e)*

Legal reserves that are for anything other than state imposed or other government imposed legal restriction must be approved by the Assistant Commissioner Administration and Finance. Examples of state imposed legal restrictions include unspent separate proposals. State aid audit recoveries and a reserve established for the sale leaseback of textbooks in the year the proceeds are realized. **The request for approval should be submitted by the charter school to the Assistant Commissioner Administration & Finance by September 30, 2012 for the June 30, 2012 year.** The request should state the purpose and legal basis for the reserve (e.g., the specific “constraint imposed on the use by external parties or by laws or regulations of other governments”). Approval will only be granted for those other legal obligations that are in conformity with GAAP.

Under GAAP, few items would constitute a legal reserve. Per GAAP, the basic concept of a legal reserve is that it is not unilaterally established by the charter school and it cannot be removed without the consent of those imposing the restriction or through formal due process. Charter schools do not have the authority to advance fund (accumulate resources) for a potential future liability by setting aside an amount as a legal reserve. Loss contingencies are not considered legal reserves but instead would be recorded as accrued liabilities if a loss is probable and reasonably estimable. For funds statements, only the amount due and payable with current resources is accrued. For the charter school-wide statements, the full amount is accrued. Contingent liabilities not required to be accrued should be disclosed in the notes to the financial statements. All significant facts with respect to the contingency should be disclosed. GAAP guidance is available in the GASB Codification chapter “Claims and Judgments” (C50).

- The notes to the financial statements must contain a discussion of all legally restricted balances, including the amount, source and fiscal year in which it will be appropriated. A separate line is provided in the Audsum data collection for legal reserves - general fund. Amounts not anticipated in the 2012-13 budget must be shown as a legal reserve in the June 30 CAFR and appropriated in the 2012-13 budget. GASBS No. 54 requires the further categorization of the legal reserve account balance on the *Governmental Funds Balance Sheet* (Exhibit B-1). GASBS No. 54 paragraph 8 requires that amounts placed in legal reserve that are subject to:
 - External constraints externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or
 - Imposed by law through constitutional provisions or enabling legislation be further categorized as “Restricted” fund balance. The same categorization is applicable to the General Fund Budgetary Comparison Schedule (Exhibit C-1).

Fund Balance – Unassigned

All other fund balance is classified as “**Unassigned**” fund balance. Charter schools may reflect management’s intent for use of the unassigned fund balance as separate lines in the equity section of the balance sheet under the heading unassigned fund balance. Each designation should be explained in the notes to the financial statements. All other unassigned fund balances should be presented as unassigned-undesigned. The amount of unassigned fund balance that has been included in the upcoming year’s general fund budget as budgeted fund balance should be reported in the unassigned fund balance equity section as designated for subsequent year’s expenditure. If the budgeted fund balance amount included in the approved budget contains an amount that has been shown in the reserved fund balance section of the balance sheet, do not include it as part of the unassigned designated for subsequent year’s expenditure amount. Separate lines are provided in the Audsum data collection for unassigned-undesigned general fund balances and unreserved fund balance that is designated for subsequent year’s expenditure. Include on the designated fund balance line only those amounts which were included in the 2011-12 certified budget as budgeted fund balance on lines 121, 122 and 123 that have not already been included on a reserved fund balance line. Include in the unassigned-undesigned line all other unassigned fund balance.

SECTION II – SPECIFIC COMPLIANCE
FUND 20 – SPECIAL REVENUE FUND

TPAF Reimbursement

N.J.S.A. 18A:66-90 requires that each charter school reimburse the state for the employer share of pensions, group life insurance, FICA and other benefits of the Teachers' Pension and Annuity Fund (TPAF) for TPAF members carrying out and paid from federally funded programs. Accordingly, the cost of pensions, group life insurance, and social security incurred by the charter school for positions of TPAF members funded by the federal Education Jobs Fund (Fund 18) shall be reimbursed to the State of New Jersey. The reimbursement, together with supporting documentation prescribed by the Director of Pensions, must be remitted to the Department of Education within 90 days after the close of the fiscal year. Auditors should refer to the updated letter and downloadable form posted to the NJDOE website under “Most Requested Items” available July-August 2012:

<http://www.state.nj.us/education/finance/>

Charter schools were given specific guidance in a hotline dated June 29, 1993 on accruing a liability for the TPAF Pension and Social Security related to salaries charged to federal grants. The reimbursement must be made by October 1 following the fiscal year end. Auditors are required to certify the accuracy of the reimbursement via their signature on the reimbursement form submitted by the charter school with the actual reimbursement. If submission of the reimbursement form is performed prior to the completion of audit procedures, the form may initially be submitted without the required auditor signature and a revised form reflecting the auditor signature may be subsequently submitted.

Auditors should also include in their audit procedures a test of the biweekly reimbursements filed electronically with the department for all TPAF employees.

ARRA Special Revenue Awards

ARRA Title I, ARRA IDEA or any other ARRA special revenue awards must be reported in separate columns in the *Combining Schedule of Program Revenues and Expenditures – Budgetary Basis* in the Special Revenue Fund section (Exhibit E) of the CAFR.

Acting Commissioner Cerf issued a memo on “Unspent ARRA Funds – in Jeopardy” in May 2011 regarding ARRA Title I, School Improvement and IDEA funds. There is no provision to carryover funds that have not been spent by August 31, 2011. This memo and a schedule of comparison of the allocations to amounts paid to date are available at this website:

<http://www.state.nj.us/education/arra/allocation/>

Preschool Education Aid (PEA)

If operating a Department of Education-approved preschool program, charter schools must appropriate Preschool Education Aid in the special revenue fund for expenditures. Any Preschool Education Aid not expended during the budget year may be carried forward. Preparation of the year-end schedule for Preschool Education Aid is contained on the next page in this Audit Program.

Revenue that was not expended or encumbered by June 30 of the budget year shall be classified as deferred revenue in the financial accounts and statements of the charter school and added to the revenue of the subsequent year preschool education budget. As part of the June 30 CAFR charter schools are required to prepare a budgetary basis schedule for Preschool Education Aid expenditures using the

minimum outline required for the special revenue fund, including a calculation of the unbudgeted Preschool Education Aid funds along with June 30, 2012 unexpended/unencumbered funds.

The New Jersey Office of the State Auditor performed an audit of Preschool Education Aid for the period July 1, 2009 to October 14, 2011 and issued their audit report thereon dated December 19, 2011. The complete audit report including the department's response to the audit findings is posted on the Office of Legislative Services' website at <http://www.njleg.state.nj.us/legislativepub/Auditor/340511.pdf>. Finding 2, Data Integrity, disclosed a 16% error rate between the Preschool Education Aid carryover reported in Audsum when compared with the carryover reported in the Schedule of Preschool Education Aid Expenditures – budgetary Basis (E-2). It is an integral element of the department's response to this finding that charter school auditors verify that the Actual Budgetary Carryover (reported on Line 8 of the PEA Schedule- see below) is computed correctly and agrees with the carryover reported in Audsum. Beginning with the June 30, 2012 Audsum, there is a separate data entry line for the reporting of PEA budgetary carryover. This amount must agree to Line 8 of the PEA Schedule. The department will compare the budgetary PEA carryover reported in Audsum to the budgetary PEA carryover reported on Line 8 of the PEA Schedule in the CAFR. In the event that differences exist, those discrepancies must be resolved by the charter school and the charter school auditor. Discrepancies will generate correspondence from the department and will only be resolved through the re-transmission of Audsum and/or the revision of the PEA Schedule E-2. Note that unbudgeted Preschool Education Aid is included in the carry-forward computation.

Auditors should verify that the funds were expended only for approved Preschool Education Aid programs pursuant to N.J.S.A. 18A:7F-54 and are in compliance with the department approved Preschool Program Plan Update for 2011-12. Auditors should verify that the 2011-12 Preschool Education Aid plan was amended to reflect audited carryover balances. See the *State Aid/Grant Compliance Supplement* for the applicable year available on the NJ Treasury (OMB) and NJ Department of Education websites for further audit procedures.

PREPARING THE PRESCHOOL EDUCATION RESTRICTED AID SCHEDULE

The Schedule of Preschool Education Aid is prepared from the charter school records and is the responsibility of the charter school. This schedule is to be included in the Special Revenue Fund section of Other Supplementary Information. All charter schools eligible for Preschool Education Aid were required to track Preschool Education Aid expenditures in the special revenue fund using the uniform grant project budget statement coding structure. The following sample schedules are presented in the required format for reporting Preschool Education Aid expenditures for 2011-12.

The format of the schedule was designed to provide an audit trail of the actual versus budgeted expenditures as well as calculate deferred revenue and carryover. This schedule is to be prepared on the budgetary basis where "actual" equals the 2011-12 expenditures less the reversal of the prior year end encumbrances plus encumbrances at June 30, 2011. These encumbrances must be liquidated within 60 to 90 days. The "budgeted" amounts can be obtained from the charter school's 2011-12 certified Detailed Appropriations lines 13010 – 13300 adjusted for any approved carryovers and/or transfers. At the bottom of the schedule is a calculation of the 2011-12 Available & Unbudgeted funds and the Actual Budgetary Carryover as of June 30, 2012.

Line (1) represents the total 2011-12 Preschool Education Aid (PEA) allocation. This amount can be obtained from the charter school's Charter School Aid Notices (10/11/11 & Final FY12)

Line (2) represents the actual audited PEA carryover as of June 30, 2011. Carryover balances may have been anticipated in the 2011-12 original budget. Charter schools were instructed to utilize a Carryover Funds form to request use of June 30, 2011 balances or to adjust prior estimates. Copies of the approved request should be on file at the charter school.

Line (3) represents the budgeted transfer from the general fund to fund preschool programs.

Line (4) represents the total 2011-12 funds available for the 2011-12 preschool education budget (sum of lines 1-3).

Line (5) represents the amount the charter school included in its Preschool Education Aid budget for the fiscal year 2011-12.

Line (6) represents the difference between Line (4) and Line (5). If a charter school did not revise its budgeted original allocation (if different) or revise its budgeted June 30, 2011 carryover, then this amount is considered Available and Unbudgeted as of June 30, 2012. Line (6) is then considered a component of the Actual Carryover – Preschool Education Aid of June 30, 2012.

Line (7) represents 2011-12 budgeted Preschool Education Aid (Line 5) less the “total actual” for the program. This amount represents the 2011-12 unexpended/unencumbered Preschool Education Aid.

Line (8) is the total Actual Budgetary Carryover – Preschool Education Aid as of June 30, 2012 and is the sum of Lines (6) and (7). There is a collection line in Audsum for Actual Budgetary PEA Carryover at June 30, 2012. The carryover reported on this line of the CAFR schedule and the carryover reported in AUDSUM must agree. Unbudgeted PEA is included in the carryover computation.

Line (9) can be found in the 2012-13 Supporting Documentation 15 as Preschool Education Aid carry forward used to fund 2012-13 preschool education programs from the 2012-13 budget. If the (budgetary) actual carryover transferred to Preschool Programs (Line 8) differs from the budgeted carryover on line 9, the charter school should consider a revision to their 2012-13 preschool education program budget.

Please note that on the following example schedule every possible account is listed. This is an optional format. Charter schools may list only those accounts that are applicable. In addition, the line (#) references on the example schedules should not appear on the actual schedules in the CAFR. The sample schedule has been updated for the revised Chart of Accounts in the preschool education function. This revision was required beginning July 1, 2009.

**Anytown Charter School
Special Revenue Fund
Schedule of Preschool Education Aid
Budgetary Basis
For the Fiscal Year Ended June 30, 2012**

	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES:			
Instruction:			
Salaries of Teachers	\$ 808,955	\$ 743,268	\$65,687
Other Salaries of Instruction	253,474	252,365	1,109
Other Purchased Services (400-500 series)	325,000	315,000	10,000
General Supplies	110,500	82,500	28,000
Other Objects			
Total Instruction	<u>1,497,929</u>	<u>1,393,133</u>	<u>104,796</u>
Support Services:			
Salaries of Supervisors of Instruction			
Salaries of Program Directors			
Salaries of Other Professional Staff			
Salaries of Secr. & Clerical Assistants			
Other Salaries			
Salaries of Community Parent Involvement Specialists			
Salaries of Master Teachers			
Personal Services – Employee Benefits	142,071	136,589	5,482
Purchased Educ. Services – Contracted Pre-K			
Purchased Ed. Services- Head Start			
Purchased Professional – Educational Services	25,000	5,689	19,311
Other Purchased Professional - Services			
Cleaning, Repair & Maintenance Services			
Rentals			
Travel			
Supplies & Materials			
Other Objects			
Total Support Services	<u>167,071</u>	<u>142,278</u>	<u>24,793</u>
Facilities Acquisition and Const. Services:			
Instructional Equipment	15,000	10,000	5,000
Noninstructional Equipment	-	-	-
Total Facilities Acquisition and Const. Services	<u>15,000</u>	<u>10,000</u>	<u>5,000</u>
Contribution to Charter Schools	<u>20,000</u>	<u>20,000</u>	<u>-</u>
Total Expenditures	<u>\$1,700,000</u>	<u>\$1,565,411</u>	<u>\$134,589</u>

EX E-2 (cont'd)**CALCULATION OF BUDGET & CARRYOVER**

Total revised 2011-12 Preschool Education Aid Allocation	\$ 1,642,835	(1)
Add: Actual ECPA/PEA Carryover (June 30, 2011)	212,404	(2)
Add: Budgeted Transfer from the General Fund 2011-12	42,835	(3)
Total Preschool Education Aid Funds Available for 2011-12 Budget	<u>1,898,074</u>	(4)
Less: 2011-12 Budgeted Preschool Education Aid (Including Prior year budget carryover)	<u>(1,700,000)</u>	(5)
Available & Unbudgeted Preschool Education Aid Funds as of June 30, 2012	198,074	(6)
Add: June 30, 2012 Unexpended Preschool Education Aid	<u>134,589</u>	(7)
2011-12 Carryover – Preschool Education Aid Programs	<u>\$ 332,663</u>	(8)
2011-12 Preschool Education Aid Carryover Budgeted for Preschool Programs 2012-13	<u>\$ 130,000</u>	(9)

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SECTION II – SPECIFIC COMPLIANCE
FUND 30 – CAPITAL PROJECTS FUND

Capital Projects Fund

The proper accounting procedures related to capital projects are included in Chapter 11 of the GAAP Technical Systems Manual.

No transfer may be made under *N.J.S.A.* 18A:22-8.2 from appropriations or surplus accounts for:

- a. Capital reserve account
- b. Items classified as general fund except to other items so classified or to the capital projects fund to supplement the proceeds from lease purchase agreements

Transfers from appropriations or surplus accounts may be made within the general fund. When specifically approved by the Commissioner, charter schools may transfer surplus from the general fund to the capital projects fund to supplement the proceeds from a lease purchase agreement upon application to and a formal finding by the Commissioner that the transfer is in the best interests of both the students and the charter school after consideration of alternative correction actions.

SECTION II – SPECIFIC COMPLIANCE
FUND 40 – DEBT SERVICE FUND

June 30, 2012

THIS SECTION IS NOT APPLICABLE TO CHARTER SCHOOLS

SECTION II – SPECIFIC COMPLIANCE
FUND 50 - PERMANENT FUNDS

The permanent fund is used to report resources that are legally restricted so that only the earnings they generate, and not the resources themselves, may be used to support the charter school's programs.

Examples of resources accounted for and reported in a permanent fund include:

- The charter school has received a large bequest from the estate of a wealthy benefactor. The corpus of the donation cannot be spent, but instead is required to be invested to provide earnings that are restricted for a special use identified by the benefactor, e.g., maintenance of the libraries.
- A local resident has donated investments with the stipulation that only the earnings of the investments may be used to purchase musical instruments for the schools.

A permanent fund does not include private-purpose trust funds, which are used to report situations in which the charter school is required to use the principal or earnings for the benefit of those outside the charter school (individuals, private organizations, or other governments), not for charter school purposes. See Section II-60 for treatment of trust funds in the fiduciary fund section of the financial statements.

GASB Statement No. 54 requires that permanent fund principal be reported in the nonspendable fund balance category and additional accumulated balances in the restricted fund balance category.

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SECTION II – SPECIFIC COMPLIANCE
FUND 60 PROPRIETARY FUNDS

Proprietary funds are used to account for charter school activities that are similar to business operations in the private sector. They are not used to account for the normal operations of a charter school regardless as to whether the operations include services provided to outside parties that are offset by revenues. There are two categories of proprietary funds -- enterprise funds and internal service funds. The use of these fund types should be consistent with GAAP (GASB Codification 1300.104). Capital Contributions are not reported as a separate component of net assets in the *Statement of Net Assets*, but continue to be reported as such in the funds statements. Charter school staff and auditors should refer to GASB 34, paragraphs 91 through 105 for guidance on proprietary fund financial statements. Additional guidelines for charter school using the internal service fund to account for shared services are outlined *N.J.A.C. 6A:23A-16.11*.

Enterprise funds:

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business operations. The most common examples of enterprise funds in New Jersey charter schools are those established to account for the food services program of the charter school and latchkey programs. **All the expenses of these operations are accounted for in the funds with any board contribution shown as a transfer to cover deficit in the general fund and as an operating transfer in the enterprise fund.**

Auditor's Note – The Transfer to Cover Deficit included in the general fund **must** reconcile to the Operating Transfer – Board Contribution reflected in the enterprise fund. The department has included an edit in Audsum to identify any discrepancy between the reported amounts and recommends completing Audsum prior to filing the CAFR. The Transfer to Cover Deficit should be reflected as an Other Financing Use on Exhibit B-2 in the general fund column of the Governmental Funds *Statement of Revenues, Expenditures, and Changes in Fund Balances* and an operating transfer out on the C-1 *General Fund Budgetary Comparison Schedule*.

Food Service – Enterprise Fund

The charter school is responsible for the administration and operations of the School Food Authority (SFA). Therefore, income from: daily cash sales, prepayment of meals, special functions, vended contracts, rebates, discounts, credits from vendors, and state and federal reimbursements, are school moneys. As such, these funds must be under the control of the treasurer of school moneys (or school business administrator/board secretary in a charter school that elects not to maintain the position of treasurer of school moneys pursuant to P.L. 2010,c.39) and are subject to the state's school laws and federal regulations.

A charter school may contract with a food service management company (FSMC) to equip, supply and operate cafeterias without profit to the charter school pursuant to *N.J.S.A. 18A:33-3*. When the charter school participates in any federally funded Child Nutrition Program, the contract for the services of a food service management company must meet federal standards and procurement requirements pursuant to Title 7 of the Code of Federal Regulations [7 CFR Parts 210, 215 and 220]. All charter schools **entering into** a FSMC contract must do so pursuant to the Public School Contracts Law, *N.J.S.A. 18A:18A-1* et seq. as amended; **and the applicable rules under N.J.A.C. 5:34-1** et seq. Where the charter school participates in any federally funded Child Nutrition Program(s), **procurement of the FSMC contract** must also follow the standards prescribed in 7 CFR 3016.36.

The most widely used FSMC contract method in New Jersey is referred to by the *Accounting Guide for Government Contracts* as the "cost plus a fixed fee (management fee) contract." The food service management company receives a set fee for managing the food service operation and the charter school is liable for the reimbursement of all costs incurred. Federal regulations prohibit contracts that permit all receipts and expenses to accrue to the FSMC. Regardless of the FSMC contract method, the charter school is considered the School Food Authority. Even if federal reimbursements are not received, charter schools using management companies and retaining liability for costs incurred are considered the School Food Authority. Management companies may handle the preparation of food, placing of orders for food and supplies and other associated administrative duties, but they are not permitted under state law to administer or hold school moneys.

The following procedures should be implemented in order to comply with state laws for administering school moneys.

1. The income from: daily cash sales, prepayment of meals, special functions, vended contracts, rebates, discounts, credits from vendors, and state and federal reimbursements must be under the control of the treasurer of school moneys (or school business administrator/board secretary in a charter school that elects not to maintain the position of treasurer of school moneys pursuant to P.L. 2010,c.39) and when required by resolution of the board, deposit those moneys in any bank or banking institution designated by the State as a depository of school moneys (*N.J.S.A. 18A:17-34*). Such funds may be deposited in the board's general operating account. A separate food service account is not required; however, receipts and disbursements of food service funds must be separately accounted for in the records of the treasurer and/or business administrator/board secretary. The board secretary should maintain the cash records in accordance with *The Uniform Minimum Chart of Accounts (2008 Edition)*.

When the board budgets funds in its general fund budget in account 11-000-310-930, Transfers to Cover Deficit, those funds may be transferred to the Enterprise Fund at the end of the year for the actual amount, if any. If made prior to the end of the year, any amount of the transfer not needed for a deficit may be refunded to the general fund.

2. The board may by resolution designate the board secretary or another person to approve payments without board approval to expedite the payment process. All such payments must be issued on properly signed warrants and subsequently ratified by the board. The board's resolution may limit the authorization to certain purposes such as the school food service reimbursements and may also limit the dollar amount per payment or month. (*N.J.S.A. 18A:19-1, 2, 4 and 4.1*)
3. Loans or advances from the board to a food service management company are prohibited (*N.J.S.A. 18A:19-1*). All claims and demands must state that articles have been furnished or services rendered before payment can be made. (*N.J.S.A. 18A:19-3*)
4. Food service management companies may negotiate the cost reimbursement dates with the board. However, no interest may be charged on payments that are not made within the negotiated dates.
5. The food service management company must provide itemized claims for services and goods to the board secretary for reimbursement.
 - a) The food service management company should process payroll data in such a way that the board secretary can reimburse it in time for payroll checks to be issued. A one-week lag between payroll period and check disbursement should provide sufficient time for all necessary verifications and payments.
 - b) The food service management company must submit an itemized claim for reimbursement for all goods and services. Reimbursement claims for payroll should include a copy of the company's payroll for those employees providing service to the charter school or an itemized listing of employees, check numbers and date, hours worked and earnings. In the latter scenario, payrolls and support documentation must be made available whenever requested by the board secretary and for the annual audit.

When the food service management company purchases specifically for the charter school, reimbursement claims for goods should list invoice numbers, dates, vendor names and amounts (Sample 1 on page II-60.4). If the food service management company purchases food in bulk for a number of charter schools, it may use the above method allocating invoice amounts between charter school based on the percentage of each charter school's student enrollment (or participation) to the total enrollment for all schools (Sample 2 in Section II, Chapter 60). It may also use a per-meal cost calculation based on the total amount of the invoices divided by the total meals served to all charter schools. Each charter school's pro-rata share of the costs would be the per-meal cost multiplied by the meals served in each charter school (Sample 3 in Section II, Chapter 60).

When a food service management company submits an itemized claim for reimbursement, it is not necessary to provide vendor invoices. However, they must be made available whenever requested by the board secretary and for the annual audit.

6. The charter school and the food service management company should work closely to minimize the time of reimbursements and to avoid cash flow problems. However, a food service management company may need to establish a line of credit if the timing of reimbursements is not sufficient to make its payrolls. Interest is not an allowable expense that can be paid from the food service (enterprise) fund. If the FSMC insists on late fees or interest on late payments, the charter school can agree to this, but must pay the interest/late fees directly from the charter school's general/operating fund resources, not from the food service (enterprise) fund.

The foregoing procedures are recommended by the department to comply with the state's statutes for administering school funds. However, these procedures do not replace but rather supplement the requirement contained in 7 CFR 210.16 that the food service management company, shall at a minimum, report claim information to the charter school promptly at the end of each month. Records pertaining to the school food service program shall remain the property of the charter school. Auditors must include appropriate comments and recommendation in the event that funds are not properly administered as described in Division of Finance Policy Bulletin 200-12.

**SAS #70 (*Service Organizations*) Reports
Statement on Standards for Attestation Engagements (SSAE) No. 16 *Reporting on Controls at a Service Organization*
SAS Audit Considerations Relating to an Entity Using a Service Organization**

SAS No. 70 is being replaced by two separate standards; SSAE No. 16 *Reporting on Controls at a Service Organization*, effective for service auditor's reports for periods ending on or after June 15, 2011, and a revision to existing AICPA, Professional Standards, vol. 1, AU section 324. The revision to AU section 324 entitled, AU-C 402 *Audit Considerations Relating to an Entity Using a Service Organization*, is effective for audits of financial statements for periods ending on or after December 15, 2012.

Charter schools were notified by the Department of Agriculture within the Sample 2011-12 FSMC Contract, Clause M, to require the FSMC to obtain a Type 2 report. All food service management company bid specifications, contracts and/or addenda must include this requirement as a condition of bid qualification.

SSAE No. 16 *Reporting on Controls at a Service Organization* is available for order from the AICPA website at:

http://www.cpa2biz.com/AST/Main/CPA2BIZ_Primary/AuditAttest/Standards/SSAEs/PRDOVR~PC-023035/PC-023035.jsp

June 30, 2012

SAMPLE 1

Foodland Food Services
123 Broad Street
Anytown, NJ 08000
609-123-4567

October 15, 200X
Invoice #123456

Any Charter School
Highland Street
Old Town, NJ 08111

For reimbursement of costs incurred related to the provision of food services for the schools of the Any Charter School during the month of September 200X. The costs incurred are listed below:

<u>Invoice #</u>	<u>Date</u>	<u>Vendor Name</u>	<u>Amount</u>
06932	8/31/0X	Bakeland	\$2,398.61
12555X	9/02/0X	Murray's Meats	6,779.38
431182	9/03/0X	Polly's Produce	796.54
218812	9/07/0X	Dan's Dairy	877.32
06988	9/07/0X	Bakeland	531.89
12682X	9/07/0X	Murray's Meats	153.90
431906	9/13/0X	Polly's Produce	591.83
219601	9/24/0X	Dan's Dairy	877.32
		Total	<u>\$13,006.79</u>

Please remit the above amount by November 15, 200X. The listed invoices are available for audit and review. I certify that the within invoice is correct in all its particulars, that the described goods or services have been furnished or rendered and that no bonus has been given or received on account of said invoice.

Franklin Chief
President
Foodland Food Services

June 30, 2012

SAMPLE 2 (1 of 2)

Foodland Food Services
123 Broad Street
Anytown, NJ 08000
609-123-4567

October 15, 200X
Invoice #123456

Any Charter School
Highland Street
Old Town, NJ 08111

For reimbursement of the New City Charter School's pro-rata share of costs related to the shared food services program provided by our company. The allocation is based on the number of students participating at each school. See the attached cost allocation detail supporting the amount charged.

For the month of September 200X

\$3,107.21

Please remit the above amount by November 15, 200X. The invoices listed on the attached cost allocation are available for audit and review. I certify that the within invoice is correct in all its particulars, that the described goods or services have been furnished or rendered and that no bonus has been given or received on account of said invoice.

Franklin Chief
President
Foodland Food Services

SAMPLE 2 (2 of 2)

ANY CHARTER SCHOOL FOOD SERVICES ALLOCATION

Invoice #	Date	Vendor Name	New City	Upper	Lower	Middle	Total
			19.7%	14.1%	27.8%	38.4%	100.0%
6932	8/31/200X	Bakeland	\$208.09	\$148.94	\$293.65	\$405.61	\$1,056.29
12555X	9/2/200X	Murray's Meats	689.23	493.31	972.62	1,343.48	3,498.64
431182	9/3/200X	Polly's Produce	176.45	126.29	249.00	343.94	895.68
218812	9/7/200X	Dan's Dairy	632.22	452.50	892.17	1,232.35	3,209.24
6988	9/7/200X	Bakeland	118.77	85.01	167.61	231.51	602.90
12682D	9/7/200X	Murray's Meats	692.86	49591	977.75	1,350.55	3,517.07
431906	9/13/200X	Polly's Produce	112.21	80.31	158.34	218.71	569.57
219601	7/13/200X	Dan's Dairy	477.38	341.68	673.66	930.52	2,423.24
		Total	\$3,107.21	\$2,223.95	\$4,384.80	\$6,056.67	\$15,772.63

No. of Students Participating	Percentage
New City	630 19.7%
Upper	452 14.1%
Lower	889 27.8%
Middle	1,230 38.4%
Total	3,201 100.0%

June 30, 2012

SAMPLE 3 (1 of 2)

Foodland Food Services
123 Broad Street
Anytown, NJ 08000
609-123-4567

October 15, 200X
Invoice #123456

Any Charter School
Highland Street
Old Town, NJ 08111

For reimbursement of the Any Charter School's pro-rata share of costs related to the shared food services program provided by our company. See the attached per meal cost calculation supporting the amount charged.

For the month of September 200X	
1,598 meals @ \$2.45 meal	\$3,910.60

Please remit the above amount by November 15, 200X. The invoices listed on the per meal cost calculation are available for audit and review. I certify that the within invoice is correct in all its particulars, that the described goods or services have been furnished or rendered and that no bonus has been given or received on account of said invoice.

Franklin Chief
President
Foodland Food Services

SAMPLE 3 (2 of 2)

ANY CHARTER SCHOOL FOOD SERVICES ALLOCATION

Invoice#	Date	Vendor Name	Invoice Amount
6932	8/31/200X	Bakeland	\$ 2,398.61
12555x	9/2/200X	Murray's Meat	6,779.38
431182	9/3/200X	Polly's Produce	796.54
218812	9/7/200X	Dan's Diary	877.32
6988	9/7/200X	Bakeland	531.89
12682X	9/7/200X	Murray's Meat	153.90
431906	9/13/200X	Polly's Produce	591.83
219601	7/13/200X	Dan's Diary	877.32
		Total	\$13,006.79

<u>Charter School</u>	<u>No. of Meals</u>	<u>Price/Meal</u>	<u>Amount</u>
New City	1,598	\$ 2.45	\$3,910.60
Upper	1,299	\$ 2.45	3,178.89
Lower	1,243	\$ 2.45	3,041.85
Middle	<u>1,175</u>	<u>\$ 2.45</u>	<u>2,875.44</u>
Total	5,315	\$ 2.45	\$13,006.79

Child Nutrition Program Requirements

NJ Circular 04-04 OMB requires audits of recipients in accordance with the Single Audit Act, Amendments, OMB Circular No. A-133 Revised (OMB A-133) and state policy, or a financial statement audit performed in accordance with Government Auditing Standards (Yellow Book) depending on the amount of funds expended. NJ Circular 04-04 OMB states “Auditors should use the same risk based approach to audit and monitor State financial assistance, as used for federal programs. This approach is described in OMB A-133 Revised.” The charter school’s independent auditor should refer to OMB A-133 paragraphs .520 and .525 to calculate whether the Child Nutrition Cluster programs meet the federal major program determination criteria. Auditors should follow the federal Compliance Supplement (Department of Agriculture) for the Child Nutrition Cluster (CFDA 10.553 School Breakfast Program, CFDA 10.555 National School Lunch Program, CFDA 10.556 Special Milk Program for Children, CFDA 10.582 Fresh Fruit and Vegetable Program, and CFDA 10.559 Summer Food Service Program for Children). The federal Compliance Supplement can be obtained (upon release) at <http://www.whitehouse.gov/omb/circulars/index.html>. The Bureau of Child Nutrition Programs’ audit policy complies with OMB A-133 with revisions published June 27, 2003 and June 26, 2007. The procedures below reflect the Compliance Supplement but are not intended to be all inclusive.

Charter schools and their auditors should refer to the sample Proprietary Fund statements (Exhibits B-4, B-5, and B- 6) on the NJDOE website <http://www.nj.gov/njded/finance/fp/cafr/> . When a charter school has more than two programs in the Proprietary Fund, combining statements should be prepared. The Proprietary Fund combining statements at this website are labeled Exhibits G-1, G-2 and G-3.

Auditors should report on the condition of the financial transactions and statistical records of the School Food Service Fund, including a review of monthly reimbursement vouchers, meal count records, Edit Check Worksheets, and eligibility applications. **Determine whether there are controls providing reasonable assurance that all meals reported to the state agency for reimbursement are based on accurate counts and are served to eligible children.**

Please Note: Effective October 2007 monthly reimbursement claims were entered on-line using the School Nutrition Electronic Application and Reimbursement System (SNEARS) website via the myNewJersey portal. This on-line system provides payment status, payment logs and a monthly report summarizing meals claimed by site. The auditor may request these reports from the charter school.

1. Suggested audit procedures to ensure that reimbursement received is supported by source documents.
 - a) ELIGIBILITY APPLICATIONS – Review household eligibility applications to evaluate completeness of required information and verify eligibility determination. Form number 63 provides guidance for the application approval process and is available on the NJ Department of Agriculture website at <http://www.state.nj.us/agriculture/applic/forms/#6> . Any incomplete free or reduced price applications should be placed in the Paid (denied) category, and an overclaim must be assessed on the Schedule of Meal Count Activity. Incorrectly determined applications should be placed in the correct category, and the resulting overclaim/underclaim must be identified on the Schedule of Meal Count Activity. Additionally, audit findings related to the free and reduced eligibility determination must be reported in the Auditor’s Management Report (AMR) in the School Food Service section.

Eligibility Determination Process Note:

Eligibility is also required to be determined through the Direct Certification Process. Effective for school year 2011-12, the Direct Certification Process must be done by the charter school three times per school year in accordance with timelines established by the NJDA Division of Food and Nutrition. Please refer to the May 10, 2011 memo on Direct Certification Workshops and the July 6, August 31, 2011 and January 3, 2012 Direct Certification memos. Copies of these memos should be available at the charter school. Schools can directly certify students as eligible for free school meals by uploading their student database via the SNEARS web-based system and the data is matched against the data from SNAP (Food Stamps)/TANF for the selected municipalities. Beginning with school year 2009-2010, direct certification eligibility can be extended to any other students living in the household; see memo dated September 8, 2009, "Important Changes in Determination of Eligibility for Free School Meals/Milk". In order for the charter school to identify newly eligible students, direct certification matching against updated SNAP (Food Stamp)/TANF data may be performed monthly during the school year.

Schools participating in Provision I or II are not required to collect eligibility applications annually. Please refer to eligibility requirements set forth in the July 13, 2011 memo "Annual Application Process for Provisions I and II."

Eligibility Application: Household Application for Free and Reduced Price Meals and/or Milk. Auditors should verify for the sample selected that the correct eligibility applications have been utilized, fully completed, and properly supported and maintained.

- The Household Application for Free and Reduced Price Meals and/or Milk is the only eligibility application in use for this school year.
 - Foster children are no longer considered to be a family of one. Only one Household Application for Free and Reduced Price Meals and/or Milk is filed for all households, including those with foster children.
 - Foster children are categorically eligible. Copies of letters from the NJ Department of Children and Families serve as certification that a student is a foster child under State care; no additional "meals" application is required.
 - A Household Application that includes foster children may have two different eligibility determinations. One will be for the foster children as noted in the previous bullet and a second eligibility determination for all other students in the household.
 - Foster children are included in the computation of household size when determining the eligibility status for all other students in the household.
- Household applications must be maintained centrally. (The Department of Agriculture has strongly recommended that a representative from the charter school attend a Determining Official Workshop.)
- Household applications must be on the correct state approved format for the school year being reviewed.
- Effective for the 2011-12 school year, only one SNAP (Food Stamp)/TANF case number is required for the entire household, when applicable. Note that the Application requires only the last four digits of the social security number of the adult signing the Application.
- Beginning with the 2011-12 school year, the eligibility determination associated with a Household Application is effective for the entire school year. Also beginning with the 2011-12 school year, there is no provision for "temporary" eligibility status for zero income Applications.
- Every household member listed on the application must either have an income reported **or** the box indicating zero income for that individual must

be checked. Income must be listed by the amount received by each household member and the frequency of which the member received the income. Frequency is determined as weekly, every two weeks, twice monthly, or monthly. If more than one frequency is provided the total household income must be converted to annual.

- There is a section on the household application used to identify children who are homeless, migrant or runaway and categorically eligible. Charter schools must designate a liaison for the homeless. This liaison and the Migrant Coordinator are the only approved sources of supporting documentation for the application of homeless, migrant or runaway children.

- b) MEAL COUNT RECORDS - Review meal count records on a school-by-school basis to verify meals claimed on reimbursement claim. Edit Check Worksheet(s) must be completed for every lunch reimbursement claim submitted and the required comparisons made before completing the reimbursement claim. Edit Check Worksheet(s) are optional for the breakfast program. Any meals denied free or reduced priced eligibility should be credited at the paid rate of reimbursement and overclaim/underclaim identified on the Schedule of Meal Count Activity.

Separate sample Schedules of Meal Count Activity for federal and for state over/under claims are presented on pages III-4.21a and III-4.21b of this Audit Program. Both of these schedules are prepared only if the Child Nutrition Program is a major program audited in the current audit period in accordance with federal OMB Circular A-133 and instructions for completion are as follows:

1. Most column headings are self-explanatory.
2. When less than 100 percent of the meals claimed for a program in any category (Paid, Reduced or Free) have been tested, the auditor should report the number of meals examined in the Meals tested column, and verified in the Meals Verified column. Eligibility application exceptions/reclassifications discovered must be factored into the "Verified" column over 180 operating days or, where known, the exact number of meals served to the reclassified student. For example, an auditor has tested less than 100 percent of meals claimed for the National School Lunch program and has found an error resulting in the reclassification from the "Free" category to the "Reduced" category for one student. The reclassification must be reflected in the "Meals Verified" column over 180 operating days or the number of actual meals served to that student, and will result in an adjustment to column 6 (Difference) and column 8 (Over/Under Claim) in both the "Free" and "Reduced" categories.
3. Column six (Difference) is the difference between the Meals Tested column and the Meals Verified column for each program
4. Column eight is the over/underclaim calculated as the Difference times the Rate for each program. A net over/underclaim for all meal programs combined is presented at the bottom of the (Over)/Under Claim column.

Unsupported reimbursement must be cited as a finding of noncompliance and a financial assessment identified on the Schedule of Meal Count Activity (Overclaim/Underclaim). Provide pertinent detail, i.e. school, month.

Note: Schools participating in the Seamless Summer Option (SSO) provide for all children at the “free” rate of reimbursement. **SSO schools receive only federal reimbursement – no state subsidy is provided.**

2. Verification Regulations issued by the United States Department of Agriculture require all sponsors of the National School Lunch and School Breakfast Programs to verify a minimum three percent of approved applications on file as of October 1 of each school year. Sample selection and verification may begin earlier based on projections done by school officials. However, the final sample size must be based on the actual number of approved applications on file as of October 1. The independent auditor’s review of eligibility applications should include an examination of the internal verification process and internal sampling records.

- The Sample Selection Method for Internal Verification of Applications is:
 - a) Use all approved applications on file at October 1, to determine the appropriate sample size and to select the applications for verification. Note that sample size depends on the number of paper applications, NOT the number of children represented.
 - b) The required sample size is the LESSER of:
 1. 3 percent of all approved applications*, or
 2. 3,000 approved “error prone” applications

*Applications included in the sample must be selected from the pool of “error prone” applications, to the extent possible. If there are not a sufficient number of “error prone” applications to complete the sample, the remaining applications should be randomly selected from the pool of “non-error prone” applications.

- c) “Error prone” applications are those applications characterized by:
 - Annual income within \$1,200 of the annual income guidelines
 - Monthly income within \$100 of the monthly income guidelines
 - Twice a month income within \$50 of the twice a month income guidelines
 - Every two weeks income within \$50 of the every two weeks income guidelines
 - Weekly income within \$25 of the weekly income guidelines
- d) Fractional sample size calculations are always rounded upward, increasing the sample size. Example: 340 approved applications are on file at October 1. ($340 \times 3\% = 10.2$ applications; sample size must be 11).

Note to auditor: Verify that internal verification procedures require that each application selected for internal verification be reviewed for error prone accuracy by charter school personnel other than by the individual who made the initial approval determination. The auditor should verify that the process used by the charter school resulted in approved applications being classified in the charter school records as “approved applications” considered in the internal audit sampling pool as described in (b) above. Verify that incorrectly approved applications discovered during the internal sampling process have been removed from the internal sampling pool of “approved applications;” the eligibility status changed, a formal notification sent to the family of a change in

eligibility along with instructions for resubmission of their application including information regarding acceptable forms of income documentation in support of their application.

All internal verification activity must be completed by November 15 of each school year. Beginning with school year 2010-11, the charter school must electronically transmit the two parts of the Verification Summary Report. Part 1 of the Verification Summary Report transmits enrollment and total applications (by category) on file as of October 1 and is due by October 15. Auditors should be aware that the report electronically calculates the number of applications the charter school must verify. Part 2 of the Verification Summary Report is due by March 1, and includes the charter school reporting of the results of the verification process performed pursuant to Part 1. Auditors should obtain from the charter school, copies of the October 3, 2011 memo regarding "Reporting Deadlines", and the January 9, 2012 memo "Reminder of Requirements for the National School Lunch Program. Failure to complete verification will result in reimbursement being withheld by the Division of Food and Nutrition. The auditor's review of eligibility applications should include a review of the verification files to ensure that the verification process was completed on a timely basis.

3. Expenditures of school food service revenues should be limited to allowable school food service direct and indirect costs. Review vendor invoices and verify labor costs. Determine that inventory records on food and supply items are currently maintained. Review time sheets and verify labor cost. Verify that payroll records are maintained.
4. A School Food Authority is required to maintain a nonprofit School Food Service. The nonprofit status of the School Food Service is determined by evaluating net cash resources. Net cash resources are defined as all monies that are available to, or have accrued to a School Food Authority's nonprofit school food service at any given time, less cash payable. Such monies may include, but are not limited to, cash on hand, cash receivable, earnings on investments, cash on deposit and the value of stocks, bonds or other negotiable securities. Net cash resources may not exceed three months average expenditures. In the event that net cash resources exceed three months average expenditures, the state agency may require the School Food Authority to reduce the children's meal price, improve food quality, or take other actions designed to improve the nonprofit school food service. (REF 7CFR 210:14)
5. The auditor should comment on whether Food Distribution Program properly processed and warehoused U.S.D.A. Foods (commodities), if received. If the charter school is utilizing a FSMC to operate its food service program, review evidence that the market value of Food Distribution Program processed and warehoused USDA Foods was credited to the charter school. Year to date amounts must be provided.
6. Auditors should verify that financial arrangements (i.e. fee calculations, presentation of invoices, and other provisions) in the Food Service Management (FSMC) contract have been complied with; if not, cite exception:
 - a) Is FSMC fee calculated in accordance with the contract provisions and properly reported in the year end operating statement?
 - b) Has the FSMC met or exceeded the food service program operating results guarantee provision stated in the contract/addendum?
7. The United States Department of Agriculture does not permit increases in reimbursement for revised vouchers received after 60 days without proper verification. However, payment can be considered if the underclaim is verified in an audit or administrative review. **Auditors are instructed to verify any underclaims (identify in the Schedule of Meal Count Activity) as a result of late revisions.** Please note that such payment is subject to approval.

8. Federal procurement requirements for contracts with a FSMC are published in the Federal Register, Vol. 72, No 210, dated October 31, 2007. The state agency prototype contract that was approved as part of the annual FSMC registration process must be used in its entirety.
 - FSMC must either identify allowable and unallowable costs, OR must exclude all unallowable costs and certify that only allowable costs are submitted to the charter school for payment.
 - FSMC must identify the amount of each discount, rebate and other applicable credit on bills and invoices presented to the charter school for payment. FSMC determines in contract the frequency of reporting such information (may not be less than annually).
 - FSMC must identify the specific method(s) used to report discounts, rebates and other applicable credits that are not reported prior to conclusion of the contract.
 - FSMC must maintain documentation of costs and discounts, rebates, and other applicable credits and must furnish such documentation upon request to the charter school, state agency or USDA.

9. For charter school selected to participate in the Fresh Fruit and Vegetable Program (FFVP):
 - charter school must have a signed Child Nutrition Program addendum for the FFVP.
 - Costs charged must be allowable according to rules of program outlined in the USDA FFVP Program Handbook that can be accessed at <http://www.fns.usda.gov/cnd/ffvp/default.htm>
 - Food costs, labor charges, and equipment purchases for this program must be identified as such, and must correspond to the appropriate FFVP reimbursement vouchers.

The following memoranda and attachments are for the school year 2011-2012 and should be available at charter school offices:

1. January 17, 2011 - Trainings on Contracting With Food Service Management Companies
2. February 22, 2011- Feeding Children in the Summer/Trainings for Summer Food Service Program
3. April 11, 2011 - At-Risk After School Meals
4. April 20, 2011- Equity in Pricing for School Lunches
5. April 21, 2011 - CN Reauthorization - IMPORTANT Change in Milk Requirements
6. April 25, 2011 - Seamless Summer Option
7. May 10, 2011 - School Year 2011-2012 Direct Certification Trainings
8. May 16, 2011 - Clarification on Pricing Equity
9. May 23, 2011 - School Nutrition Program Documents for School Year 2011-2012
10. June 2011 - Free and Reduced Price Application Workshops for Determining Officials
11. June 2, 2011 - Required Water Availability in the School Lunch Program
12. July 6, 2011 - Direct Certification – IMPORTANT Changes
13. July 12, 2011 National School Lunch Program: State Subsidy
14. July 13, 2011 ANNUAL APPLICATION PROCESS FOR PROVISIONS I AND II
15. August 5, 2011 - SY 11-12 Food Commodity Administrative Charges
16. August 22, 2011 - *Jersey Fresh Farm to School Week*, September 26 – 30, 2011 (and geographic preference information)
17. August 2011 - Fiscal Year 2012 Verification Workshop Schedule
18. August 31, 2011 - Second Round of Direct Certification – National School Lunch Program
19. September 6, 2011 - “Back to School” Information and Reminders
20. October 3, 2011 - National School Lunch Program – October Report Deadlines
21. January 3, 2012 - Direct Certification – Third Round Due in January
22. January 17, 2012 - Reminder of Requirements for National School Lunch/Breakfast Programs
23. Directory of FSMC for 2011-2012
24. Prototype FSMC Contract for 2011-2012
25. Prototype FSMC Addendum for 2011-2012

FISCAL YEAR 2012

IMPORTANT NOTE TO AUDITORS: THE JULY 1, 2011 - JUNE 30, 2012 FEDERAL AND STATE RATES DISPLAYED BELOW ARE PRELIMINARY RATES AND NOT FINAL RATES. A REVISED SCHEDULE WILL BE ISSUED IN JULY 2012

**REIMBURSEMENT RATE BREAKDOWN
NATIONAL SCHOOL LUNCH PROGRAM**

REGULAR RATE (July 1, 2011 – April 30, 2012) charter schools w/less than 60% of Free and Reduced			
	FEDERAL	STATE	TOTAL
FREE	2.77	0.05	\$2.82
RED	2.37	0.05	\$2.42
PAID	.26	0.04	\$0.30

HIGH RATE (July 1, 2011- April 30, 2012 – Federal EXTRA .02 CENTS) charter schools w/more than 60% of Free and Reduced			
	FEDERAL	STATE	TOTAL
FREE	2.79	0.05	\$2.84
RED	2.39	0.05	\$2.44
PAID	.28	0.04	\$0.32

REGULAR RATE – (May 1, 2012 – June 30, 2012)			
	FEDERAL	STATE	TOTAL
FREE	2.77	0.055	2.825
RED	2.37	0.055	2.425
PAID	.26	0.045	0.305

HIGH RATE (MAY 1, 2012 – JUNE 30, 2012)			
	FEDERAL	STATE	TOTAL
FREE	2.79	0.055	2.845
RED	2.39	0.055	2.445
PAID	.28	0.045	.0325

SCHOOL BREAKFAST PROGRAM

REGULAR RATES – NON-SEVERE NEED			
	FEDERAL	STATE	TOTAL
FREE	1.51	0.00	\$1.51
RED	1.21	0.00	\$1.21
PAID	0.27	0.00	\$0.27

SEVERE NEED RATES			
	FEDERAL	STATE	TOTAL
FREE	1.80	0.00	\$1.80
RED	1.50	0.00	\$1.50
PAID	.27	0.00	\$0.27

AFTER SCHOOL SNACKS

AT RISK/ AREA ELIGIBLE (NO CHARGE)	\$0.76
NON-AREA ELIGIBLE	
FREE	\$ 0.76
REDUCED	\$ 0.38
PAID	\$ 0.07

SPECIAL MILK PROGRAM

FREE	Average cost per half pint *Based on Individual charter schools costs
PAID	\$ 0.2050

Commodity Value \$ 0.2025

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SECTION II- SPECIFIC COMPLIANCE
PROPRIETARY FUNDS
FUND 70 – INTERNAL SERVICE FUNDS

Internal Service Funds (N.J.A.C. 6A:23A-16.11)

Charter schools should use internal service funds to account for the financing of goods or services provided by one department or office to other departments or offices of the charter school or to other charter schools or district boards of education and governmental units, on a cost-reimbursement basis. Internal service funds are cost accounting and distribution entities, and are intended to "break even" annually and/or over a period of years. The use of an internal service fund does not provide additional revenue or expenses to the charter school but acts as a means to document the sharing of the costs. Use of this fund replaces the prior common practice of "refunding" expenditure accounts for shared services. Some activities that may be accounted for in an internal service fund are central purchasing and warehousing, central motor pools, central printing and duplicating or central data processing departments.

Arrangements for sharing the costs of administrative and other non-instructional personnel and related costs under joint agreements where the employees remain under the employment of one lead charter school would also be accounted for in an internal service fund in the records of the lead charter school. Each of the "sharing" charter schools or districts, including the employing lead charter school, should reflect their agreed-upon portion of the costs in the general fund. For the employing charter school, that cost would be budgeted as a salary expenditure. The "sharing" charter schools would account for the payments made to the lead charter school as a contracted service under the appropriate function. If the shared employees have employment contracts with each of the charter schools involved, each charter school's share of the employees' salary and related costs would be budgeted and expended against the appropriate salary and other accounts and there would be no need for any of the charter schools involved to establish an internal service fund.

- The charter school providing the shared service shall allocate the costs on a user charge basis to all participating entities on an annual basis at a minimum.
- User charges should be reported by entities or funds being serviced by the internal service fund in the applicable line item account for the goods or services received.
- Sales and purchases of goods and services for a price approximating their external exchange value should be reported as revenues ("Services Provided to Other Funds"). The total user charges should approximate the total costs of the internal service fund.

Charter school auditors should refer to Chapter 14 of the GAAP Technical Systems Manual for additional guidance. As a reminder, the costs of instructional programs, including regular and special education, should be accounted for in the general fund.

Self-insurance (Risk Financing):

Self-insurance is the practice of a charter school controlling and self-directing the costs of administering an insurance program while retaining a risk of loss. GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended by GASB 30, *Risk Financing Omnibus*, provides the accounting and financial standards for risk financing and self-insurance related activities. GASB 10 paragraph 63 permits the use of either the internal service fund or the general fund for such purposes. NJDOE has recommended using the internal service fund. The Government Finance Officers Association's publication *Governmental Accounting, Auditing, and Financial Reporting* (the "Blue Book") references GASB 10 paragraph 66 and states on page 101, "If a government chooses to use an internal service fund to account for its risk financing activities, interfund premiums should be classified as interfund services provided (a reciprocal interfund activity). As a result, premiums received

by the internal service fund should be reported as revenues. Unless excess revenues are justified, premiums in excess of probable and measurable losses incurred must be reported as an operating transfer (a nonreciprocal interfund activity) rather than as revenue.”

The Internal Service Fund reports on the accrual basis and per GASB 10 paragraph 53 should limit liability recognition to probable and measurable losses as of the balance sheet date. For example, worker’s compensation losses that have been incurred but not reported (event occurred, but no claim has been asserted at the balance sheet date), are accrued if a reasonable estimate of the loss can be made.

SECTION II- SPECIFIC COMPLIANCE
FIDUCIARY FUNDS
FUND 80 –TRUST FUND

Assets that are held in a trustee or agency capacity for external parties and that cannot be used to support the government's own programs are reported as fiduciary funds. Trust funds may be distinguished from agency funds by the existence of a trust agreement, a higher degree of management involvement, and a longer holding period of the fund resources. Agency funds report resources held by the reporting government in a purely custodial capacity.

Fiduciary trust and agency fund activity is not included in the charter school -wide financial statements (the Exhibit A series) but is reported in the fund statements (Exhibit B7 and B8) as described below. Inclusion of the trust or agency fund resources in the charter school-wide financial statements might mislead the reader about the financial position of the charter school since these funds are not available for use by the charter school.

Trust Funds:

There are three classes of trust funds:

- Pension and other employee benefit trust
- Investment trust funds
- Private-purpose trust funds

Pension and other employee benefit trust funds account for resources held in trust for the members and beneficiaries of the charter school's employee benefit plans. Investment trust funds report the resources of a combined investment effort among charter schools. Private-purpose trust funds encompass other trust fund arrangements for which principal and income benefit individuals or agencies outside of the charter school. Examples of a private purpose trust fund are a scholarship fund or a fund that reports the resources of an awards program, funded by contributions from local businesses to provide small cash awards to qualifying high school seniors.

When funds are legally restricted to the extent that only the earnings, and not the principal, may be used to benefit the charter school, those resources are reported in the permanent fund.

There are two required trust fund financial statements under GAAP:

- *Statement of Fiduciary Net Assets*
- *Statement of Changes in Fiduciary Net Assets*

Refer to the *Statement of Fiduciary Net Assets* and the *Statement of Changes in Fiduciary Net Assets* (Exhibits B-7 and B-8), the sample fiduciary fund statements, in the Sample Statements section on the NJDOE web site: <http://www.state.nj.us/njded/finance/fp/cafr/>.

Unemployment Trust Fund

When a charter school elects the reimbursement method (also called the payment in lieu of contributions or pay as you go method, i.e., the state pays the claim and invoices the charter school for the amount due) for unemployment compensation, the accumulation of funds is reported in a trust/fiduciary fund in the CAFR.

Effective January 1, 1999, a portion of the employee's deductions for unemployment compensation are required to be deposited in the Unemployment Compensation Insurance Trust Fund. This applies to

charter schools that fund New Jersey Unemployment Compensation Insurance under the “Benefit Reimbursement Method”. The percentage breakdown for the worker contributions is as follows:

As of July 1, 2004

Worker Unemployment Contributions:

0.125% Submit with Quarterly Contributions Report

0.300% ***Deposit into individual trust account***

0.425%

The special reimbursable accounts rates indicated above are subject to change after the publication of this Audit Program and should be verified with the Department of Labor and Workforce Development at:

<http://lwd.dol.state.nj.us/labor/employer/handbook/chap1/chap1sec4ContributionReports.html#7>

Section 457 Deferred Compensation Plans

N.J.S.A. 18A:66-127 through 129 as amended by P.L. 2003, c.155, permits charter schools to establish tax-sheltered deferred compensation plans under section 457 of the federal Internal Revenue Code. Additionally, the act grandfathers any section 457 plan established by a charter school prior to the effective date of this law.

GASB Statement No. 32 Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans as amended by GASB Statement No. 34 provides authoritative guidance on the reporting of 457 plans. Generally, the charter school must determine whether or not the board of trustees is acting in the capacity as trustee for the plan. Factors such as whether the Board of trustees has retained the power to make investment decisions for the plan, approves loans made from plan assets, and approves withdrawals for unforeseen emergencies suggest the Board of trustees is acting in the capacity of a trustee.

If the Board of trustees is acting as a plan trustee, then the assets of the plan are reported in the fiduciary fund under the category “pension and other employee benefit trust funds.” If the charter school has established a 457 plan but does not hold the assets in a trustee capacity, then those assets are not included in the charter school’s fiduciary fund financial statements.

SECTION II- SPECIFIC COMPLIANCE
FIDUCIARY FUNDS
FUND 90 –AGENCY FUND

Agency funds report resources held and administered by the reporting charter school in a purely custodial capacity for other governments, organizations, and/or individuals. These funds typically involve only the receipt, temporary investment, and remittance of the resources to external parties. Common examples of agency funds are payroll and student activity funds.

Agency funds are included in a separate column in the *Statement of Fiduciary Net Assets*. Because an agency fund does not have net assets, it is not included in the *Statement of Changes in Fiduciary Net Assets*. The charter school will continue to present the *Student Activity Agency Fund Schedule of Receipts and Disbursements* in Other Supplementary Information (Exhibit H-3).

Payroll Funds: Where a charter school uses a central payroll system and reports all payroll deductions in an agency fund, the unremitted balances in the agency fund at year-end are reported by the agency fund as liabilities. Refer to Section II-10.2 for discussion on regulations related to third party disbursements (payroll service organizations). The regulations (*N.J.A.C. 5:30-17 et seq.*) are available on the DCA website.

Health Insurance Withholding

P.L.2010, c. 2 was signed into law on March 22, 2010 and effective May 21, 2010. This law changed various provisions of the State Health Benefits Program and the School Employees Health Benefits Program. Withholding from employees for this purpose should be accounted for in the Payroll Agency Fund as an employee payroll deduction. The withholding is not revenue to the charter school but offsets the cost of health benefits paid by the charter school. The Division of Pensions issued guidance in a Frequently Asked Questions and answer memo that can be found at <http://www.state.nj.us/treasury/pensions/chapter2-faq.shtml>. Other information from the division can be found in communication sent to certifying officers at <http://www.state.nj.us/treasury/pensions/coltr10.shtml#ch2faq>. Local Finance Notice (LFN) 2010-12 highlights important elements of the law, and has a Frequently Asked Questions document (FAQ) attached. LFN can be accessed at the link title Chapter 2 Health Benefits Reform Guidance at the Division of Community Affairs website <http://www.state.nj.us/dca/lgs/>. For clarification of provisions of the law, please contact the Division of Pension's Office of Client Services at (609) 292-7524, or email the Division at pension.nj@treas.state.nj.us.

P.L. 2011 c.78, effective June 28, 2011, changes the health care contribution standards set in Chapter 2 of 2010 by increasing the share of health benefits premiums paid by public employees and retirees who receive employer paid health benefits. Section 80 of the law allows employers time for necessary administrative actions to implement the increased employee contributions without retroactive impact. For 2011-12, each employee's health benefit cost contribution is the higher of 1.5% of base salary (Chapter 2) or Chapter 78, s.39 (subject to phase-in requirements of the law) or any locally or contractually required contribution that applies to an employee. Local Finance Notice 2011-20R provides guidance on the implementation of the 2011 health benefit reforms and is available at: http://www.nj.gov/dca/divisions/dlgs/resources/lfns_2011.html

For 2011-12, guidance was issued that health care costs budgeted in appropriations object code 270 should be recorded net of projected employee withholding. Actual withholdings from employees' payroll for this purpose should be recorded in the payroll agency fund as employee withholdings. Regarding the remittance of premiums to the insurer, charter schools were offered the flexibility to issue one general

fund check comprised of both the employer and employees' share of health benefit cost, or to remit the employer share from the general fund and the employees' share from the payroll agency fund.

Section 125 Flexible Spending Accounts

P.L. 2011 c.78 requires boards of trustees to establish a cafeteria plan for employee medical or dental expenses not covered by a health benefits plan. This may be accomplished through a Flexible Spending Account (FSA), which allows an employee to voluntarily set aside a portion of their earnings to pay for expenses qualified under the plan to include the use of pre-tax dollars to satisfy the employee's required contributions to health benefits costs under the law.

A Flexible Spending Account may require the charter school board of trustees to pre-fund a portion of the employee accounts at the inception of the program and annually at the beginning of each plan/budget year. The pre-funding is necessary to have funds available to pay/reimburse claims during the initial period until employee salary deductions are sufficient to pay these claims. The pre-funding may be repaid to the charter school by the plan provider once sufficient funds are accumulated through the deduction process. In the event the charter schools program required pre-funding, an interfund transfer is the appropriate method of providing the short-term funding for the program to become operational. The transfer should be reversed once the fund achieves a level sufficient to maintain itself.

At the end of the plan/budget year (including any grace period) the employer retains the unexpended balance of the employees' contributions. These funds may be used to pre-fund the following year's plan, to pay the employer's administrative costs, or to recoup the pre-funding amount at the start of the year.

Refer to Local Finance Notice 2011-34 *2011 Health Benefit Reform Supplemental Guidance* available on the DCA website at: http://www.state.nj.us/dca/divisions/dlgs/resources/lfns_2011.html

Student activity funds are reported as agency funds within the CAFR. An arrangement between a student organization and the charter school whereby the charter school maintains the cash raised by the student organization is a common example of a student activity fund.

Organizations under the Auspices of the School

Any organization which is officially recognized by the school as part of the activity program of the school charter school, places at least indirect responsibility for supervision and control of that organization with the charter school. The board of trustees should formally approve each fund in its school charter school. If any fund is an activity carried on by the board, an officer or employee of the charter school, or an organization of public school pupils conducted under the auspices of the board, the board of trustees must assure that financial and bookkeeping controls are established.

The State Board of Education has not prescribed a uniform system of bookkeeping for the activities funds of school charter schools. *N.J.A.C. 6A:23A-16.12(c)* states, "Each charter school and charter school board of trustees shall ensure through adoption of a formal board policy that all financial and bookkeeping controls are adequate to ensure appropriate fiscal accountability and sound business practices." This policy shall include but not be limited to, the following minimum requirements:

- (1) Receipts shall be detailed showing date, sources, purpose and amount. All receipts should be promptly deposited in the bank. Bank deposits must agree with the receipts in the cash receipt book and must be traceable to definite receipts or groups of receipts.

- (2) Disbursements shall be recorded chronologically showing date, vendor, check number, purpose and amount. All disbursements should be made by check and supported by a claim, bill or written order to persons supervising the fund. Checks should bear two or more authorized signatures.
- (3) Book balances shall be reconciled with bank balances. Canceled checks and bank statements must be retained for examination by the auditor as part of the annual audit.
- (4) Student activity funds shall be classified by school.
- (5) Borrowing from the student activity is prohibited.

Charter school auditors should refer to Chapter 15 of the *GAAP Technical Systems Manual*.

Fund Raising in Schools by Outside Organizations

Organizations such as the United Fund, March of Dimes, etc., may request that moneys be collected. These funds are not subject to audit. Boards of education may give permission for the collection to be made in schools. Any teacher or pupil who serves as a collector does so as a private citizen and not as an employee of the board. Accurate records must be kept but responsibility is to the organization and not to the charter school for the money collected.

In order to avoid misunderstanding, we advise that charter schools that give permission for soliciting in a school building by outside organizations make it clear that the charter school is not directing the teachers and pupils to collect funds, but merely granting permission to do so. The charter school is further advised to disclaim any responsibility for the protection of, and the accounting for, the funds to the outside organizations.

Any collector should understand that he/she is collecting voluntarily as a citizen and not as a teacher or pupil, and that the charter school has no responsibility for the protection of moneys so collected.

Some charter school may have given permission for depositing funds collected in drives in a school activity account and the issuance of checks thereon to the outside organization. Although this might be a convenience to school personnel who are handling the money collected, it causes an undesirable commingling of funds for which the charter school should have no responsibility. The commingling of such funds is legally suspect. However, if it occurs the commingled funds are subject to audit by the boards' auditors.

Funds of Teacher Organizations and Parent/Teacher Organizations

The law provides that the books, accounts and moneys of any officer or employee of the charter school shall be audited. This does not mean that every time a school employee serves as treasurer of an organization that the account must be audited. It is only when money is held for which the charter school is directly or indirectly responsible that the accounts must be audited. The charter school has no responsibility for the funds of teacher organizations. A school employee who serves as a treasurer of such an organization does so as a citizen and not as an employee of the board. If moneys were deposited in a central school fund, they would be subject to audit.

Funds Collected by Teachers from Pupils for Immediate Purchase of Items

Teachers may receive money from children to buy magazines, tickets, etc., in bulk to save the children money. It is our opinion that in so doing the teacher represents the children and not the charter school and assumes full responsibility for the transactions.

Refer to Section I Chapter 1 for information on GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

SECTION II – SPECIFIC COMPLIANCE
CAPITAL ASSETS

Overview

Capital assets include land and land improvements, buildings, furniture, fixtures and equipment, infrastructure items, works of art and historical treasures.

Effective July 1, 2001, the capitalization threshold used by school districts and charter schools in the State of New Jersey is increased to \$2,000. This is a policy set for financial reporting and accounting purposes. Charter schools may use a lower threshold for asset management and insurance purposes.

The Uniform Minimum Chart of Accounts for New Jersey Public Schools(2003 Edition) (COA) was issued effective for July 1, 2004 and eliminated the GFAAG to be consistent with GASB 34 and the National Center for Education Statistics Chart of Accounts. Charter schools are still required to record capital assets and may designate a numeric or alpha fund number in their general ledger which is suitable for their software system (e.g., 100, 99 or CA) or use a separate fixed asset module. The fixed asset ledger should be updated monthly for internal control purposes.

Reporting Capital Assets

Capital assets are reported at historical cost, including ancillary charges necessary to place the asset into its intended location and condition for use. “Ancillary charges include costs that are directly attributable to asset acquisition – such as freight and transportation charges, site preparation costs, and professional fees. Donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charge, if any.” (GASB 34, par. 18, as amended by GASB 37, par. 6).

The chart below highlights which statements report capital assets. “N/A” means that statement is not issued for that particular fund type, whereas “No” means that statement is issued for that particular fund type but capital assets are not reported.

Class of capital asset	Charter school - wide statements	Funds statements	Budgetary comparison schedules
Governmental	Y	No	No
Proprietary	Y	Y	N/A
Fiduciary	N/A	Y	N/A

Statement of Net Assets

Report capital assets within the governmental activities column in the charter school -wide *Statement of Net Assets*. Capital assets of proprietary funds are reported in the business-type activities column of the *Statement of Net Assets*.

Funds Statements

Capital assets used in governmental activities are not reported as assets in governmental funds statements since the governmental funds statements follow the modified accrual basis of accounting and capital assets are not current financial resources. Proprietary fund capital assets are reported in the fund statements since this fund uses the accrual basis of accounting (economic resources). Capital assets of fiduciary funds are reported in the fund level since the fiduciary funds statements use the accrual basis of accounting. The fiduciary assets are not considered available to the charter school and therefore are not reported on the charter school -wide statements.

Capital outlays of the governmental funds are reported as a reconciling item in the *Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities*, which reconciles the net change in government fund balances to the change in net assets of governmental activities.

Charter school staff and auditors may refer to the NJDOE CAFR web site for sample statements noted above <http://www.state.nj.us/education/finance/fp/cafr/outline/>. Charter school staff and auditors should also refer to the Section II-30, Capital Projects Fund, of this *Audit Program* for related subjects

Capital Leases

Assets acquired under a capital lease are recorded at the inception of the lease. In order to convert the fund financial statements from a modified accrual basis to an accrual basis for the preparation of the government-wide financial statements, the expenditure must be capitalized, any related depreciation expense must be recorded, and the debt must be recognized along with the accrual of any related interest expense.

Construction in Progress

Assets under construction are tracked through Construction in Progress until completion. *N.J.S.A. 18A:18A-42* provides that purchase orders for construction, reconstruction or rehabilitation of any public building are valid for the length of time authorized for completion of the actual project. Charter school auditors are to ensure that charter schools that have constructed facilities are not in violation of *N.J.S.A. 18A:36A-10*, which states that a charter school shall not construct a facility with public funds other than federal funds.

Reporting of Capital Assets Acquired Through Non-cash Grants

Capital assets acquired through non-cash grants are reported only in the Charter school-wide Statement of Net Assets at fair market value.

Sample Format for the Capital Asset Subsidiary Ledger

As noted in Chapter I-1 of this Audit Program, schedules of capital assets should be prepared prior to audit. The following is a suggested minimum format for charter schools' use in maintaining records of capital assets, including accumulated depreciation (Accum. Depr.) and depreciation (Depr.):

Classification	N1	N2	Date Placed in Service	Acquisition Cost	Method of Depr.	Life N3	6/30/xx Accum Depr.	7/1/xx-6/30/xx Depr. Expense	6/30/xx Accum. Depr.
Buildings:									
School #1			7/1/xx	\$5,000,000	S/L	35 yr	\$1,285,715	\$142,857	\$1,428,572
Furniture:									
Desks	B2	P5	7/1/xx	\$5,000	S/L	10 yr	\$4,500	\$500	\$5,000

N1 – Assets should be tagged and maintained by physical location.

N2 – Assets that can be specifically identified to a program or function should be noted with the program code. If assets are not specifically identifiable, the charter school should note “N/A” in the program column.

N3 - Charter schools may refer to the table of estimated useful lives (International ASBO) included in Section III-6 of this Audit Program.

Refer to III-6.8 (Audit Checklists and Questionnaire) for capital asset schedule requirements.

Depreciation Expense

The GASB Implementation Guides provide guidance on depreciation expense which is to be reported as a direct expense of the function served. As the number of functions served by an asset increases, the ease, practicality, and usefulness of assigning depreciation to those functions decreases. Therefore, depreciation of assets serving many or essentially all functions is not required to be included in the direct expenses of those many functions. Depreciation of a shared capital asset used by only a few functions can be allocated to those functions using an objective measure for the assignment of cost. For example, building depreciation may be allocated based on square footage assigned to the respective functions. The department recommends charter schools use the straight line method of depreciation.

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SECTION II – SPECIFIC COMPLIANCE
LONG-TERM LIABILITIES

Overview

Long-term liabilities generally include debt issuances, the non-current portion of lease-purchase agreements, capital leases, operating leases with scheduled rent increases, compensated absences, claims and judgments, early retirement incentive programs, and rebatable arbitrage.

The Uniform Minimum Chart of Accounts for New Jersey Public Schools (2003 Edition) (COA) was issued effective for July 1, 2004 and eliminated the GLTDAG to be consistent with GASB 34 and the National Center of Education Chart of Accounts. Charter schools must continue to record the long-term liabilities in the general ledger and may designate a numeric or alpha fund number which is suitable for their software system, e.g., 100, 99 or LT. The ledger should be updated on a periodic basis (e.g., monthly), for internal control.

Statement of Net Assets

General long-term liabilities include bonds, notes, and other long-term liabilities that are not directly related to and expected to be paid from proprietary and trust funds. Liabilities of the proprietary fund are reported in the proprietary fund *Statement of Net Assets*; liabilities of the trust fund are reported in the *Statement of Fiduciary Net Assets*. General long-term liabilities of the charter school should be reported in the governmental activities column of the charter school-wide *Statement of Net Assets*. Similar to the presentation of assets, liabilities are reported in the order of liquidity. “Liabilities with average maturities greater than one year should be reported in two components – the amount due within one year and the amount due in more than one year” (GASB 34, par. 31).

Interfund liabilities, even if non-current, are not long-term liabilities. Charter school staff and auditors should refer to the revised GASB Codification 1500.

Governmental Funds Statements

Governmental funds reporting focuses on current financial resources, hence the fund financial statements do not include long-term liabilities such as bonds payable. The fund statements are intended to present a more detailed short-term view of basic education services with the most readily available assets and current liabilities. The governmental funds balance sheet includes a reconciliation of total governmental funds balance to the net assets of governmental activities. Long-term liabilities are a common reconciling item. The purpose of the reconciliation is to assist the reader to understand how the short-term financial information in the governmental funds statements differs from the more comprehensive financial information in the charter school-wide statements.

Disclosures

Refer to GASB 34, GASB 38, and the GASB Implementation Guides for guidance on disclosures including provisions for year-end accrual of interest, amortization of premium or discount over the life of the bonds and inclusion for discussion within the Management Discussion and Analysis.

Compensated Absences

Statement No. 16 of the Governmental Accounting Standards Board (GASB), “Accounting for Compensated Absences”, changed the method for calculation of a charter school’s liability for compensated absences (e.g., vacation, sick leave). This Statement supersedes the instructions shown on pages 13.4 and 13.5 of the GAAP Technical Systems manual regarding calculation of this liability for inclusion in the general long-term debt account group. By memo of May 15, 1995, this department advised School Administrators and Public School Accountants of the change. Auditors should refer to

GASB 16 and the Codification of Governmental Accounting and Financial Reporting Standards, Section C60, for further explanation and illustrations of calculations of vacation leave and sick leave.

The inclusion of the long term portion of compensated absences in the charter school-wide Statement of Net Assets may generate a deficit in unrestricted net assets. This occurs because the pre-GASB 34 fund balance is based on current resources, whereas the GASB 34 net assets is based on economic resources and includes both long term assets and long term liabilities. When the long-term portion of compensated absences exceeds all other unrestricted net assets, a deficit will occur.

Pension and Other Postemployment Benefits (OPEB)

For purposes of the charter school's accrual and modified accrual statements, the annual pension (PERS) expense/expenditures is generally equal to the charter school's contractually required contributions to the plan defined as the "contributions assessed by a cost-sharing pension or OPEB plan to the participating employers for the periods to which the contractual requirement relates." GASB issued Technical Bulletin (TB) 2004-2, *Recognition of Pension and Other Postemployment Benefit (OPEB) Expenditures/Expense and Liabilities by Cost-Sharing Employers*, in December 2004 to clarify the application of requirements regarding accrual issues related to GASBS 27 and 45. GASB 45 has phase-in periods for implementation beginning with reporting periods after December 15, 2006 and based on the criteria used for GASB 34. Examples of OPEB include healthcare benefits, life insurance, and long-term care. Due to the technical nature and level of detail of GASB 45, charter school staff and auditors should refer to TB 2004-02 and the GASB 45 available through GASB's website (www.gasb.org) for further guidance.

Early Retirement Incentive Programs (PERS/TPAF and Other Offers)

Legislation enacted in 1991, 1993 and 2002 provided early retirement incentives (ERIP) for certain members of TPAF and PERS who met certain age and service requirements and who applied for retirement between certain dates in that fiscal year. The ERIP was subject to Board approval. Charter schools are assessed annually for their actuarially determined contribution to fund this program. Each participating charter school was given several options as to the length of time it desired to fund this liability.

Under GAAP, the charter school ERIP liability is considered a contractual obligation. The liability is calculated for each participating charter school and billed to the charter school separately from its normal pension obligation, if any. For fund statement purposes, advance payments made against that contractual obligation are considered GAAP expenditures in the year of payment. The department recommends proper footnote disclosure and a supplemental exhibit identifying the annual maturities.

Termination Benefits

Termination benefits may be voluntary (early-retirement incentives) or involuntary (severance benefits). GASB Statement 47 *Accounting for Termination Benefits* was issued in June 2005, and is effective for periods beginning after June 15, 2005 for termination benefits offered outside of an existing defined benefit or other postemployment benefit (OPEB) plan. Benefits effecting an employer's obligations for defined benefit pension or other postemployment benefits should be accounted for and reported under the requirements of GASB 27, *Accounting for Pensions by State and Local Governmental Employers*, or GASB 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB).

SECTION II – SPECIFIC COMPLIANCE
SINGLE AUDIT

Federal and State Audit Requirements

Federal Single Audit Act

The Single Audit Act Amendments of 1996 (Act) establishes uniform requirements for audits of federal awards administered by non-federal entities. The Act promotes sound financial management, including effective internal controls, with respect to federal awards administered by non-federal entities. The Federal Office of Management and Budget (US OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, provides the government wide guidelines and policies on performing audits to comply with the Single Audit Act and requires the use of generally accepted government auditing standards (GAGAS). Non-federal entities that expend \$500,000 or more in a year in federal awards are required to have a Single Audit in accordance with provisions in Circular A-133. When auditing federal programs for the fiscal year ending June 30, 2012, auditors are required to follow the provisions of the 2007 revision of *OMB Circular A-133* available at:

http://www.whitehouse.gov/sites/default/files/omb/assets/a133/a133_revised_2007.pdf.

The Act requires that GAGAS be followed in audits of state and local governments. *Government Auditing Standards (The 2007 Revision)* issued by the Comptroller General of the United States specifies the standards and guidance generally known as GAGAS. This document is commonly known as the Yellow Book and is available in electronic format through the GAO website www.gao.gov. The printed version of the July 2007 revision of *Government Auditing Standards* can be purchased through the Government Printing Office (GPO) online or by calling 202-512-1800 or 1-866-512-1800 toll free or via the GPO website at <http://bookstore.gpo.gov> (type in “Yellow Book” at the search box).

The 2012 edition of OMB A-133 *Compliance Supplement* is not available at the time of publication of this Audit Program. Auditors should check for availability at:

http://www.whitehouse.gov/omb/circulars_default

Auditors should select from a list of departments in Part 4 of the Supplement, (e.g., Dept. of Agriculture, Dept. of Education, Dept. of Health and Human Services) to determine compliance requirements for a specific program or grant. Appendix 5 of the document contains a list of changes in the 2012 Supplement. The 2012 Compliance Supplement will be available for sale from the Government Printing Office by calling (202) 512-0132. The stock number for this document is 041-001-00687-7.

The 2011 Supplement, Appendix VII “Other OMB Circular A-133 Advisories”, section I. “American Recovery and Reinvestment Act” (ARRA), contains background and guidance on how ARRA funds impact single audits. The Appendix VII is available on this website: http://www.whitehouse.gov/sites/default/files/omb/circulars/a133_compliance/2010/app_7.pdf.

Background

- The ARRA imposes certain transparency and accountability requirements on federal awarding agencies and their recipients.
- Auditors should be alert to determine whether auditees have properly identified ARRA awards.

CFDA Numbers

- Federal agencies use CFDA numbers for new ARRA programs or for existing programs for which the ARRA provides for compliance requirements that are significantly different for the ARRA funding. ARRA awards to existing federal programs may or may not have a new CFDA number.

Clusters of Programs

- Many ARRA awards will have new CFDA numbers even though they are additions to and share common compliance requirements with the existing program. Therefore, the OMB will update the clusters of programs described in Part 5 of the Supplement. Any changes will be posted on the OMB Management website <http://www.whitehouse.gov/omb/management> under Grants Management as addenda to the Supplement.
- The auditor is responsible for using the cluster list that matches the auditee's fiscal year end. For example, OMB plans to post an addendum for changes to clusters applicable to an audit of the fiscal period ending June 30, 2011, and posted on the OMB Management website under Grants Management by that date.

Effect of Expenditures of ARRA awards on Major Programs Determination

- Due to the inherent risk with the transparency and accountability requirements over expenditures of ARRA awards, the auditor should consider all Federal programs with expenditures of ARRA awards to be programs of higher risk in accordance with §__.525(c)(2) and §__.525(d) of OMB Circular A-133. Accordingly, when performing the risk-based approach under §__.520(c)(1) of OMB Circular A-133, Type A programs with expenditures of ARRA awards should not be considered low-risk except when the auditor determines, and clearly documents the reasons, that the expenditures of ARRA awards is low-risk for the program.
- Clusters to which a federal program with a new ARRA CFDA number has been added should be considered a new program and would not qualify as a low-risk Type A program under §__.520(c)(1) of OMB Circular A-133 (i.e., the cluster will not meet the requirement of having been audited as a major program in at least one of the two most recent audit periods as the federal program funded under the ARRA did not previously exist.)
- Auditors should:
 - (1) Review the award documents, including the terms and conditions;
 - (2) Check the OMB Management website under Grants Management for any addenda to the Supplement, and
 - (3) Use the framework provided by the Supplement (e.g., in Parts 3, 4, 5, and 7) as guidance to identify ARRA compliance requirements material to the federal program and determine the appropriate audit procedures.

The applicable Catalog of Federal Domestic Assistance (CFDA) number for a federal grant or federal aid can be found on the New Jersey Department of Education (NJDOE) Contract. A listing of grants available through NJDOE with their CFDA numbers can be found on pages II-SA.9 and .10 of this Audit Program and the auditor can look up a program at the CFDA website: <http://www.cfda.gov> . Click the heading "Search For Assistance Programs (HTML)." Here there are several different ways to search for programs including by number, or if necessary you can click on the heading of All Programs Listed Numerically.

State of New Jersey Single Audit Act

NJ State Office of Management and Budget (NJOMB) Circular Letter 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid (NJOMB 04-04) supersedes NJOMB 98-07 and establishes state policy and procedures regarding audits of grant and state aid recipients, and outlines the responsibilities of state agencies and grant recipients to ensure that recipient audits are performed according to federal and state requirements. NJOMB 04-04 is available on the website: <http://www.state.nj.us/infobank/circular/cir0404b.htm>. The revision raises the threshold for a single audit to \$500,000 or more expended in federal financial assistance or state financial assistance within the recipient's fiscal year. This revision did not change the requirement that recipients which expend less than the threshold of \$500,000 in federal or state financial assistance within their fiscal year, but expend \$100,000 or more in state and/or federal financial assistance within their fiscal year, must have either a financial statement audit performed in accordance with *Government Auditing Standards (Yellow Book)* or a program-specific audit performed in accordance with the Act, Amendments, OMB A-133 Revised and State policy. Compliance requirements for the Department of Education (and other departments) are contained in the *State Grant Compliance Supplement* which is published to assist auditors in testing recipient compliance with state grant and state aid financial assistance programs and applicable laws and regulations which is available on the Internet at <http://www.state.nj.us/treasury/omb/> (see Highlights).

AICPA Single Audit Guidance

The AICPA audit guide, *Government Auditing Standards and Circular A-133 Audits (Guide)* has been updated through April 2011 and is available for purchase from the AICPA's website at: http://www.cpa2biz.com/AST/Main/CPA2BIZ_Primary/AuditAttest/IndustryspecificGuidance/NotforProfit/PRDOVR~PC-012743/PC-012743.jsp The audit guide provides guidance on the auditor's responsibilities when conducting a single audit or program specific audit in accordance with the Single Audit Act Amendments of 1996 and USOMB Circular A-133. The *Guide* incorporates guidance from the following:

- The Single Audit Act Amendments of 1996,
- OMB Circular A-133,
- SAS No. 119, *Supplementary Information in Relation to the Financial Statements as a Whole*
- Updated compliance considerations for auditors performing engagements that include Recovery Act awards
- *Government Auditing Standards*

Risk-based Approach

Revision of the single audit threshold to \$500,000 or more expended in federal financial assistance or state financial assistance within the recipient's fiscal year did not impact major program determinations. Section .520 of Circular A-133 requires auditors to utilize the following criteria to identify major programs:

§ __.520 Major program determination.

(a) **General.** The auditor shall use a risk-based approach to determine which federal programs are major programs. This risk-based approach shall include consideration of: Current and prior audit experience, oversight by federal agencies and pass-through entities, and the inherent risk of the federal program. The process in paragraphs (b) through (i) of this section shall be followed.

(b) Step 1.

(1) The auditor shall identify the larger federal programs, which shall be labeled Type A programs. Type A programs are defined as federal programs with federal awards expended during the audit period exceeding the larger of:

(i) \$300,000 or three percent (.03) of total federal awards expended in the case of an auditee for which total federal awards expended equal or exceed \$300,000 but are less than or equal to \$100 million.

(ii) \$3 million or three-tenths of one percent (.003) of total federal awards expended in the case of an auditee for which total federal awards expended exceed \$100 million but are less than or equal to \$10 billion.

(iii) \$30 million or 15 hundredths of one percent (.0015) of total federal awards expended in the case of an auditee for which total federal awards expended exceed \$10 billion.

(c) Step 2.

(1) The auditor shall identify Type A programs which are low-risk. For a Type A program to be considered low-risk, it shall have been audited as a major program in at least one of the two most recent audit periods (in the most recent audit period in the case of a biennial audit), and, in the most recent audit period, it shall have had no audit findings under §___.510(a). However, the auditor may use judgment and consider that audit findings from questioned costs under §___.510(a)(3) and §___.510(a)(4), fraud under §___.510(a)(6), and audit follow-up for the summary schedule of prior audit findings under §___.510(a)(7) do not preclude the Type A program from being low-risk. The auditor shall consider: the criteria in §___.525(c), §___.525(d)(1), §___.525(d)(2), and §___.525(d)(3); the results of audit follow-up; whether any changes in personnel or systems affecting a Type A program have significantly increased risk; and apply professional judgment in determining whether a Type A program is low-risk.

The Report on the National Single Audit Sampling Project issued by the President's Council on Integrity and Efficiency in June 2007 indicated numerous errors in the single audits. To address single audit deficiencies and to enhance the overall quality of single audits, the NJDOE Office of Fiscal Accountability and Compliance (OFAC) designed the Single Audit Summary Sheet. This Summary replaces the Type A Programs Worksheets, and the CAFR Submission Checklist and is required as part of the CAFR Reporting Package submitted to New Jersey Department of Education. Shaded areas are entered by the department or are automatically calculated. The auditor must complete **all questions in** sections A, C and F for every charter school, and **all questions in** Section D of the Summary for charter schools that have a federal and/or state single audit. The form is accessible through the FY12 Single Audit Summary link at the OFAC website: <http://www.state.nj.us/education/business/audit.htm>

If a charter school is being audited for the second time under Circular A-133 the auditor must follow the risk-based approach to determine major programs in accordance with section .520 of Circular A-133. Section .520(i) of Circular A-133 allows auditors to deviate from the use of the required risk-based approach when determining major programs during the first year that an entity is audited under the revised Circular A-133 or the first year of a change of auditors. The AICPA's Guide *Government Auditing Standards and Circular A-133 Audits* and the USOMB Circular A-133 (Section .520) should be referenced for further guidance on this approach.

NJOMB Circular Letter 04-04 also requires the use of the same risk-based approach to audit and monitor state financial assistance as used in federal programs. The inclusion of on-behalf pension contributions should not result in the exclusion of other programs as Type A programs. Since the department publishes the dollar amounts provided by the NJ Division of Pensions of on-behalf pension contributions for all charter schools on an annual basis and no other audit procedures are performed, these amounts should be excluded from the Type A programs threshold calculations. This does not impact the compliance requirements for Reimbursed TPAF Social Security Contributions.

Schedules of Expenditures of Federal Awards and State Financial Assistance

All special projects including those funded by pass-through monies, other than those funded locally under the general fund, must be separately accounted for in the charter school accounting records. The CAFR must include a separate *Schedule of Expenditures of Federal Awards* (Schedule A) and a separate *Schedule of Expenditures of State Financial Assistance* (Schedule B). The format of the schedules included in the sample CAFR was designed to provide the history of a grant from its initial award to the final disposition of the funds through either their expenditure or their refund to the grantor. Instructions regarding schedule preparation are included in this section of the Audit Program. Please note the titles of these schedules are as indicated in USOMB Circular A-133 and NJOMB Circular Letter 04-04.

Federal Awards: Carryover/Deferred Revenue/Due Back to Granter

If the budgetary expenditures incurred by the charter school are less than the amount of federal aid cash received (special revenue only), the charter school shall apply for carryover where permissible by statute after completion of the project period. Excess cash received is reported as deferred revenue on the *Schedule of Expenditures of Federal Financial Assistance* (Schedule A) in the single audit section of the CAFR, in the column titled "Deferred Revenue." For many federal grants, the grant period ends August 31; therefore, deferred revenue at June 30 may still be used during July and August.

Upon approval of the Final Expenditure Report by the NJDOE Office of Grants Management (OGM), any unexpended funds a charter school elects to carry over are identified as prior year carryover funds and are brought forward into a separate line in the Allocation section of the subsequent year Grant Application on the Electronic Web Enabled Grant (EWEG) system. In addition, any funds paid in excess of expenditures, are brought forward into a separate line marked "Overpayment" in the Allocation section of the subsequent year Grant Application. If the subsequent year application has final NJDOE approval, the charter school must submit an Amendment Application to budget the prior year carryover and overpayment funds.

Unexpended Funds at Year End

When the charter school elects not to carry over the unexpended current year balance approved through the final Expenditure Report, **and** this balance of funds was not paid to the charter school, the balance is considered "released" by the charter school to the DOE. Released funds are unexpended and unpaid funds that have been reported/recorded as "Released Funds" in the final Expenditure Report. Those funds will not be claimed by the charter school. The amount of funds released by the charter school (not

expended by the charter school and not advanced/remitted by the DOE) should be presented on Schedule A, in the column entitled "Adjustments". When the unexpended current year balance of funds has been advanced/remitted by the DOE to the charter school, this balance is recorded/reported in the final Expenditure Report as a refund due from the charter school to the DOE. Where the funds are expired (may not be expended in the subsequent year) the final Expenditure Report will automatically classify and report those funds that have been received by the charter school but are no longer available for expenditure by the charter school as, "Refundable to the NJDOE." Report this amount on Schedule A in the column entitled, "Due to Grantor."

All funds that have been refunded during the fiscal year shall be shown on Schedule A, in the column entitled, "Repayment of Prior Year Balances."

In January 2009, the NJDOE moved to a reimbursement method of payment. If a charter school submits for reimbursement of current year (2011-2012) expenditures and has carryover from the prior year (2010-2011) grant, the balance of the prior year carryover funds is offset against the reimbursement until the prior year carryover funds have been fully expended/deducted from the available funds. Generally, a charter school submits for reimbursement by the 15th of the month for expenditures incurred as of that date or anticipated to be incurred by the end of the month. The reimbursement for that month will be made in the subsequent month. When the amount of cash received is less than budgetary expenditures, a receivable shall be shown as a negative amount on Schedule A, in the column entitled "(Accounts Receivable)." No negative cash balances are permissible in the balance sheet. There should be an interfund payable set up to reflect advances from the General Fund.

Example – June 30, 2012

An NCLB award for the period September 1, 2010 to August 31, 2011 must be obligated by August 31, 2011 and liquidated by November 30, 2011. Grant funds awarded to the charter school and received by the charter school that remained unencumbered or unexpended at June 30, 2011, should have been reported as deferred revenue in the June 30, 2011 *Schedule of Expenditures of Federal Awards*. Funds encumbered but unexpended at August 31, 2011 (the end of the grant obligations period), are considered carryover funds in the EWEG system through November 30, 2011. Carryover funds (received by the charter school) that have not been expended by the November 30, 2011 liquidation date are reported as overpayment funds in the EWEG system beginning December 1, 2011. When the final Expenditure Report for the 2010-2011 grant period is approved by OGM, any carryover and/or overpayment funds are made available for budgeting in the current year (2011-2012) project period. The charter school may budget carryover and/or overpayment funds in the original (subsequent year) grant application, or where the original grant application has received final NJDOE approval as recorded in the EWEG system in advance of the carryover/overpayment determination, in an Amendment Application. The carryover/overpayment funds are considered expended first during the current grant period. Where a charter school does not obligate the full amount of prior year carryover (2010-2011) by August 31, 2012 and does not liquidate the full amount of the prior year carryover (2010-2011 grant) by November 30, 2012, the amounts not so obligated and liquidated are considered due back to the grantor in the EWEG system as of December 1, 2012. At June 30, 2013, any amounts received by the charter school but not as yet remitted back to the DOE should be reported in the June 30, 2013 *Expenditures of Federal Awards* as Due to Grantor; and every year until the funds are repaid to the grantor.

The following state/federal guidelines are applicable for grant close out procedures:

Code of Federal Regulations: Title 34 Education [Part 80 – Sec. 80.50 Closeout]

(d)(2): “The grantee must immediately refund to the Federal agency any balance of unobligated (unencumbered) cash advanced that is not authorized to be retained for use on other grants.”

The No Child Left Behind Act (NCLB) of 2001 (P. L. No. 107-110) reauthorized the Elementary and Secondary Education Act of 1965 (ESEA). NCLB contains fiscal compliance issues including, but not limited to, supplement not supplant, commingling of funds, allowable costs, administrative costs caps, maintenance of fiscal effort, comparability, transferability, and schoolwide programs. NCLB Policy Guidance is available at <http://www2.ed.gov/policy/elsec/guid/states/index.html>. Fiscal guidance on the FY 2012 NCLB Application can be found in the New Jersey NCLB Reference Manual Section IV “Fiscal Regulations and Responsibility” available at <http://www.nj.gov/njded/grants/entitlement/nclb/>.

It should be noted that pursuant to the *Elementary and Secondary Education Act* (ESEA) as amended by NCLB, the U.S. Department of Education has provided guidelines for preparing the schedule of expenditures of federal financial awards when grantees transfer amounts among ESEA programs, consolidate administrative funds of ESEA programs or combine ESEA funds in a schoolwide program.

Federal Awards: Title I charter school wide status

All schools with an approved Title I schoolwide program may combine certain federal funds. If the school does combine these resources, the expenditures are then accounted for down to the function object level as a combined federal source. This also applies to all schools with an approved Title I schoolwide program in the 2011-12 school year.

One of the requirements of implementing charter schoolwide programs is to integrate, whenever possible, all local, state and federal resources into one funding stream to implement the applicable year of the school’s two-year report on instructional priorities. It is therefore important that charter schools are cognizant of the federal laws permitting blending of federal resources, particularly the Improving America’s Schools Act of 1994 (IASA) P.L. 103-382, amendments to the Elementary and Secondary Education Act of 1965 (ESEA), Title I, Part A. ESEA was reauthorized by the No Child Left Behind Act of 2001 (NCLB) (P. L. No. 107-110 enacted January 8, 2002). Refer to <http://www2.ed.gov/policy/elsec/guid/states/index.html> and <http://www.nj.gov/njded/grants/entitlement/nclb/> for details of NCLB. In addition, the United States Department of Education (USDOE) website (www.ed.gov) provides written guidance, program ideas and audit information on schoolwide programs at <http://www.ed.gov/admins/lead/account/swp.html?exp=0>. Included at that site is a July 2, 2004 document titled “Notice Authorizing Schoolwide Programs to Consolidate Federal Education Funds.” A power point presentation on schoolwide programs can be found at <http://www.ed.gov/admins/lead/account/sw/edlite-index.html>. Information on Title I is available at <http://www.ed.gov/programs/titleiparta/legislation.html?exp=0>. Non-Regulatory Guidance “Title I Fiscal Issues: Maintenance of Effort, Comparability, Supplement, Not Supplant, Carryover, Consolidating Funds in Schoolwide Programs, Grantback Requirements” was issued in February 2008. This guidance is available at <http://www.ed.gov/programs/titleiparta/fiscalguid.doc>.

The basics of a schoolwide program are summarized below. The above resources should be referenced for more detailed and specific information related to operating a schoolwide program.

NCLB permits a charter school to consolidate and blend funds “together with other federal, state and local funds, in order to upgrade the entire educational program of a school that serves an eligible school attendance area in which not less than 40 percent of the children are from low-income families, or not less than 40 percent of the children enrolled in the school are from such families” (NCLB §1114). The purpose is to increase the

academic achievement for **all** students in the school by allowing schools to integrate their programs, strategies and resources.

A Title I targeted assistance program uses Title I, Part A funds only for the provision of supplementary educational services to eligible children who are failing, or at risk of failing, to meet state standards. In a Title I schoolwide program, a school is not required to provide supplementary services to identified children but instead can upgrade the entire educational program in the school.

In order to be eligible for a Title I schoolwide program, the school must be eligible for the Title I program; receive Title I, Part A funds; have at least 40 percent of the children enrolled in the school or residing in the school attendance area be from low-income families; comply with a year of planning; meet the nine essential program components and, have an approved schoolwide program plan. To promote effective, long-term planning, a school can maintain its schoolwide program eligibility even if it drops below the 40 percent poverty threshold. However, the school must still meet Title I eligibility and receive Title I funds.

Title I eligibility is a prerequisite of schoolwide program eligibility. Without an approved schoolwide program, a school is not permitted to blend federal funds with state and local funds.

Only eligible Title I schools receiving Title I funds may operate schoolwide programs.

The auditor should review the charter school-wide to identify which funds were combined to support the schoolwide program.

The *Schedules of Expenditures of Federal Awards and State Financial Assistance* (Exhibits K-3 and K-4, respectively), as well as the expenditures reported on the *Preschool Education Aid* and (Exhibits E-2), and the *Special Revenue Fund Combining Schedule of Program Revenues and Expenditures – Budgetary Basis* (Exhibit E-1) include the total expenditures of the program funds for all schools in the charter school on the budgetary basis and therefore include encumbrances as expenditures. Expenditures incurred in Fund 15 are recorded on the GAAP basis, similar to the General Fund. In order to include these expenditures in these schedules, the GAAP expenditures must be adjusted for encumbrances to determine the budgetary basis of these expenditures.

Fund 15 – Blended Resources Testing:

A school **must** be operating an approved Title 1 schoolwide program in order to blend federal funds.

The auditor should review the charter school's approved FY 2012 NCLB Consolidated Application (Application) to determine which schools within the charter school have Title 1 approved schoolwide program status. Only schools with approved schoolwide status may blend federal funds with state and local funds.

Once the auditor has determined that the resources transferred to Fund 15 agree with the approved Application; that the expenditures reported in Fund 15 are valid expenditures consistent with the approved schoolwide plan and recorded any adjustments necessary to reflect the effect of errors noted during testing, the auditor should test the charter school's calculations of allocated GAAP expenditures to ensure that they are calculated in accordance with the instructions provided by the department.

Fund 15 – Budgetary Basis Encumbrance Testing

Expenditures incurred in Fund 15 are recorded on the GAAP basis. Expenditures included in the *PreKEA*, (Exhibits E-2), the *Special Revenue Fund Combining Schedule of Program Revenues and Expenditures – Budgetary Basis* (Exhibit E-1) and the *Schedules of Expenditures of Federal Awards and State Financial Assistance* (Exhibits K-3 and K-4) are reported on the budgetary basis and therefore include encumbrances as expenditures. The amounts calculated on the *Schedule of Expenditures Allocated by Resource Type – Actual* (Exhibit D-2) are on the GAAP basis and will need to be adjusted for any encumbrances when including those expenditures in these schedules.

Once the auditor has determined that the encumbrances for each school are valid, and recorded any adjustments necessary to reflect the effect of errors noted during testing, the auditor is required to test the charter school's calculations of allocated encumbrances to ensure that they are calculated in accordance with the instructions provided by the department. If the auditor recorded any encumbrance adjustments, the charter school's encumbrances should be reallocated. Instructions on how to perform this allocation are available on the department's CAFR website <http://www.nj.gov/education/finance/fp/cafr/> under the link for Special Revenue Fund Combining Schedule of Program Revenues and Expenditures– Budgetary Basis (Exhibit E-1).

A sample encumbrance calculation (Exhibit D-2 Worksheet) is available on the department's website <http://www.nj.gov/education/finance/fp/cafr/> to illustrate the calculations and the reporting of the amounts on Exhibit D-2. This worksheet should not be included in the CAFR. The sample encumbrance calculation includes an allocation of encumbrances to the Combined General Fund Contribution and State Resources. This was done to illustrate how the total encumbrances are allocated based on the “% of Total Resources.” Encumbrances are not reported as expenditures in Fund 15. The Reserve for Encumbrances is reported in the “Assigned” and/or “Committed” sections of the fund balance recapitulation as “Year-end Encumbrances” in the Fund 15 column of the Combining Balance Sheet (Exhibit D-1). The Combining Balance Sheet is required to be included in the CAFR.

State Awards: Carryover/Deferred Revenue/Due Back To Granter

The restricted formula aid Preschool Education Aid which is not fully expended or encumbered by year end must be carried over and reported as deferred revenue on Schedule B in the column entitled “Deferred Revenue.”

The following state guidance is applicable for grant close out procedures:

Circular Letter 07-05-OMB: XXIV

(C) “The Grantee will, together with the submission of the final report, refund to the Department any unexpended funds or unobligated (unencumbered) cash advanced, except such sums that have been otherwise authorized in writing by the Department to be retained.”

Preparing the Schedules of Expenditures of Federal Awards and State Financial Assistance

Two separate schedules, the *Schedule of Expenditures of Federal Awards* and the *Schedule of Expenditures of State Financial Assistance*, are prepared from the charter school records and must include all active (i.e. - not closed) financial assistance programs in which a charter school is participating regardless of the fund in which they are accounted. Each schedule must reflect the current fiscal year's activity as well as total disbursements by program in the format presented in this chapter of the Audit Program (II-SA-18). The information presented on these schedules must agree with the amounts reported in the *Budgetary Comparison Schedules* and the *Combining Schedule of Program Revenues and Expenditures, Special Revenue Fund – Budgetary Basis*. Explanations of the information required to be included are presented below.

These schedules are prepared using budgetary expenditures which must be reconciled to the *Balance Sheet – Governmental Funds* on the *Budget to GAAP Reconciliation in the Notes to RSI*. The adjustment for the state aid payments made in July 2011 (recognized on GAAP in 2011-12) and July 2012 (not recognized on GAAP until 2012-13) (general and special revenue fund) as well as encumbrances in the special revenue fund will be reported as reconciling items. See Section I-8 and III-3 for additional guidance.

The Schedules of Expenditures of Federal Awards and Expenditures of State Financial Assistance must be in the same format as those shown in the sample schedules in this chapter. Where the final Expenditure Report has been approved, the prior year carryover grant funds and the current year grant funds may be combined on a single line of the *Schedule of Expenditures of Federal Awards*. The carryover portion of the approved grant amendment is considered expended first. See the guidance and illustration in the beginning of this chapter under the header Carryover/Deferred Revenue/Due Back to Grantor. Schedules must be subtotaled by grantor and reflect grand totals for the following columns: Budgetary Expenditures, (Intergovernmental Accounts Receivable), Deferred Revenue and Due to Grantor. The value of noncash assistance must be included on the applicable schedule or a note in the schedule. In addition, federal programs included in a cluster of programs must be listed individually.

Charter schools may have received from the department grant funds in advance of the expenditure of the grant funds received. When the charter school elects to carry over the unexpended current year balance approved through the final Expenditure Report, and the charter school has received advance funding, the Allocation Section of the subsequent year's Grant Application includes the received but unexpended funds on a separate line marked "Overpayment." At year end, any portion of the "Overpayment" funds for which the liquidation period associated with the prior year carryover funds has expired and has not yet been returned to the department, remains refundable to the department, and shall be reported on Schedule A, in the column entitled "Due to Grantor." When the charter school elects not to carry over the unexpended current year balance approved through the final Expenditure Report, and the charter school has received advance funding that has not been returned to the department at year end, this amount remains refundable to the department, and shall be reported on Schedule A, in the column entitled "Due to Grantor."

When the charter school elects not to carry over the unexpended current year balance approved through the final Expenditure Report, and this balance of funds was not advance paid to the charter school, the balance is considered "released" by the charter school to the DOE. Released funds are unexpended award amounts that have not been received by the charter school and are reported/recorded as a release of funds in the final Expenditure Report. Those funds will not be claimed by the charter school. The amount of funds released by the charter school (not expended by the charter school and not advanced/remitted by the DOE) should be presented on Schedule A, in the column entitled "Adjustments".

All funds that have been refunded during the fiscal year shall be shown on Schedule A, in the column entitled "Repayment of Prior Year Balances."

Definitions/Headers

- 1) **Grantor/Program Title:** This column designates the original grantor department/agency (grantor) of the financial assistance and the name of the assistance program. Programs are classified by grantor and are further delineated within grantor as to direct or pass-through programs. The schedule must identify the program as direct or pass-through. When there are several active grants within the same program they will be presented separately within the schedule.
- 2) **Federal CFDA Number:** This is applicable to the *Schedule of Expenditures of Federal Awards* only and represents the federal program number obtained from the Catalog of Federal Domestic Assistance (CFDA). When the CFDA number is not available, this fact should be noted and the program should be identified by another identifying number, if available.
- 3) **Grant (Contract) or State Project Number (State Aid NJCFS Number):** This is applicable to the *Schedule of Expenditures of State Financial Assistance* only and is the state identifying number that can be obtained in a latter page of this chapter of the Audit Program (II-SA) or from the NJ State Appropriations Handbook. It is used by the NJ Department of Education for monitoring and reconciling state awards.
- 4) **Grant Period:** Represents the initial period for which the program was awarded.
- 5) **Program/Award Amount:** Designates the amount of the initial program award. The full amount of the award or grant agreement should be reported in this column.
- 6) **Balance at June 30, 2011:** This is used to report deferred revenue, intergovernmental accounts payable (due to grantor), or intergovernmental accounts receivable for those prior year programs which have balances as of the end of the prior fiscal year. On the *Schedule of Expenditures of Federal Awards* these amounts are shown netted in one column, but the charter school may separate them into multiple columns. On the *Schedule of Expenditures of State Assistance* a separate column is presented for Due to Grantor. A positive amount reflects deferred revenue or intergovernmental accounts payable. A negative amount for unrestricted revenue sources represents an intergovernmental accounts receivable and a negative amount for restricted revenue sources represents a deficit in the program attributable to the deferral of the last state aid payment as required GAAP reporting under GASB 33. The budgetary receivable included in the 2010-11 *Schedule of Expenditures of State Assistance* is not included in this column.
- 7) **Carryover/(Walkover) Amount:** Reflects the movement of award proceeds which have been approved for carryover into a carryover program code. Note that any walkover amount must be reflected as a negative amount on the line from which it was transferred, and a positive amount on the grant/aid program line to which it was transferred. Prior year state restricted formula aids would be reflected in this column. Where a deficit (negative in the Balance at June 30, 2011 column) in the preceding year was attributable to the deferral of the last state aid payment (GASB 33 GAAP revenue recognition), the Carryover/(Walkover) column will show a positive on the line for the previous year and a negative on the line for the audit year. This would occur only in the restricted state aid programs.
- 8) **Cash Received:** Reflects the amount of cash received during the current fiscal year for the applicable financial assistance program.

- 9) **Budgetary Expenditures:** Represents the total costs chargeable to the program during the current fiscal year. The budgetary expenditures amount must agree with the *Budgetary Comparison Schedules* (General Fund (GAAP) and Special Revenue Fund (Grant Accounting)) and the *Budgetary Comparison Schedule, Note to RSI* and the *Special Revenue Combining Schedule of Program Revenues and Expenditures – Budgetary Basis*.
- 10) **Adjustments:** In instances where a grant period overlaps fiscal years and the grant has not closed out as of the end of the current fiscal year, favorable differences incurred in the liquidation of encumbrances charged as budgetary basis expenditures in the prior fiscal year should be included in the *Schedule of Expenditures of Federal Awards* (Schedule A) and *Schedule of Expenditures of State Financial Assistance* (Schedule B) in a column entitled “Adjustments.” This column would not be used for differences in the liquidation of encumbrances on grants which have closed out as of the end of the current fiscal year since these differences would affect current year expenditures. Reporting this information separately from current year expenditures will provide a clearer indication of the grant activity during a period of time. Any amount reported as an adjustment in the Schedule A or Schedule B must be fully explained in the *Notes to the Schedules of Expenditures of Awards and Financial Assistance*, including the reason for the adjustment and the period to which it pertains. The charter school should include a column for Adjustments only if it is applicable.
- 11) **Repayment of Prior Years' Balances:** Repayments are made during the current fiscal year to a grantor for unexpended funds on a program whose grant period has expired and no carryover was granted or allowed. Do not list Repayment of Prior Years' Balances unless refunds have been sent to the grantor during the current year. The charter school should include a column for Repayment of Prior Years' Balances only if it is applicable.
- 12) **(Intergovernmental Receivable) at June 30, 2012:** Amounts due from the grantor, as of fiscal year end, are reflected here. The amounts reported must agree with the amounts reported in the Balance Sheet (Exhibit B-1) for the governmental funds or with the Food Service column in the Statement of Net Assets (Exhibit B-4) for the Proprietary Funds.
- 13) **Deferred Revenue at June 30, 2012:** Unexpended award proceeds as of fiscal year end which are expendable in the subsequent fiscal year are reflected here. For Preschool Education Aid, if the charter school has deferred revenue, the amount reported in the Schedule B plus the state aid payment made in July of the subsequent year should agree to the amount calculated on the Special Revenue Restricted Aid Schedules as actual carryover.
- 14) **Due to Grantor at June 30, 2012:** Unexpended award proceeds which are due back to the grantor as of fiscal year end are listed here. These amounts are reflected in the general ledger as Intergovernmental Accounts Payable and should reconcile to the amounts reported in the *Basic Financial Statements* and in the *Combining Schedules* by the amount of the state aid payment (general and special revenue fund) made in July of the subsequent year. This column will be utilized by the Department of Education to identify and collect moneys due to the state for federal and state programs. If a charter school has amounts due back to the grantor at the end of the fiscal year, that amount must appear in the Due to Grantor column of the current fiscal year, and also in each subsequent year's CAFR as a balance at June 30 of the prior year until the amount is ultimately repaid. If a charter school has no unexpended award proceeds due back to the grantor, show the column heading and leave the column blank. See the discussion on pages II-SA.4 and 5.

- 15) **Budgetary Receivable:** The amount reported in the first MEMO column on Schedule of Expenditures of State Financial Assistance is computed using the Program/Award amount less the cash received. A deficit in a program cannot exceed this amount.
- 16) **Cumulative Total Expenditures:** This column is a memo only column, used on the *Schedule of Expenditures of State Financial Assistance*, and reports the cumulative expenditure of a grant. If the grant crosses fiscal years the amount may differ from the budgetary expenditures since the budgetary expenditures represents expenditures for only the current fiscal year. These amounts will most likely be the same for most forms of state aid reported by NJ charter schools.

Specific Program Information

State:

The award amount and budgetary expenditure figures for general fund state aids other than TPAF/Social Security reimbursements should be equal and agree with the amount shown as revenues for the applicable state aid in the budgetary statements/schedules. This also applies to on-behalf TPAF Pension amounts which must be included in the *Schedule of Expenditures of State Financial Assistance*.

TPAF/Social Security reimbursements must be reflected on the *Schedule of Expenditures of State Financial Assistance*. Any receivable outstanding from the prior year should be shown on a separate line. The current year award and expenditure amount represents the total of the amounts submitted for reimbursement during the current year. The uncollected balance (cash received minus amount billed) is shown as intergovernmental accounts receivable at year-end.

Federal:

Food Distribution Program (formally USDA Commodities) should be presented in the schedule at the full cash equivalent value. The award and cash received amounts should be the value of the commodities distributed during the year. The budgetary expenditures amount is the amount of inventory consumed and the deferred revenue amount is the ending inventory amount.

The expenditures for federal awards under the ARRA should be reported separately on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC). The prefix "ARRA" should be used to identify the name of the federal program on the SEFA and as the first characters in Item 9d of Part III on the SF-SAC.

Audit Findings

The identification of major programs with an asterisk (*) in the schedule of expenditures of federal awards and state financial assistance is not required. This information is included in the Schedule of Findings and Questioned Costs prepared by the auditor.

The department's Office of Fiscal Accountability and Compliance (OFAC) acts on the Commissioner's behalf in the receipt, exchange, review and investigation of information relevant to the efficient supervision of all schools in the state receiving support or aid from federal and state appropriations, NJSA 18A:4-23. The office performs investigations and many auditing functions, including the coordination of monitoring activity related to allowable uses of American Recovery and Reinvestment Act of 2009 (ARRA) funds and other federal funds. The auditor is required to perform follow-up tests/procedures, as necessary, to ensure that all the findings contained in audit reports issued by the OFAC have been

properly resolved. The conclusions drawn from the follow-up tests/procedures performed by the auditor are to be summarized on the Schedule of Findings and Questioned Costs.

The Auditor's Management Report and the Schedule of Findings and Questioned Costs must indicate whether the charter school has not complied with federal and state regulations in a timely manner. Grant refunds are to be submitted with the Final Expenditure Reports. Discretionary grant refunds are required by the department upon approval of the final expenditure report. If grant periods extend beyond the audit deadline of June 30, unexpended funds should be listed as Deferred Revenue and refunded with the Final Expenditure Reports. Do not list Repayment of Prior Years' Balances unless refunds have been sent to the grantor. If the charter school Schedule of Finding and Questioned Costs or Audit Findings indicate that refunds are due, the refunds are to be submitted promptly with an explanation regarding the findings.

Corrective Action Plans filed by the charter school with the grantor indicate noncompliance issues. Auditors should review the charter school's Findings, the Schedule of Findings and Questioned Costs and the schedules listed above. When a Corrective Action Plan has been adopted by the charter school, the auditor must consider the impact of the potential noncompliance with the grant terms on the financial statements (CAFR).

**FEDERAL PROGRAM NUMBERS
FROM CATALOG OF FEDERAL
DOMESTIC ASSISTANCE
(List Not All Inclusive)**

CFDA #

10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.558	Child and Adult Care Food Program
10.559	Summer Food Service Program for Children
10.582	Fresh Fruits and Vegetable Program
84.010A	Title I Part A Grants to Local Educational Agencies
84.011A	Title 1, Part C Education of Migrant Children
84.013A	Title 1, Part D Neglected & Delinquent Children
84.027	Individuals with Disabilities - States Grant
84.040	Impact Aid – Facilities Maintenance
84.041	Impact Aid
84.048A	Perkins Vocational Education - Basic Grants
84.144F	MEP Consortium Incentive
84.144G	MSIX State Data Quality Grants
84.173	Preschool Grants for Children with Disabilities
84.185	Byrd Honors Scholarship
84.186A	Safe and Drug-Free Schools and Communities (SEA Portion)
84.186B	Safe and Drug-Free Schools and Communities (GOV Portion)
84.196	Education for Homeless Children and Youth
84.213C	Title 1, Part B Even Start Family Literacy
84.125V	NJ Character Pilot Program

FEDERAL PROGRAM NUMBERS (cont'd.)

CFDA

84.243A	Perkins Voc Tech Prep Education
84.282	Public Charter Schools
84.287C	21 st Century Community Learning Centers
84.293C	Foreign Language Assistance
84.298A	Innovative Programs Title V, Part A (Formerly Title VI)
84.318X	Enhancing Education through Technology (Title IID)
84.323A	State Program Improvement Grants
84.326C	Deaf and Blind Centers
84.330	Advanced Placement Fee Program
84.336A	Teacher Quality Enhancement State/Partnership Grants
84.336C	Stepping Up Teacher Recruitment
84.357A	Reading First
84.358B	Rural Education
84.365A	English Language Acquisition (Title III)
84.366B	Mathematics & Science
84.367A	Improving Teacher Quality State Grants (Title II Part A)
84.369A	State Assessment Program (Title VI, Part A)
84.371B	Striving Readers
84.377A	School Improvement Grants
84.386A	ARRA – Educational Technology State Grants
84.387A	ARRA – Homeless

84.388A ARRA – School Improvement Grants
84.389A ARRA- Title I Part A
84.391 ARRA – IDEA Part B
84.392A ARRA – Preschool Grants
84.394A ARRA-SFSF-ESF (Educ. State Grants)
84.397A ARRA-SFSF-GSF (Government Services)
84.410A Education Jobs Fund
84.413A Race To The Top Phase 3 (RTT3)
84.938C Hurricane Relief Grant
93.600 Head Start Collaboration
93.708 ARRA – Early Childhood Advisory Council
93.778 Medical Assistance Program
93.938 Comprehensive School Health/HIV
94.004 Learn and Serve America

**STATE AID AND STATE GRANT
STATE ACCOUNT NUMBERS**

GENERAL FUND

12-495-034-5120 -078	Equalization Aid
12 495-034-5120 -083	Education Adequacy Aid
12 495-034-5120 -089	Special Education Categorical Aid
12 495-034-5120 -084	Security Aid
12 495-034-5120 -085	Adjustment Aid
12 495-034-5120 -068	School Choice Aid
12 495-034-5120 -014	Transportation Aid
12 495-034-5120 -078	Payment for Institutionalized Children- Unknown District of Residence
12 495-034-5095 -001	Teachers' Pension and Annuity Fund – Post Retirement Medical
12 495-034-5095 -002	Social Security Tax(Including TPAF/FICA Wage Freeze Grant)
12 495-034-5095 -006	Teachers' Pension and Annuity Fund
12 495-034-5095 -007	Teachers' Pension & Annuity Fund – Non-contributory Insurance
12 100-034-5062 -032	Vocational Education
12 495-034-5120 -071	Charter School Aid

SPECIAL REVENUE FUND

12 495-034-5120 -086	Preschool Education Aid
12 100-034-5120 -064	N.J. Nonpublic Textbook Aid
12 100-034-5120 -066	N.J. Nonpublic Handicapped Aid
12 100-034-5120 -067	N.J. Nonpublic Auxiliary Services Aid
12 100-034-5120 -068	N.J. Nonpublic Auxiliary/Handicapped Transportation Aid
12 100-034-5120 -070	N.J. Nonpublic Nursing Services
12 100-034-5062 -032	Vocational Aid

DEBT SERVICE FUND

12 495-034-5120 -017	School Building Aid
12 495-034-5120 -075	School Construction Debt Service Aid

ENTERPRISE FUND

12 100-010-3350 -023	State School Lunch Program
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INSERT *SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS*
SCHEDULE A/ EXHIBIT K-3

Schedule of Expenditure of Federal Awards

To display the K-3 illustration, click on the following link:

[Single Audit](#)

Select the tab entitled “Schedule A”
Selecting print will produce page II-SA.20 of The Audit Program.

INSERT *SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE*
SCHEDULE B/ EXHIBIT K-4

Schedule of Expenditure of State Financial Assistance

[Single Audit](#)

To display the K-4 illustration, click on the following link:

Select the tab entitled “Schedule B”
Selecting print will produce page II-SA.21 of The Audit Program.

_____ CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 20__

Section I --Summary of Auditor's Results

Financial Statements

[Reference – Section .510 and .520 of Circular OMB-133]

Type of auditor's report issued: _____

Internal control over financial reporting:

- 1) Material weakness(es) identified? _____ yes _____ no
- 2) Significant deficiencies identified? _____ yes _____ none reported

Noncompliance material to basic financial statements noted? _____ yes _____ no

Federal Awards

Internal Control over major programs:

- 1) Material weakness(es) identified? _____ yes _____ no
- 2) Significant deficiencies identified? _____ yes _____ none reported

Type of auditor's report issued on compliance for major programs: _____

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of Circular A-133? _____ yes _____ no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
_____	_____
_____	_____
_____	_____
_____	_____

Dollar threshold used to distinguish between type A and type B programs:[520] \$ _____

Auditee qualified as low-risk auditee? _____ yes _____ no

CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 20__
(continued)

Section II -- Financial Statement Findings

[This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which Government Auditing Standards requires reporting in a Circular A-133 audit. See paragraphs 13.15 and 13.35. See the AICPA Audit Guide *Government Auditing Standards and Circular A-133 Audits* for further guidance on this schedule]

(Note to Preparer -- Identify each finding with a reference number and present in the following level of detail, as applicable. If there were no findings, state that no matters were reported.)

Finding XX-X

Criteria or specific requirement:

Condition:

Context:

Effect:

Cause:

Recommendation:

Views of responsible officials and planned corrective actions:

CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 20__
(continued)

Section III -- Federal Awards and State Financial Assistance Findings and Questioned Costs

[This section identifies audit findings required to be reported by section .510(a) of Circular A-133 and NJOMB Circular Letter 04-04.]

(Note to Preparer -- Identify each finding with a reference number. If there are no findings, state that no matters were reported. Findings that are required to be included in both Section II and Section III may be summarized in one section with a reference to the detailed reporting in the other section. When a federal or state single audit is not required -- do not include that Awards Section. Refer to the AICPA Guide *Government Auditing Standards and Circular A-133 Audits*)

FEDERAL AWARDS

Finding XX-X

Information on the federal program(1):

Criteria or specific requirement:

Condition (2):

Questioned Costs (3):

Context (4):

Effect:

Cause:

Recommendation:

Views of responsible officials and planned corrective actions (5):

CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 20__
(continued)

Section III -- Federal Awards and State Financial Assistance Findings and Questioned Costs (cont'd.)

STATE AWARDS

Finding XX-X

Information on the state program (1):

Criteria or specific requirement:

Condition (2):

Questioned Costs (3):

Context (4):

Effect:

Cause:

Recommendation:

Management's response (5):

- (1) Provide the federal program (CFDA number and title) and state program (NJCFPS number) and agency, the federal/state awards number and year, and the name of the pass-through entity, if applicable.
- (2) Include facts that support the deficiency identified in the audit finding.
- (3) Identify questioned costs as required by section .510(a)(3) and .510(a)(4) of Circular A-133 and NJOMB Circular Letter 04-04.
- (4) Provide sufficient information for judging the prevalence and consequences of the finding, such as the relation to the universe of costs and/or number of items examined and quantification of audit findings in dollars.
- (5) To the extent practical, indicate when management does not agree with the finding and/or questioned cost. For further guidance, auditors should refer to *Government Auditing Standards*, par. 5.26 through 5.30, Chapter 4 and par. 12.34 and 12.38 of the AICPA Guide *Government Auditing Standards* and Circular A-133 Audits.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Charter schools which are required to have a federal and/or state single audit conducted in accordance with USOMB Circular A-133 and/or NJOMB 04-04 are responsible for preparing the summary schedule of prior audit findings and the corrective action plan as part of the Reporting Package required to be submitted to the Federal Clearinghouse and/or state funding departments. Charter schools should refer to USOMB Circular A-133 ¶ .315 for guidance on preparing these schedules.

As reference, the following excerpts from USOMB Circular 133 are provided:

- OMB 133, 500(e) states “The auditor shall follow-up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the auditee in accordance with ¶ 315(b) and report, as a current year audit finding, when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding. The auditor shall perform audit follow-up procedures regardless of whether a prior audit finding relates to a major program in the current year.”
- OMB 133, 315 (b)(1) states “When the audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken.”
- OMB 133, 315 (b)(2) states “When the audit findings were not corrected, or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken.”
- OMB 133, 315 (b)(3) states “When corrective action taken is significantly different from corrective action previously reported in a correction action plan or in the federal agency’s or pass-through entity’s management decision, the summary schedule shall provide an explanation.”

Below is a sample of the summary schedule of prior audit findings.

_____ CHARTER SCHOOL
**SUMMARY SCHEDULE OF PRIOR-YEAR AUDIT FINDINGS
AND QUESTIONED COSTS AS PREPARED BY MANAGEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 20__**

[This section identifies the status of prior-year findings related to the basic financial statements and federal and state awards that are required to be reported in accordance with Chapter 6.12 of *Government Auditing Standards*, USOMB Circular A-133 (¶.315 (a)(b)) and NJOMB’s Circular 04-04.]

[Note to Preparer -- Identify each prior-year finding with its prior-year reference number and present in the following level of detail. The NJ Department of Education requests that repeat audit findings be cross referenced to the current year number. If there were no findings, state that no matters were reported.]

STATUS OF PRIOR YEAR FINDINGS

Finding # _____

Condition

Current Status

SECTION III – REPORTING
CHAPTER 1 – AUDIT CRITERION AND SUBMISSION

Legal or Regulatory Requirements

In any governmental audit in which the auditor is expected to give an opinion on the fairness of the presentations in financial reports, compliance with applicable laws and regulatory requirements is a matter of importance because noncompliance might result in liabilities not disclosed in the financial reports. Compliance with laws and regulatory requirements, in many instances, assumes an even greater importance since the recipients of the financial reports and the audit reports also want to know whether funds designated for certain purposes were spent for those purposes.

The standards for examination and evaluation require consideration of applicable laws and regulations in the auditor's examination. The standards for reporting require a statement in his report regarding any significant instances of noncompliance disclosed by his examination and evaluation work. What is to be included in this statement requires judgment. Significant instances of noncompliance, even those not resulting in legal liability to the audited entity, should be included.

Although the reporting standard is generally on an exception basis, i.e., that only noncompliance need be reported, it should be recognized that governmental entities often want positive statements regarding whether or not the auditor's tests disclosed instances of noncompliance. This is particularly true in grant programs where authorizing agencies frequently want assurance in the auditor's report that this matter has been considered. For such audits, auditors should obtain an understanding with authorizing agencies as to the extent to which such positive comments on compliance are desired. When coordinated audits are involved, the audit program should specify the extent of comments that the auditor is to make regarding compliance.

When noncompliance is reported, the auditor should place his findings in proper perspective. The extent of instances of noncompliance should be related to the number of cases examined to provide the reader with a basis for judging the prevalence of noncompliance.

Peer Review

N.J.A.C. 6A:23A-16.2(i) requires that charter schools engage only public school accountants who have had a peer review and obtain a copy of the audit firm's peer review. The charter school is required to review the peer review report prior to the engagement of a public school accountant for the annual audit, and to acknowledge its evaluation of the report in the minutes in which the board authorizes the engagement of the public school accountant to perform the annual audit. Generally, auditors will submit the peer review with the engagement letter for a repeat audit or if a new audit, with the proposal when responding to a charter school's request for proposal. The department recommends that auditors review the board minutes to determine that the peer review report has been reviewed prior to the audit engagement.

“In accordance with NJOMB Circular Letter 98-07 including any amendments or revisions thereto [NJOMB 04-04], a district board of education or charter school board of trustees shall ensure that the public school accountant provides a copy of the most recent external peer/quality report to the Department, within 30 days after the initial engagement of a licensed public school accountant or firm and within 30 days after the issuance of a subsequent peer/quality report.”

It is the responsibility of the charter school to comply with the regulation of submitting the peer review report to the department. Auditors are asked to inquire, early during field work, if the charter school has done this. A copy of the most recent peer review report must be provided to the department as soon as possible after the engagement letter has been signed.

Government Auditing Standards (the 2007 Yellow Book) includes peer review requirements. Any letter of comment and any subsequent peer review reports and letters of comment received during the period of the contract should be provided to the charter school which has contracted for the audit or attestation engagement. Auditors should continue to refer to Sections 3.50- 3.57 of the 2007 *Yellow Book* for guidance on Quality Control and Assurance Standards.

Audit Submission

N.J.S.A. 18A:23-1 provides that beginning with the year ended June 30, 2010 the annual audit must be completed no later than five months after the end of the fiscal year (December 1). *N.J.S.A. 18A:23-3* requires "...such accountant shall within five days thereafter file two duplicate copies thereof certified under his signature in the office of the commissioner" (December 5, 2012). No provision is made for the issuance of extensions beyond the statutory due date. If a charter school fails to have an annual audit completed by December 1, the Commissioner of Education can appoint a qualified auditor to conduct the audit of the charter school. The cost of conducting such an audit would be paid out of the funds of the charter school.

The following section provides information on the required documents to be submitted. A checklist (see page III-1.4) to organize the various documents should be completed and included as part of the submission to the department. This has been developed to assist audit firms in packaging the correct number of documents, and to minimize correspondence from the department. The filing addresses and other pertinent information are outlined below. Failure to follow the filing instructions will result in notification to the charter schools by the department.

Audit Reporting Package

- The (CAFR) Audit Reporting Package for all charter schools consists of two separate and required audit reports; the CAFR and the Auditor's Management Report (AMR). Both reports must be signed by the appointed public school accountant performing the audit, not by the firm or corporation that employs the auditor, and submitted to the charter school.
- Auditors must refer to the "Instructions for Completion of the FY12 Single Audit Summary" at <http://www.state.nj.us/education/business/audit.htm> for a list of files that must be included on each CD-ROM submitted. Save the entire submission package on one CD-ROM and affix a label to the CD case or envelope which indicates "OFAC Copy", the county, charter school code, and charter school name. Charter schools must submit one appropriately labeled CD-ROM copy to the Department of Education containing the files specified in the "Instructions for the Completion of the FY 12 Single Audit Summary. Refer to the schedule of reporting requirements on page III-1.4 of this Audit Program for additional filing requirements.
- Use of the exact file naming conventions when preparing CD-ROMs, flash drives and email attachments for distribution of the electronic files. This uniformity will facilitate transmission to the OFAC CAFR Repository.
- OFAC CAFR Repository. Charter schools were first alerted to the creation of an OFAC CAFR Repository through the release of a broadcast memorandum dated November 7, 2011 available at: <http://education.state.nj.us/broadcasts/2011/NOV/07/4886/CAFR%20Repository.pdf>.
- Attachment A to the broadcast is reprinted on page III-1.3 and presents a table detailing the file extensions and the number of paper copies of the reporting package and the number of CD-ROMs containing the reporting package that must be created in addition to the OFAC CAFR Repository transmission.

Reports/Documents Required for Submission	Acceptable File Names	Required File Types	Number of Paper Copies*	
			SBBs - Yes	SBBs - No
1. Comprehensive Annual Financial Report	CAFR.PDF	.PDF	4	2
2. Auditor's Management Report	AMR.PDF	.PDF	3	2
3. Single Audit Summary	SAS.XLS, SAS.XLSX	.XLS, .XLSX	1	1
4. Data Collection Form	DCF.PDF	.PDF	1	1
5. Peer Review	PR.PDF	.PDF	1	1
6. Audit Questionnaire	AQ.PDF	.PDF	1	N/A
7. Prior Year Corrective Action Plan	PYCAP.PDF	.PDF	1	1
8. CD-ROMs containing Items 1 through 7	See above list		3	2

*Paper copies with the exception of number 8.

- File names must conform to exact file naming convention (file format) that must be followed when preparing all CD-ROMs, flash drives, and email attachments for distribution to the charter school and/or to the department. Files may not be password protected.
- Beginning with fiscal year ending June 30, 2012, it is the responsibility of every charter school to obtain the aforementioned electronic copy of the Audit Reporting Package from the auditor and also to ensure the file names and formats are prepared in accordance with the instructions referenced above. It is also the responsibility of charter school personnel to access the OFAC CAFR Repository and upload the entire Audit Reporting Package prior to the corresponding statutory deadlines. The OFAC CAFR Repository is an add-on to an existing application, DOE Folders. Each charter school may access DOE Folders at <http://homeroom.state.nj.us/>. The OFAC CAFR Repository has been added to the menu of available items. The OFAC CAFR Repository is designed to automatically append the charter school code and a date stamp to each file name during the upload process. Electronic documents which are subsequently modified must be saved and resubmitted with the original file name. The date stamp will distinguish the revised file from earlier submissions. Files modified after the closing date (March 31, 2013 for FY 12 documents) must be burned to a CD-ROM and mailed to the department.

Audit Summary (Audsum)

- The audited data is entered in the DOE web application by the auditor and must be signed (electronic signature) by both the auditor and the charter school business administrator.
- The Audsum data is transmitted to the department by the school business administrator.

Auditor Questionnaire (see Section III-6 of this Audit Program)

- The Auditor Questionnaire is not a required submission for charter schools. It must still be signed by the auditor, maintained in the auditor's workpaper files, and be available to the department upon request.
- The Auditor Questionnaire should not be sent to the Department of Agriculture.

Additional reports/worksheets submitted to the department

- Peer Review report
- Data Collection Form (if applicable; see Single Audit section III-1.6)
 - Single Audit Summary (see Single Audit Section II-SA and the OFAC Website <http://www.state.nj.us/education/business/audit.htm>) Note that sections A, C, and F apply to all charter school and section D applies to those charter school subject to a federal and/or state single audit. Because the federal due date is later than the statutory submission date for filing the reporting package with New Jersey, the Federal Data Collection Form (SF-SAC) may be submitted to the New Jersey Department of Education within 30 days after the audit report is filed with the charter school. Accordingly, the CD-ROMs of audit items submitted may be submitted on time without including the archived copy of the SF-SAC which then must be submitted at a later date under separate cover. Once the final SF-SAC is available, the auditor must provide a final copy to the charter school which the charter school must then transmit through the CAFR Repository. As stated above, the electronic data stamp will identify the times of submission.

MAILING ADDRESS * (Note that the US Post Box should be used for mailing. The street address is for other forms of delivery.)	AUDIT DOCUMENTS	TIME AFTER AUDIT TO SUBMIT/ # COPIES
Federal Audit Clearinghouse Bureau of the Census (Must use federal IDES to submit SF-SAC and Single Audit reporting package electronically to the Federal Audit Clearinghouse)**	Federal Package** Federal Data Collection Form (Only required for charter schools expending \$500,000 or more in federal awards)	Within 30 days One copy of each
**see Single Audit Report Submission Requirements on page III-1.6		
Commissioner of Education Department of Education Office of Fiscal Accountability and Compliance/Single Audit *100 Riverview Plaza *Trenton, NJ 08625 PO Box 500 Trenton NJ 08625-0500 Telephone 609-984-5935	See Single Audit Summary for DOE submission requirements http://www.state.nj.us/education/business/audit.htm	Within five days
NJ Department of Agriculture Bureau of Child Nutrition Programs 33 W. State St. – 4 th Floor P.O. Box 334 Trenton, NJ 08625-0334	Audit Reporting Package to include– CAFR, AMR, & Corrective Action Plan (CAP) (electronic copy only)**	Within five days; One copy
**IMPORTANT NOTE: Audit reporting package must be filed with the NJ Department of Agriculture only if the charter school received total combined funding in excess of \$100,000 from State Child Nutrition Programs and/or USDA Foods		
Executive County Superintendent of Schools	Audit Reporting Package – CAFR, AMR, & Corrective Action Plan (CAP)	Within five days - One copy
NJ Department of Education Office of Charter Schools Attention: Kathy Ambrosio P.O. Box 500 Trenton, NJ 08625-0500 Telephone 609-341-5298	Audit Reporting Package – CAFR (electronic copy only), AMR, Data Collection Form, Single Audit Summary & Corrective Action Plan (CAP) -email one copy to CharterFinance@doe.state.nj.us NO HARD COPIES SHOULD BE MAILED TO THIS ADDRESS, ONLY ELECTRONIC	Within five days - One copy

The Single Audit Unit in the Office of Fiscal Accountability and Compliance (OFAC) has designed a Single Audit Summary form which must be completed by auditors as follows:

- All Reporting packages must have Sections A, C and F completed (all questions must be answered).
- Auditors of charter schools which have federal single audits and/or state single audits must complete Section D (all questions must be answered).
- The shaded sections are either completed by the Single Audit Unit or are automatically calculated.

This form replaced the Type A worksheet and the CAFR Information Schedule/Checklist which is no longer required. The form is available at a link titled “FY12 Single Audit Summary” accessed through the following link to OFAC’s website:

<http://www.state.nj.us/education/business/audit.htm>

Single Audit Report Submission Requirements

Federal Single Audit Requirements

For charter schools subject to the Single Audit Act pursuant to USOMB Circular A-133, the report submission requirements are as follows:

- The Data Collection Form (SF-SAC) and the Federal Single Audit Reporting Package described below must be submitted to the Federal Clearinghouse within 30 days after receipt of the auditor's report(s).
- Based on the statutory deadline for filing the annual audit report for New Jersey Charter Schools, no submission to the Federal Clearinghouse should occur beyond November 30.
- The submission of anything other than a complete Data Collection Form and Reporting Package will be returned to the auditee.
- The Form SF-SAC and the Single Audit Reporting packages for fiscal periods ending on or after January 1, 2008 must be submitted online.
- Only one copy of the reporting package is required. If the audit requires distribution to another federal agency, the Federal Audit Clearinghouse will copy and distribute the required reporting packages to the federal agencies per § __.320(d) of the Circular.

Data Collection Form

The Data Collection Form provides information on the type of audit, the auditee, the auditee's federal programs, and the results of the audit.

Data Collection Form information is entered electronically through the Federal Audit Clearinghouse Internet Data Entry System (IDES) at the website <http://harvester.census.gov/fac/collect/ddeindex.html>. Auditors should refer to the instructions at: https://harvester.census.gov/fac/collect10/main_instruct.pdf. For SF-SAC and OMB 133 submission questions contact the Federal Audit Clearinghouse by email govs.fac@census.gov or phone 1-800-253-0696 (toll free), or 301-763-1551.

Federal Reporting Package

The Reporting Package must include the following:

- Financial statements (discussed in OMB-133, ¶ __.310(a))
- Schedule of Expenditures of Federal Awards (¶ __.310(b))
- Summary schedule of prior audit findings (¶ __.315(b))
- Auditor's reports (¶ __.505)
- Corrective action plan (¶ __.315(c))

Corrective action plan

The corrective action plan filed with the Federal Clearinghouse (A-133 corrective action plan) addresses each audit finding included in the current year auditor's reports in the Single Audit Section of the CAFR. In accordance with OMB Circular A-133 section .320(c), the corrective action plan is a required component of the Reporting Package. Charter school staff should prepare the A-133 corrective action plan in a timely manner so as to meet the filing deadline for submission to the Executive County Superintendent (see State Submissions below).

Submission of Federal Reports to State Departments

In addition to the required submissions to the Federal Clearinghouse, the auditee must also submit one copy of the Reporting Package to each pass-through entity when the schedule of findings and questioned costs and/or the summary schedule of prior audit findings disclosed audit findings or reported on the status of prior audit findings relating to federal awards that the pass-through entity provided. The reporting package must be transmitted to the federal collection center electronically. The Audit Reporting Package must be filed with the NJ Department of Agriculture only if the LEA received total combined funding in excess of \$100,000 from the State Child Nutrition Programs and/or USDA Foods.

If the schedule of findings and questioned costs and/or the summary schedule of prior audit findings disclosed no audit findings or did not report on the status of prior audit findings relating to federal awards that the pass-through entity provided, the auditee shall provide written notification to the pass-through entity in accordance with Section .320(e)(2).

State Single Audit Requirements

Charter schools may be subject to New Jersey state single audit requirements as established by NJOMB Treasury Circular Letter 04-04 which states that "in addition to federally required reports and opinions, recipient single audits must contain similar reports and opinions for State grant or State aid funds."

State Single Audit Reporting Package

Federally required reports and opinions
Financial statements
Schedule of Expenditures of State Financial Assistance
Corrective Action Plan (if different from federal CAP)
Single Audit Summary

Corrective Action Plan – State requirements

The corrective action plan filed with the Executive County Superintendent addresses each finding included in the Auditor's Management Report and must be filed within 30 days following the board meeting at which the audit was discussed. Refer to Section III, Chapter 7 for guidance on the corrective action plan to be filed with the Executive County Superintendent. This corrective action plan may differ from the federal corrective action plan if there are findings which the auditor deems to be immaterial for federal reporting, but which must be included for state purposes.

Reporting Errors

Auditor's Management Report (AMR)

N.J.S.A. 18A:23-9 states that the auditor "...report any error, omission, irregularity, violation of law, together with recommendations, to the board of education of each school district (charter school)." This statute applies to the Auditor's Management Report filed with the Department of Education. All findings must be included in that report of audit. This includes all items contained in a separate schedule of findings and questioned costs included in the single audit section of the charter school's CAFR.

- **Immaterial Errors and Omissions**
Sometimes an auditor will detect an error which requires disclosure pursuant to *N.J.S.A. 18A:23-9*. However, the auditor may not believe a recommendation is needed because the error was insignificant and an isolated unintentional deviation from the board's standard operating procedure. In such instances the auditor must report the item as a finding, state in the comments that in his or her opinion no recommendation is necessary, and elaborate on the reason(s) for this opinion. Any negative comment without a corresponding recommendation will be cited during the Quality Assessment Review unless accompanied by such an explanation. The reviewer will consider the explanation and the nature of the disclosure for adequacy. Auditors should exercise caution when determining which findings require disclosure and recommendations.
- **Other Recommendations to the Charter School Board of Trustees**
Auditor recommendations which are not required comments or related to a finding of noncompliance or questioned cost but rather represent suggestions to management should be grouped together and included at the end of the Auditor's Management Report in a section titled "Suggestions to Management." Management suggestions are not required to be included in the charter school's Corrective Action Plan.

Schedule of Findings and Questioned Costs (Single Audit - Federal and State)

In accordance with the Single Audit Act, USOMB Circular A-133, and NJOMB Circular Letter 04-04, questioned costs and findings of noncompliance with applicable federal and state laws and regulations pertaining to federal and state financial assistance programs must be reported in the *Schedule of Findings and Questioned Costs* in the single audit section of the charter school's CAFR if they meet the criteria for reporting audit findings as detailed in Circular A-133 (Section .510). See Section II-SA of the Audit Program for sample format of the schedule. As noted above, all items reported in the single audit section must be repeated in the Auditor's Management Report. Illustrative Auditor's Report Under OMB Circular A-133, Example 13-6, Schedule of Findings and Questioned Costs, is available at:

http://www.aicpa.org/interestareas/governmentauditquality/resources/illustrativeauditorsreports/downloadabledocuments/illustrativeauditreportsch13_04012011.pdf

The applicable Single Audit reports required under the circumstances of the audit are to be included in the single audit section of the CAFR.

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SECTION III – REPORTING
CHAPTER 2 SAMPLE OPINION REPORTS

Directives for Auditor’s Reports

The Single Audit Act Amendments of 1996 (the Act) replaced the Single Audit Act of 1984 which established uniform requirements for audits of Federal awards administered by non-Federal entities. The federal Office of Management and Budget (USOMB) issued the publication *Audits of States, Local Governments, and Non-Profit Organizations* (OMB A-133) to implement the Single Audit Act Amendments. Effective for fiscal years ending after December 31, 2003, OMB A-133 was revised to raise the audit threshold for all recipients, including state and local governments to \$500,000.

The State of New Jersey Office of Management and Budget (NJOMB) Circular Letter 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, revised state policy regarding audits of grant recipients to require those recipients that expend \$500,000 or more in federal financial assistance or State financial assistance within their fiscal year to have annual single audits in accordance with the Act, Amendments, OMB A-133 Revised, and State policy. Recipient single audits must contain reports and opinions for State funds similar to those required for federal single audits. A recipient is any local government (including a charter school) that receives from a State agency any federal grant, State grant or State aid funds to carry out or administer a program.

The AICPA Audit Guide *Government Auditing Standards and Circular A-133 Audits (AICPA Audit Guide - April 1, 2011)* is available through the AICPA website and incorporates recent changes to the AICPA auditing standards and Government Auditing Standards.

http://www.cpa2biz.com/AST/Main/CPA2BIZ_Primary/AuditAttest/IndustryspecificGuidance/NotforProfit/PRDOVR~PC-012743/PC-012743.jsp The auditor reporting required under OMB Circular A-133 is affected by the issuance of SAS No. 115, *Communicating Internal Control Related Matters Identified in an Audit*. Illustrative auditor’s reports under *Government Auditing Standards* that have been updated for SAS No. 115 (4-1 through 4-7) are published by the AICPA and are available at:

<http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/IllustrativeAuditorsReports/DownloadableDocuments/GASIllustrativeAuditorReports04012011.pdf>

Auditors should check the AICPA website and the reports link for the most recent sample reports. For additional guidance, the revised 2007 *Government Auditing Standards* (the 2007 Yellow Book) issued July, 2007 by the U.S. General Accounting Office is available at www.gao.gov. The 2007 Yellow Book is applicable for financial audits of periods beginning on or after January 1, 2008. The term “reportable conditions” is no longer used in the reporting.

Component Units

Government Accounting Standards Board Statement (GASB) 14 as amended by GASB 39 requires that separately issued financial statements of a component unit indicate that the entity is a component unit of another government. The notes to the component unit’s financial statements should disclose the identity of the primary government of the financial reporting entity and describe the relationship with the primary government. For the auditor’s report, the AICPA’s publication *State and Local Governments*, issued May 2007 (Paragraph 14.45) refers to the language used in the introductory paragraph of the illustrative auditor’s report in appendix A, Example 14A.2. - “We have audited the accompanying basic financial statements of Sample Charter School a component unit of Sample County, as of and for the year ended June 30, 20X1, as listed in the table of contents...”. Charter school staff and auditors should refer to the guidance on the department’s website http://www.nj.gov/njded/finance/fp/gasb34/component_unit.shtml for further information on component units.

Independent Auditor Reports

The reports generally required in connection with an audit performed under the Single Audit Act of 1984, P.L. 98-502 as amended by the Single Audit Act Amendments of 1996, P.L. 104-156 and required by NJOMB Circular Letter 04-04 have been revised for SAS No. 115. Illustrative Auditor's Reports Under GAS (4-1 through 4-7) have been published during April 2011 by the AICPA are available at:

<http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/IllustrativeAuditorsReports/DownloadableDocuments/GASIllustrativeAuditorReports04012011.pdf>

Example

No.	Title
4-1	Unqualified Opinions on Basic Financial Statements Accompanied by Required Supplementary Information and Supplementary Information—State or Local Governmental Entity

New Jersey Specific References to be included:

- In paragraph 2, sentence 1, the phrase “*and audit requirements as prescribed by the, Office of School Finance, Department of Education, State of New Jersey*” should be added to the end of the sentence.
- If the audit has been conducted in accordance with OMB A-133, the paragraph which discusses the accompanying schedules of expenditures of federal awards and state financial assistance should also include the phrase “*and New Jersey OMB’s Circular 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid, respectively*” in the first sentence.

4-3	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards (No Material Weaknesses Identified, No Significant Deficiencies Identified, No Reportable Instances of Noncompliance or Other Matters Identified)</i>
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New Jersey Specific References to be included:

- The last sentence of the first paragraph should include the phrase “*and audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey*” at the end of the sentence.
- In the section for “Compliance and Other Matters”, the last sentence of the first paragraph should include the phrase “*and audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey*” at the end of the sentence.
- The New Jersey Department of Education should also be included in the list of agencies for which the report is intended for use.

The sample audit reports listed above are based on the assumption that no qualifications of opinion are required. Reports 4-5 through 4-7 include language as to reportable instances of non-compliance and separate communications to management of immaterial instances of non-compliance and certain matters involving internal control audit findings that should be included in the reports if such findings apply.

Auditors should reference the link above for the appropriate language to be included if significant deficiencies or material weaknesses are identified.

SAS No. 117, Compliance Audits establishes standards and provides guidance on performing and reporting (in accordance with GAAS, Government Auditing Standards, and a governmental audit

requirement that requires an auditor to express an opinion on compliance) on an audit of an entity's compliance with applicable compliance requirements of a governmental audit requirement. SAS No. 117 is effective for compliance audits for fiscal periods ending on or after June 15, 2010.

Illustrative Auditor's Reports Under OMB Circular A-133 (13-1 through 13-6), revised for SAS No. 117, were published by the AICPA April 2011 and are available at:

http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/IllustrativeAuditorsReports/DownloadableDocuments/IllustrativeAuditReportsCH13_04012011.pdf

<i>Example No.</i>	<i>Title</i>
13-1	Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 (<i>Unqualified Opinion on Compliance; No Material Weaknesses or Significant Deficiencies in Internal Control Over Compliance Identified</i>)

New Jersey Specific References to be included:

- In paragraph 1, sentence 1, the phrase “*and the New Jersey State Aid/Grant Compliance Supplement*” should be added after the reference to the OMB Circular A-133 Compliance Supplement.
- In paragraph 2, sentence 1, the phrases “*the audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey*” and “*New Jersey OMB’s Circular 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*” should be added in the sentence.
- In paragraph 2, sentence 2, the phrase “*and New Jersey OMB’s Circular 04-04*” should be added after the reference to OMB A-133.
- In paragraph 3, sentence 2, the phrase “*and New Jersey OMB’s Circular 04-04*” should be added after the reference to OMB A-133.
- The New Jersey Department of Education should also be included in the list of agencies for which the report is intended for use.

13-6	Schedule of Findings and Questioned Costs
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The sample audit reports listed above are based on the assumption that no qualifications of opinion are required. Reports 13-2 through 13-5 include language as to reportable instances of non-compliance and separate communications to management of immaterial instances of non-compliance and certain matters involving internal control audit findings that should be included in the reports if such findings apply. Auditors should reference the link above for the appropriate language to be included if significant deficiencies or material weaknesses are identified.

SAS No. 119, *Supplementary Information in Relation to the Financial Statements as a Whole* (AICPA, *Professional Standards*, AU sec. 551) is effective for audits of financial statements for periods beginning on or after December 15, 2010. The AICPA issued an illustrative auditor's report under Circular A-133 that reflects updated reporting on the Schedule of Expenditures of Federal Awards under SAS No. 119 to be used when a separate single audit package is issued. When a separate single audit package is issued, the paragraph referencing the schedule of expenditures of federal awards is modified. The AICPA issued an illustrative report to address this specific situation:

That illustrative report (13-1A) is available on the AICPA website at:

http://www.aicpa.org/interestareas/governmentauditquality/resources/illustrativeauditorsreports/downloadabledocuments/illustrativeauditreportsch13_119_04012011.pdf

Charter school auditors should refer to footnote #7 for changes to report verbiage applicable to audits of governmental entities updated for SAS No. 119.

New Jersey Specific References to be Included:

- Sentence 7, the phrase, “and the Schedule of Expenditures of State Financial Assistance” should be added after reference to the Schedule of Expenditures of Federal Awards
- Sentence 8, the phrase, “*and New Jersey OMB’s Circular 04-04*” should be added after reference to OMB Circular A-133
- Sentence 16, the phrase, “and the Schedule of Expenditures of State Financial Assistance” should be added after reference to the Schedule of Expenditures of Federal Awards

SECTION III – REPORTING
CHAPTER 3-NOTE DISCLOSURES AND STATISTICAL SECTION

Disclosure

A governmental entity's reports and statements, both financial and operational, ideally should contain the information necessary for users--management, the electorate, creditors, grantors, and others--to form an opinion on the effectiveness of the stewardship exercised by the responsible public officials. The responsibility for providing such information is that of management. However, the auditor should comment if the data provided is insufficient to disclose any matters that may have a material effect upon the financial reports.

Adequate disclosure is that which is required by generally accepted auditing standards as promulgated by the American Institute of Certified Public Accountants (AICPA), as well as adherence to the accounting standards promulgated by the Governmental Accounting Standards Board (GASB). Disclosure should be fair, manageable and reasonably complete; not complex or difficult to understand.

Weight should be given to materiality, which is the relative importance or relevance of an item included in or omitted from a financial or operating report. There are no universal ratios or percentages that can be used as standards of materiality for financial or operational processes or transactions. Materiality should be based on judgment. Auditors should reference the AICPA Audit and Accounting Guides, *State and Local Governments* and *Government Auditing Standards and Circular A-133 Audits* for guidance on materiality. This guide specifies that auditor reporting on governmental financial statements should be based on opinion units.

The following notes for the schedules of expenditures of awards and financial assistance are required by OMB Circular A-133, Sec. 310. The sample financial statement disclosures presented in this chapter are illustrative of some of the more common disclosures or unique to New Jersey charter schools. They are not intended to be a boilerplate and should be included **only** if they apply to that charter school's CAFR. The source of reference (e.g. GASB Codification Section or NJ Dept. of Education) is included at the end of each sample note. Additional information and samples of disclosures can be found in the GFOA *Governmental Accounting, Auditing and Financial Reporting* (the "Blue Book"), *GASB Codification of Governmental Accounting and Financial Reporting Standards*, and the ASBO International Self-Evaluation Worksheet.

**SAMPLE NOTES TO THE SCHEDULES OF EXPENDITURES OF AWARDS
AND FINANCIAL ASSISTANCE**

**Anytown Charter School
Notes to Schedules of Expenditures of Awards and Financial Assistance
June 30, 200X**

NOTE 1. GENERAL

The accompanying schedules of expenditures of federal awards and state financial assistance include federal and state award activity of the board of trustees, Anytown Charter School. The Charter School is defined in Note 1 to the board's basic financial statements. All federal and state awards received directly from federal and state agencies, as well as federal awards and state financial assistance passed through other government agencies is included on the schedule of expenditures of federal awards and state financial assistance.

NOTE 2. BASIS OF ACCOUNTING

The accompanying schedules of expenditures of awards and financial assistance are presented on the budgetary basis of accounting with the exception of programs recorded in the food service fund, which are presented using the accrual basis of accounting. These basis of accounting are described in Note 1 to the board's basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The basic financial statements present the general fund and special revenue fund on a GAAP basis. Budgetary comparison statements or schedules (RSI) are presented for the general fund and special revenue fund to demonstrate finance-related legal compliance in which certain revenue is permitted by law or grant agreement to be recognized in the audit year, whereas for GAAP reporting, revenue is not recognized until the subsequent year or when expenditures have been made.

The general fund is presented in the accompanying schedules on the modified accrual basis with the exception of the revenue recognition of the one or more deferred June state aid payments in the current budget year, which is mandated pursuant to *N.J.S.A. 18A:22-44.2*. For GAAP purposes payments are not recognized until the subsequent budget year due to the state deferral and recording of the one or more June state aid payments in the subsequent year. The special revenue fund is presented in the accompanying schedules on the grant accounting budgetary basis which recognizes encumbrances as expenditures and also recognizes the related revenues, whereas the GAAP basis does not. The special revenue fund also recognizes the one or more state aid June payments in the current budget year, consistent with *N.J.S.A. 18A:22-4.2*

The net adjustment to reconcile from the budgetary basis to the GAAP basis is \$_____ for the general fund and \$_____ for the special revenue fund. See *Note 1* [the Notes to Required Supplementary Information] for a reconciliation of the budgetary basis to the modified accrual basis of accounting for the general and special revenue funds. Awards and financial assistance revenues are reported in the board's basic financial statements on a GAAP basis as presented on the following page:

**SAMPLE NOTES FOR SCHEDULES OF EXPENDITURES OF AWARDS
AND FINANCIAL ASSISTANCE (CONT'D.)**

**Anytown Charter School
Notes to Schedules of Expenditures of Awards and Financial Assistance (Cont'd.)
June 30, 200X**

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS (CONT'D.)

	<i>Federal</i>	<i>State</i>	<i>Total</i>
General Fund	\$	\$	\$
Special Revenue Fund			
Debt Service Fund			
Food Service Fund			
Total Awards & Financial Assistance	\$ _____	\$ _____	\$ _____
	=====	=====	=====

NOTE 4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedules agree with the amounts reported in the related federal and state financial reports.

NOTE 5. FEDERAL AND STATE LOANS OUTSTANDING

Anytown Charter School had the following loan balances outstanding at June 30, 200X:

<u>Loan Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Outstanding</u>
Federal EPA	N/A	\$XXX,XXX

NOTE 6. OTHER

Revenues and expenditures reported under the Food Distribution Program represent current year value received and current year distributions respectively. The amount reported as TPAF Pension Contributions represents the amount paid by the state on behalf of the charter school for the year ended June 30, 200X. TPAF Social Security Contributions represents the amount reimbursed by the state for the employer's share of social security contributions for TPAF members for the year ended June 30, 200X.

NOTE 7. SCHOOLWIDE PROGRAM FUNDS

Schoolwide programs are not separate federal programs as defined in OMB Circular A-133; amounts used in schoolwide programs are included in the total expenditures of the program contributing the funds in the Schedule of Expenditure of Federal Awards. The following funds by program are included in schoolwide programs in the charter school.

Program	Total
Title I, Part A: <i>Improving Basic Programs Operated by Local Education Agencies</i>	\$ 615,764
Title II, Part A: <i>Teacher and Principal Training and Recruiting</i>	497,682
Title II, Part D: <i>Enhancing Education Through Technology</i>	112,071
Title IV Part A: <i>Safe and Drug-Free Schools and Communities</i>	150,319
Title V Part A: <i>Innovative Programs</i>	<u>170,987</u>
Total	<u>\$1,546,823</u>

FINANCIAL STATEMENT DISCLOSURES – OVERVIEW AND SAMPLE NOTES

Please note that the sample notes included in this section are not intended to be all inclusive and auditors and charter school staff should also refer to GASB Codification Section 2300 and the AICPA Checklists and Illustrative Financial Statements for State and Local Governmental Units for further guidance on disclosures.

Categories of disclosures affected by GASB 34 and GASB 38 are indicated below with the paragraph of the Statement noted. Illustrative disclosures are reflected in both GASB Statements. In addition, GASB 38, Appendix B, par. 68 includes a list of disclosure requirements not changed. Samples for the capital assets and long-term liabilities may be found on the NJDOE website <http://www.nj.gov/njded/finance/fp/cafr/>.

Summary of Significant Accounting Policies – GASB 34, par.115; GASB 38, 6-8

Violations of Finance- related Legal or Contractual Provisions – GASB 38, par.9

Capital Assets – GASB 34, par.116-118

Long-term Liabilities – GASB 34, par.116, 119

Debt and Lease Obligations –GASB 38, par. 10-11

Short-term Debt – GASB 38, par. 12

Disaggregation of Receivable and Payable Balances – GASB 38, par.13

Interfund Balances and Transfers – GASB 38, par. 14

The disclosures should be revised where applicable more recent applicable GASB statements have been released.

SAMPLE BASIC FINANCIAL STATEMENT NOTES

NOTE 1, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. BUDGETS/BUDGETARY CONTROL

Formal budgetary integration into the accounting system is employed as a management control device during the year. For governmental funds there are no substantial differences between the budgetary basis of accounting and generally accepted accounting principles. Encumbrance accounting is also employed as an extension of formal budgetary integration in the governmental fund types. Unencumbered appropriations lapse at fiscal year end.

GASB 34 Model Illustration of Reconciliation**Notes to Required Supplementary Information
Budgetary Comparison Schedule**

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

	General Fund	Special Revenue Fund
Sources/inflows of resources		
Actual amounts (budgetary) “revenues” from the budgetary comparison schedules	\$23,101,430	\$ 7,983, 526
Difference – budget to GAAP:		
Grant accounting budgetary basis differs from GAAP in that encumbrances are recognized as expenditures, and the related revenue is recognized.		(21,204)
	<hr/>	<hr/>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances – governmental funds.	<u>\$ 23,101,430</u>	<u>\$ 7,962,322</u>
Uses/outflows of resources		
Actual amounts (budgetary basis) “total outflows” from the budgetary comparison schedule	\$ 24,209,664	\$ 7,983,526
Differences – budget to GAAP:		
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes.		(21,206)
Transfers to and from other funds are presented as outflows of budgetary resources but are not expenditures for financial reporting purposes.		
Net transfers (outflows) to general fund.		(2,668,125)
	<hr/>	<hr/>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds.	<u>\$ 24,209,664</u>	<u>\$ 5,294,195</u>

Auditor’s Note – The following POST-RETIREMENT BENEFITS information is statewide data and should be utilized in the 2011-12 charter school CAFR. The data in this note is obtained from the NJ CAFR, June 30, 2011.

NOTE X. POST-RETIREMENT BENEFITS

P.L. 1987, c. 384 and P.L. 1990, c.6 required Teachers' Pensions and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS), respectively, to fund post-retirement medical benefits for those state employees who retire after accumulating 25 years of credited service or on a disability retirement. P.L. 2007, c.103 amended the law to eliminate the funding of post-retirement medical benefits through the TPAF and PERS. It created separate funds outside of the pension plans for the funding and payment of post-retirement medical benefits for retired state employees and retired educational employees. As of June 30, 2011 there were 93,323 retirees receiving post-retirement medical benefits. The cost of these benefits is funded through contributions by the state in accordance with P.L. 1994, c.62. Funding of post-retirement medical premiums changed from a pre-funding basis to a pay-as-you-go basis beginning in Fiscal Year 1994.

(GASB Cod. Sec. 2300.107(v))

Auditor's Note – The following sample footnote disclosures are notes that are frequently omitted from charter school CAFR's filed with the Department of Education. If applicable, the department **recommends** the following disclosures are included in the notes to the financial statements if applicable to that charter school.

NOTE X. COMPENSATED ABSENCES

The charter school accounts for compensated absences (e.g., unused vacation, sick leave) as directed by Governmental Accounting Standards Board Statement No. 16 (GASB 16), "Accounting for Compensated Absences." A liability for compensated absences attributable to services already rendered and not contingent on a specific event that is outside the control of the employer and employee is accrued as employees earn the rights to the benefits.

Charter school employees are granted varying amounts of vacation and sick leave in accordance with the charter school's personnel policy. Upon termination, employees are paid for accrued vacation. The charter school's policy permits employees to accumulate unused sick leave and carry forward the full amount to subsequent years. Upon retirement employees shall be paid by the charter school for the unused sick leave in accordance with the charter school's agreements with the various employee unions. In the charter school wide *Statement of Net Assets*, the liabilities whose average maturities are greater than one year should be reported in two components – the amount due within one year and the amount due in more than one year.

The liability for vested compensated absences of the proprietary fund types is recorded within those funds as the benefits accrue to employees. As of June 30, 200X, a liability existed for compensated absences in the Food Service Fund in the amount \$XX,XXX.

(GASB Cod. Sec. C60)

X = *Applicable footnote number in the charter school's CAFR.*

NOTE X. TRANSFERS TO CAPITAL OUTLAY

During the year ending June 30, 200_, the charter school transferred \$ _____ to the capital outlay accounts. The transfer was made from the general fund. [

(NJ Department of Education)

NOTE X. RISK MANAGEMENT

The charter school is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Property and Liability Insurance - The charter school maintains commercial insurance coverage for property, liability, student accident and surety bonds. A complete schedule of insurance coverage can be found in the Statistical Section of this Comprehensive Annual Financial Report.

New Jersey Unemployment Compensation Insurance - The charter school has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method." Under this plan, the charter school is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the state. The charter school is billed quarterly for amounts due to the state. The table on the following page is a summary of charter school contributions, employee contributions, reimbursements to the state for benefits paid and the ending balance of the charter school's trust fund for the current and previous two years:

<u>Fiscal Year</u>	<u>Charter school Contributions</u>	<u>Employee Contributions</u>	<u>Amount Reimbursed</u>	<u>Ending Balance</u>
2011 – 2012	\$	\$	\$	\$
2010 – 2011				
2009 – 2010				

(GASB Cod. Sec. 2300.107(a))

NOTE X. INTERFUND BALANCES AND TRANSFERS

Auditors Note - GASB Statement No. 38, paragraphs 14 and 15 revised the required disclosures for Interfund Balances and Transfers. Charter school staff and auditors should refer to that statement for further discussion. Sample disclosures for Interfund Balances and Transfers, as well as other disclosures required by GASB 38 can be found in Appendix C of that document. The GASB Codification section 2300.903 also provides illustrations of certain required disclosures.

NOTE X. FUND BALANCE APPROPRIATED

General Fund [Exhibit B-1] - Of the \$ _____ General Fund balance at June 30, 200_, \$ _____ is reserved for encumbrances; \$ _____ is unreserved and undesignated..
(GASB Cod. Sec. 2300.107(l))

STATISTICAL SECTION OF THE CAFR**Overview**

The Governmental Accounting Standards Board (GASB) issued Statement No. 44, “Economic Condition Reporting: the Statistical Section;” an amendment of NCGA Statement 1, in May 2004, effective for periods beginning after June 15, 2005. This statement (GASB 44) revises the current statistical section of the Comprehensive Annual Financial Report (CAFR). New Jersey charter schools first implemented GASB 44 for year end June 30, 2006.

GASB 44 was issued to improve the understandability and usefulness of the statistical section information. Although most of the data is reported in the current model, GASB 44 modifies the presentation by establishing five categories – financial trends, revenue capacity, debt capacity, demographic and economic information, and operating information. GASB also addressed what it considered issues in the statistical tables section as currently presented:

- Consistency in statistical reporting among governmental entities,
- Completeness in statistical reporting by the entity, and
- Incorporation of the new governmentwide reporting format required by GASB 34 into the entity’s statistical section.

Illustrations

The department is providing samples of the statistical tables that use the format of illustrations in GASB 44. The samples are intended to meet the requirements of GASB 44 as applied to New Jersey charter schools. In tables which had optional placement of certain data or inclusion of data, the department selected the format that is most consistent with the current tables and most meaningful to the charter schools. Charter schools may elect to present additional relevant statistical data, but for purposes of comparability between charter schools, they should follow the basic format presented in the samples. The illustrations will be available on the NJDOE Office of Fiscal Policy and Planning website <http://www.nj.gov/njded/finance/fp/cafr/> with additional guidance on preparation of the tables.

Years of data

GASB 44 requires the presentation of the information described for the most recent ten years, unless otherwise specified in the statement (or if not available in previous statistical sections). Governments are not required to report retroactively the charter school wide financial data (Exhibits NJ J-1 through NJ J-2) but are encouraged to report this information starting with the year they implemented GASB 34. For other tables, NJDOE strongly encourages reporting ten years data when it is available to provide trend information. Data which was not previously required must be reported at a minimum of one year. When currently reported data differs from the new requirements, charter schools are encouraged to restate the prior data if possible for comparability or explain how the data differs.

- If statistical data cannot be obtained or estimated
 - Note N/A on the face of the schedule and explain on the schedule why the information is unavailable.

The Outline on the next two pages shows the tables that are to be included. The illustrations on the website assume the charter school is retroactively reporting to the year GASB 34 was implemented, 2002-03 for illustration purposes, and ten years for data that would be available where applicable.

OUTLINE OF NJ DOE STATISTICAL TABLES SECTION (GASB 44)	
Revised NJ Exhibit #	Category/New Title
* = 10 years data should be reported unless not available	
Financial Trends Information/Schedules	
J-1	* Net Assets by Component
J-2	* Changes in Net Assets
J-3	* Fund Balances-Governmental Funds
J-4	* Changes in Fund Balances, Governmental Funds
J-5	* General Fund Other Local Revenue by Source (NJ)
Revenue Capacity Information	
J-6	N/A
J-7	N/A
J-8	N/A
J-9	N/A
Debt Capacity Information	
J-10	* Ratios or Outstanding Debt by Type
J-11	N/A
J-12	N/A
J-13	N/A
Demographic and Economic Information	
J-14	*Demographic and Economic Statistics
J-15	Principal Employers, Current and Nine Yrs Ago

OUTLINE OF NJ DOE STATISTICAL TABLES SECTION (GASB 44) (continued)	
Revised NJ Exhibit #	Category/Title
* = 10 years data should be reported unless not available	
Operating Information	
J-16	* Full-time Equivalent Charter school Employees by Function/Program
J-17	* Operating Statistics
J-18	* School Building Information
J-19	N/A
J-20	Insurance Schedule (NJ)

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SECTION III – REPORTING
CHAPTER 4 – AUDITOR’S MANAGEMENT REPORT (AMR)

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

The Auditor’s Management Report on Administrative Findings - Financial, Compliance and Performance (Auditor’s Management Report or AMR), is the auditor’s report to the board of trustees of the findings and recommendations as a result of the audit. It is issued separately from the CAFR and has the same due date for submission of December 5, 2012.

N.J.S.A. 18A:23-9 states that the auditor "...report any error, omission, irregularity, violation of law, together with recommendations, to the board of education of each charter school ." This statute applies to the Auditor’s Management Report filed with the Department of Education. All findings must be included in that report of audit. This includes all items contained in the separate schedule of findings and questioned costs included in the single audit section of the charter school’s CAFR. A separate report to the charter school board of trustees outlining findings not included in the report of audit is considered a violation of this statute.

If an auditor detects an error which requires disclosure pursuant to *N.J.S.A. 18A:23-9*, and the auditor believes a recommendation is not needed because the error was insignificant and an isolated unintentional deviation from the board's standard operating procedure, the auditor must report the item as a finding, state that in his or her opinion no recommendation is necessary, and elaborate on the reason(s) for this opinion.

The report presents the recommendations immediately after the comments. Since this is a stand-alone document, a brief explanation of the statute or procedure for which there is noncompliance should be included so that the reader can understand the issue. The auditor should then include the finding and recommendation.

This section provides a sample of the Auditor’s Management Report. **It is not meant to be boilerplate and should be adapted to the circumstances of the individual charter school audit.**

The standard format of the Auditor’s Manager Report includes the following sections:

- A. Table of Contents
- B. Report of Independent Auditors
- C. Comments, Findings and Recommendations
- D. Schedule of Meal Count Activity [if applicable]
- E. Schedule of Audited Enrollments

- A. The Table of Contents is for organization purposes and is included to assist the reader in reviewing the report.
- B. The Report of Independent Auditors provides the reader with the basis and intent of the report as well as its distribution. The sample in this chapter may be expanded to include an opinion on the report if that is the individual firm's policy. The report should contain both the firm name as well as the signature and license number of the public school accountant. The report should be on firm letterhead and dated the same as the auditor’s reports included in the CAFR.

SECTION III – REPORTING
CHAPTER 4 – AUDITOR’S MANAGEMENT REPORT (AMR)

- C. The Comments, Findings and Recommendations section includes items noted during the audit that require comments and recommendations, including a repeat of any items contained in a separate schedule of findings and questioned costs included in the single audit section of the charter school's CAFR. Repeat audit findings should be cross-referenced to the current year finding (2011-x). The comments and recommendations must be specific under the following applicable headings:

1. Administrative Practices and Procedures
2. Financial Planning, Accounting and Reporting
3. School Purchasing Programs
4. School Food Service
5. Student Body Activities
6. Charter School Enrollment System/Charter School Aid
7. Facilities and Capital Assets
8. Miscellaneous
9. Follow-up on prior year findings

Recommendations must be included for all negative comments and areas of noncompliance cited, and at a minimum they are to be grouped in the above headings. The auditor may use sub-groupings within these headings.

Auditor recommendations which are not the result of either a required comment or generated by a negative finding but rather represent suggestions to management should be grouped together and included at the end of the Auditor’s Management Report in a section titled "Suggestions to Management." Management suggestions are not required to be included in the charter school's Corrective Action Plan.

Required comments must include discussions for the following areas and detailed examples are included in the sample provided:

- Fire Insurance Coverage
- Surety Bonds as to Adequacy (see Note and table below)
 - *N.J.A.C.6A:23A-16.4(c)* “The independent school auditor shall verify the adequacy of the treasurer’s surety bond which is required by N.J.S.A. 18A:17-32, and shall include appropriate comment, and a recommendation, if needed, in the annual school audit report.”
 - *N.J.S.A. 18A:13-13* provides that in a charter school which does not have a treasurer of school moneys, the secretary shall give bond in such amount and with such surety as the board shall direct.
- Examination of Claims
- A certification that the charter school charged no tuition for any student attending the charter school and that all proceeds for a before/after school program were accounted for in an Enterprise Fund
- Salary Accounts
- That encumbrances, contracts, salaries and expenditures for state and federally funded projects were in accordance with laws and regulations and in conformity with procurement requirements.

SECTION III – REPORTING
CHAPTER 4 – AUDITOR’S MANAGEMENT REPORT (AMR)

- A certification that charter school funds were provided and expended in the proper GAAP account/code based upon a udit testing of transactions. T he comment must include a summary of the sample selection process, conclusions reached and additional procedures performed, if any.
- Whether the charter school has accurately completed its requests for social security reimbursement for TPAF members.
- Advertisement for bids in accordance with statutory requirements. A ny items of noncompliance should be listed and Title 18A:18A Public School Contracts Law should be quoted.
- The condition of the records, with both positive and negative findings for:
 - 1) Athletic Association
 - 2) Food Services
 - 3) Student Activity Funds
 - 4) Secretary (status of secretary’s accounting records must be noted)
 - 5) Secretary and Treasurer’s records/reports. Where the charter school does not maintain the treasurer’s position, the review should encompass the condition of the records/reports formerly kept by the treasurer that are now the responsibility of other charter school personnel
 - 6) Capital Asset Records

Note: The minimum requirements for the surety bond shall be such percentage of the current year's school budget as is required in the schedule set forth in *N.J.A.C. 6A:23A-16.4*. In fixing the minimum bond, the nearest even \$1,000 shall be used.

Up to \$100,000	20% of Budget (Minimum \$10,000)
\$100,000.01 to \$250,000	\$20,000 + 15% of all over \$100,000
\$250,000.01 to \$500,000	\$42,500 + 13% of all over \$250,000
\$500,000.01 to \$750,000	\$75,000 + 8% of all over \$500,000
\$750,000.01 to \$1,000,000	\$95,000 + 4% of all over \$750,000
\$1,000,000.01 to \$2,000,000	\$105,000 + 2% of all over \$1,000,000
\$2,000,000.01 to \$5,000,000	\$125,000 + 1% of all over \$2,000,000
\$5,000,000.01 to \$10,000,000	\$155,000 + 1/2% of all over \$5,000,000
\$10,000,000.01 and upwards	\$180,000 + 1/4% of all over \$10,000,000

- D.** The separate federal and state Schedules of Meal Count Activity provide a summary of the results of the audit testing of the number of meals claimed for reimbursement under federal and state subsidy programs. The schedules calculate a total net over claim or under claim based on the difference between the meal count tested by the auditor and meal count claimed by the charter school. Eligibility application exceptions/reclassifications must be quantified and included in these schedules. A finding and recommendation should be included for any differences noted. **Both of these schedules is included only if the Child Nutrition Program is a major program audited in the current audit period in accordance with federal OMB Circular A-133.**

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- E. The Schedule of Audited Enrollments provides a summary of the results of the audit testing of the Charter School Enrollment System (CHE), NJ School Register and submission of enrollment counts to the Department. It documents the information reported on the submission to the department in comparison to the charter school workpapers and compares the information in the charter school’s workpapers to the underlying supporting data, quantifying any errors noted. A finding and a recommendation should be included for any differences noted.

Government Auditing Standards require that the schedule of findings and questioned costs included in the single audit section of the CAFR present each finding in a format that addresses the Criteria or specific requirement (what should be); Condition (what is); Context (describe the work performed that resulted in the finding); Effect (the difference between what is and what should be); Cause (why it happened); Recommendation; and, Views of responsible officials and planned corrective actions. Auditors should reference USOMB Circular A-133 (Section .510) for specific requirements on the reporting of audit findings in the Schedule of Findings and Questioned Costs when a federal single audit of the charter school is required. The AICPA’s Example 13-6 *Illustrative Schedule of Findings and Questioned Costs* is available on the AICPA’s website at:

http://www.aicpa.org/interestareas/governmentauditquality/resources/illustrativeauditorsreports/downloadabledocuments/illustrativeauditreportsch13_04012011.pdf

When repeating the findings in the Auditor’s Management Report, auditors may follow that same format or revise the comment to be consistent with the other items presented in the Auditor’s Management Report.

SECTION III – REPORTING
CHAPTER 4 – AUDITOR’S MANAGEMENT REPORT (AMR)

(SAMPLE AMR)

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

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[* Alternatively, where the charter school does not maintain the treasurer’s position, records and reports prepared and maintained by other charter school personnel should be reviewed (e.g. bank reconciliations prepared by the chief school administrator or board designee other than the secretary as required by *N.J.S.A. 18A:17-9*)]

SECTION III – REPORTING
CHAPTER 4 – AUDITOR’S MANAGEMENT REPORT (AMR)

(SAMPLE AMR)

Report of Independent Auditors

Honorable President and
Members of the Board of Trustees
_____ Charter School
County of _____, 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 Trustees of the _____ Charter School in the County of _____ for the year ended June 30, 20 __, and have issued our report thereon dated _____, 20 __.

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 _____ Charter School’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. _____
Firm Name

Date _____

SECTION III – REPORTING
CHAPTER 4 – AUDITOR’S MANAGEMENT REPORT (AMR)

(SAMPLE AMR)

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 [or name the position(s) of other appropriate personnel responsible for those records where the charter school does not maintain the treasurer’s position], the activities of the Board of Trustees, and the records of the various funds under the auspices of the Charter School Board of Trustees.

Administrative Practices and Procedures

Insurance

Fire insurance coverage was carried in the amounts as detailed on Exhibit J-13, Insurance Schedule contained in the charter school'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>
Anne Edwards	Board Secretary/School Business Administrator	\$10,000.00
Michael E. Leonard	Treasurer (or where no treasurer of school moneys, the board secretary)	145,000.00

There is a Public Employees' Faithful Performance Blanket Position Bond with the Western Surety Company covering all other employees with multiple coverage of \$10,000.00.

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

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, the Board Secretary/Business Administrator, and the Chief School Administrator.

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

SECTION III – REPORTING
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[Where the charter school employs a treasurer of school moneys] Payrolls were delivered to the treasurer of school moneys with a warrant made to his order for the full amount of each payroll.

[Where the charter school does not employ a treasurer of school moneys] Payrolls were delivered to the secretary of the board who then deposited with warrants in separate bank accounts for net payroll and withholdings.

Finding:

The required certification (E-CERT1) of compliance with requirements for income tax on compensation of administrators (superintendent, assistant superintendents, and business administrator) to the NJ Department of Treasury was not was not filed by the March 15 due date [or was not filed].

Recommendation:

The Charter School Board of Trustees should designate someone to prepare and submit the certification as required by *N.J.S.A. 18A:14.4* and submit the E-CERT1 if not yet submitted.

Finding:

Reporting of employee compensation for income tax related purposes did not comply with federal (or state) regulations regarding the compensation which is required to be reported. [State what noncompliance issue was, e.g., lease value of vehicle not included in W-2, compensation at separation was deferred over five years by employee choice and should be included in W-2, fringe benefits were erroneously included in base salary for pension calculation purposes].

Recommendation:

The charter school should establish internal controls to ensure that compensation is properly recorded and reported, including taxable fringe benefits and other additional forms of compensation as applicable. The charter school should also send corrected reporting to the applicable tax authority.

Reserve for Encumbrances and Accounts Payable

A review of outstanding issued purchase orders was made as of June 30 for proper classification of orders as reserve for encumbrances and accounts payable.

Finding:

Charter school personnel did not perform an analysis of outstanding purchase orders at June 30 and prepare the separate listings of purchase orders comprising the balance sheet account balances for accounts payable and reserve for encumbrances. Numerous audit adjustments were needed to adjust the accounting records to properly reflect the true balances as of June 30, taking into consideration both the status of the orders at June 30 as well as their subsequent liquidation.

Recommendation:

Purchase orders should be reviewed for proper classification at June 30 as accounts payable or reserve for encumbrances based upon whether the goods have been received or the services rendered. All orders that will not be liquidated within the suggested time frame of 60 to 90 days of year-end should be cancelled. Reconciliations of the adjusted June 30 balances for accounts payable and reserve for encumbrances should be performed and the required schedules are prepared for the year end audit.

SECTION III – REPORTING
CHAPTER 4 – AUDITOR’S MANAGEMENT REPORT (AMR)

Finding:

Payments were made without proper authorization for amounts which exceeded the original approved purchase order amounts.

Recommendation:

The School Business Administrator should review the payments and purchase orders to ensure that all payments are properly authorized and consistent with *N.J.A.C. 6A:23A-6.10(a)*.

Travel

Finding:

The charter school did not obtain prior written approval of the Executive County Superintendent for a travel event that exceeded \$5,000 as required by *N.J.A.C. 6A:23A-5.9*.

Recommendation:

The charter school should implement a process for submitting request for approval to the Executive County Superintendent at least 10 working days in advance of a travel event with a total cost exceeding \$5,000.

Finding:

The charter school did not have an approved board travel policy as required by *N.J.A.C. 6A:23A-6.13* and *N.J.S.A. 18A:11-12*.

Recommendation:

The charter school board of trustees should adopt a travel policy that complies with *N.J.S.A. 18A:11-12*.

Finding:

Payment for travel by an employee was approved after completion of the travel event.

Recommendation:

The charter school board of trustees should revise its travel policy to ensure that payments will not be ratified after completion of the travel event unless the policy excludes regular business travel from the pre-approval requirement. *N.J.A.C. 6A:23A-7.2(d)*

Classification of Expenditures

The coding of expenditures was tested for proper classification in accordance with *N.J.A.C. 6A:23A-16.2(f)* as part of our test of transactions of randomly selected expenditure items. We also reviewed the coding of all expenditures included in our compliance and single audit testing procedures. In addition to randomly selecting a test sample, our sample selection specifically targeted administrative coding classifications to determine overall reliability and compliance with *N.J.A.C. 6A:23A-8.3*. As a result of the procedures performed, a transaction error rate of 1.90 percent overall was noted and no additional procedures were deemed necessary to test the propriety of expenditure classification.

SECTION III – REPORTING
CHAPTER 4 – AUDITOR’S MANAGEMENT REPORT (AMR)

A. General Classification Findings

Finding:

During our test of transactions it was noted that the charter school misclassified and misbudgeted professional development costs for noninstructional staff as Improvement of Instruction Services/Other Support Services-Instructional Staff - Other Purchased Professional and Technical Services. The expenditure and related appropriation was reclassified to Business and Other Support Services - Purchased Professional Services for financial statement presentation purposes.

Recommendation:

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)*.

B. Administrative Classification Findings

Finding:

During our test of transactions it was noted that the salary of the chief school administrator was allocated to Instructional Staff Training Services. The expenditure and related appropriation were reclassified to Support Services – General Administration for financial statement presentation purposes.

Recommendation:

See recommendation below.

Finding:

During our test of transactions it was noted that the salary of the principal was allocated to the plant maintenance and transportation functions. The expenditure and related appropriation were reclassified to Support Services – School Administration for financial statement presentation purposes.

Recommendation:

See recommendation below.

Finding:

During our test of transaction it was noted that legal fees for the placement of a special education student was charged to Other Support Services – Student Extraordinary Services. The expenditure and related appropriation was reclassified to Support Services - General Administration for financial statement presentation purposes.

Recommendation:

See recommendation below.

Finding:

During our test of transactions it was noted that there were no salary expenditures of clerical staff recorded in Central Services as had been in prior years. Clerical positions that were recorded in the prior year in central services were not eliminated but instead reclassified to Attendance without proper documentation to support this change.

Recommendation:

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)*.

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Finding:

During our test of transactions it was noted that the salary of the business administrator was allocated to instruction without documentation that supports the business administrator provided direct classroom instruction as part of the charter schools regular curriculum.

Recommendation:

See recommendation below.

Finding:

During our test of transactions it was noted that the salary of the chief school administrator was allocated to instruction without documentation that supports the chief school administrator provided direct classroom instruction as part of the charter schools regular curriculum.

Recommendation:

The allocation of administrative salaries to instruction or support functions should be supported by documentation providing a reasonable allocation method, such as time sheets or teaching roster to support direct classroom instruction as part of the regular curriculum.

Finding:

During our test of transactions it was noted that many of the charter school’s responses to the required completion of the school charter school questionnaire were incomplete.

Recommendation:

The charter school should compare the completed charter school questionnaire and the payroll registers and an administrative certificated staff roster, or similar document, to assure accuracy and completeness of the school charter school questionnaire.

Board Secretary's Records

Our review of the financial and accounting records maintained by the board secretary disclosed the following items.

Finding:

Bids received were not summarized in the minutes (*N.J.S.A.* 18A:18A-21).

Recommendation:

Bids received should be summarized in the minutes of the Board Secretary.

Finding:

Acknowledgment of the board's receipt (non-receipt) of the Board Secretary's and Treasurer's [where the charter school maintains the position] monthly financial reports was not included in the minutes.

Recommendation:

The board should acknowledge in the minutes receipt (non-receipt) of the Board Secretary's and Treasurer's [where the charter school maintains the position] monthly reports.

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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).

Recommendations:

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.

Finding:

Payments to vendors were made prior to the receipt of goods.

Recommendation:

Payment should not be made until the receipt of goods.

Finding:

The capital asset records were not updated for the additions and disposals of capital assets made during the year.

Recommendation:

The charter school should have adequate internal control procedures over its capital assets, including periodic update of the general ledger for additions and disposals.

Finding:

The charter school is not maximizing its efforts under the Special Education Medicaid Initiative (SEMI) Program for obtaining federal funding for special education services.

Recommendation:

The charter school should establish procedures to ensure that it maximizes its efforts under SEMI for obtaining federal reimbursement for special education services.

Treasurer's Records (optional position)

The following items were noted during our review of the records of the Treasurer [or board secretary or chief school administrator if there is no Treasurer].

Finding:

The treasurer's records were maintained by an employee of the board appointed to the position of Treasurer of School Moneys.

Recommendation:

The board must appoint a suitable person except a member or employee of the charter school as Treasurer of School Moneys.

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Finding:

The Treasurer [or chief school administrator or board designee other than the board secretary if there is no treasurer] did not perform cash reconciliations for the general operating account, payroll account, or payroll agency account (N.J.S.A. 18A:17-9).

Recommendation:

Each month, the Treasurer [or chief school administrator or board designee other than the board secretary if there is no treasurer] should determine cash balances by performing cash reconciliations for the general operating account, payroll account, and the payroll agency account.

Finding:

Not all cash receipts were promptly deposited. (N.J.S.A. 18A:17-34, 18A:17-9.1)

Recommendation:

The Treasurer [the board secretary if there is no treasurer] should promptly deposit all cash receipts.

Finding:

The Treasurer's records were not in agreement with the records of the Board Secretary. Also, the Treasurer's cash balance for the general operating account was not in agreement with the reconciled cash balance as determined during the audit.

Recommendation:

The Treasurer should reconcile his cash records with the reconciled bank statements and the cash records of the Board Secretary.

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

The study of compliance for E.S.E.A. indicated the following areas of noncompliance and/or questionable costs.

Finding:

Salary charges were not documented each pay period. Allocated salary charges for teaching staff members were not supported by employee time sheets.

Recommendation:

The allocation of salaries among federal/state grants should be supported by employee time sheets.

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Findings:

Three A.B.C. computers and software costing \$3,300 were charged to Title I-Part A. These items were not labeled Title I nor were they located in the designated Title I classrooms. The computer equipment and software were located in an area utilized by the general school population. (Serial Nos. XXXXX, XXXXX and XXXXX)

Printing costs of \$1,200 for a brochure unrelated to E.S.E.A. were charged to the Title I-Part A grant.

Recommendation:

Only those costs associated with the federal/state grants should be charged to the grant.

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 (continued)

Findings:

Due to grantor balances were not returned/disposed of in accordance with the grant agreement.

Recommendation:

Due to grantor balances must be returned immediately with the submission of the final grant expenditure report.

Other Special Federal and/or State Projects

The charter school’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 the following areas of noncompliance:

T.P.A.F. Reimbursement

Our audit procedures included a test of the biweekly reimbursements (electronic, but charter schools can print out the DOENET screen for an auditor) filed with the Department of Education for charter school employees who are members of the Teachers Pension and Annuity Fund. No exceptions were noted.

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 school contracts in general is available on the website <http://www.state.nj.us/njded/pscl/index.html>.

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Auditors should refer to Section I, Chapter 5, Bids & Contracts/Purchasing for highlights of *N.J.S.A.* 18A:18A-3 and 4.

Effective July 1, 2010 and thereafter the bid thresholds in accordance with *N.J.S.A.* 18A:18A-2 and 18A:18A-3(a) are \$36,000 (with a Qualified Purchasing Agent) and \$26,000 (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 \$17,500.

The 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 my examination, I 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.

Finding:

Notice of revisions to bid specifications for purchase of telephone equipment (non-construction contracts) was not provided to a vendor who had received a bid package. (*N.J.S.A.* 18A:18A-21c, amended)

Recommendation:

The charter school should notify any person who has submitted a bid or received a bid package of revisions to bid specifications. One of three permissible means of notification should be used: a) in writing by certified mail, b) by certified facsimile transmission, i.e., the sender's facsimile machine produces a receipt showing date and time of transmission and that the transmission was successful, or c) by a delivery service that provides certification of delivery to the sender.

Finding:

The purchase of a Fun video center costing \$19,500.00 and designated as made pursuant to a state contract was awarded to a vendor who did not have the state contract for the specific equipment purchased, according to the state contract award bulletin on file in the charter school's office.

Recommendation:

Contracts awarded to vendors pursuant to a state contract should be made for only those items specifically included in the state contract award bulletin for such vendor.

Finding:

Bids received, resulting in a capital improvement costing \$23,000.00, performed by MLA Construction Co., were not publicly unsealed and announced in the presence of the parties bidding or their agents (*N.J.S.A.* 18A:18A-21, amended).

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Recommendation:

All bids should be unsealed and announced publicly in the presence of the parties bidding or their agents.

School Food Service

[The School Food Service section of the Auditor’s Management Report must contain statements such as those noted below (with the respective related findings, if applicable, cross-referenced to the CAFR). Also, please indicate “No Exceptions Noted” when there are no findings].

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.

Cash receipts and bank records were reviewed for timely deposit.

(If applicable) The charter school utilizes a food service management company (FSMC) and is depositing and expending program monies in accordance with *N.J.S.A.* 18A:17-34, and 19-1 through 19-4.1. Provisions of the FSMC contract/addendum were reviewed and audited. The FSMC contract includes an operating results provision which guarantees that the food service program will [break even] [return a profit of at least \$ _____] [incur a loss of not more than \$ _____]. The operating results provision has (has not) been met.

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

The cash disbursements records reflected expenditures for program related goods and services. The appropriate revenue and expenditure records were maintained in order to substantiate the non-profit status of the school food service. Net cash resources did not exceed three months average expenditures.

Time sheets were reviewed and labor costs verified. Payroll records were maintained on all School Food Services employees authorized by the board of trustees. No exceptions were noted.

The number of meals claimed for reimbursement was compared to sales and meal count records. As part of the claims review process the Edit Check Worksheet was completed. Reimbursement claims were submitted/certified in a timely manner.

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 and/or to the list of directly certified students on file, times the number of operating days, on a school-by-school basis. The free and reduced price meal and free milk policy was reviewed for uniform administration throughout the school system. Sites approved to participate in Provisions I and II were examined for compliance with all counting and claiming requirements. The required verification procedures for free and reduced price applications were completed and available for review.

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

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

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Auditor's Note: The AICPA Audit Guide *Government Auditing Standards and Circular A-133 Audits*, section 7.13 defines food commodities distributed as non-cash federal financial assistance. The total value of the commodities received as well as the value distributed by charter schools must be reflected as revenue and expenditures, respectively.

In the event that single inventories are not maintained sufficiently to allow the auditor to include this activity in the financial statements and schedules, a finding and recommendation must be included in the Auditor’s Management Report.

Finding:

Food service accounting records maintained by the charter school’s central administration office did not agree with the records maintained by the food service director.

Recommendation:

The charter school should establish procedures that will reconcile the food service director’s records and the food service records maintained by the central administration office.

Finding:

The charter school’s food service receipts were not deposited promptly and supporting documentation did not reconcile with the amounts deposited.

Recommendation:

The charter school’s food service receipts should be deposited promptly and intact. Amounts deposited should reconcile to the supporting documentation.

Finding:

Meals claimed did not agree with meal count records resulting in an over/under claim, as detailed on the Schedule of Meal Count Activity (See section II-60).

Recommendation:

Prior to submitting reimbursement claims to the NJ Department of Agriculture, the meals claimed should be verified to the meal count activity records and Edit Check Worksheets.

Findings:

A number of exceptions were noted regarding free and reduced price meal applications. Applications were not properly completed or were missing. The resulting overclaim/underclaim has been identified by the auditor on the Schedule of Meal Count Activity.

Recommendation:

The free and reduced price meal applications/documentation should be properly completed as required and available for audit. Incomplete or missing applications should be included in the paid (denied) category.

Finding:

Applications were placed in the incorrect category. The resulting overclaim/underclaim has been identified by the auditor on the Schedule of Meal County Activity.

Recommendation:

The free and reduced price meal applications should be reviewed by charter school personnel and properly classified as free, reduced price, or paid.

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Student Body Activities

During our review of the student activity funds, the following items were noted.

Finding:

The board had no policy that clearly established the regulation of student activity funds.

Recommendation:

The board should approve a policy establishing the regulation of student activity funds.

Finding:

Not all cash receipts were promptly deposited. (*N.J.A.C.* 6A:23A-16.12)

Recommendation:

All cash receipts should be promptly deposited.

Finding:

Not all cash disbursements had proper supporting documentation. (*N.J.A.C.* 6A:23A-16.12)

Recommendation:

Proper supporting documentation should be maintained for all cash disbursements.

Enrollment counts and submissions to the Department

Our audit procedures included a test of enrollment information on October 15, 2010 and the last day of school for on-roll, special education, bilingual and low-income.

Finding:

The charter school had not written procedures for the proper maintenance and recording of student enrollment data.

Recommendation:

We recommend that the charter school prepare written procedures detailing the process for the two required enrollment counts. The procedures should describe how the count was taken, who was responsible for compiling the data, completing the enrollment count submission, and detail the various assigned responsibilities for collection of the data and the follow-up procedures to identify student information to be corrected in the subsequent count.

The charter school maintained written procedures appear to be adequate for the recording of student enrollment data.

Finding:

The charter school had documentation on file for Free and Reduced Lunch but never forwarded copies to the resident district.

Recommendation:

All documentation, for which state aid is based, must be forwarded to the resident district.

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CHAPTER 4 – AUDITOR’S MANAGEMENT REPORT (AMR)

Finding:

There were two instances where a student enrolled in the charter school was not in attendance for 10 days and was not dropped from the charter school’s register until 20 days after the last known day of attendance. According to the Department’s school register instructions, the charter school’s responsibility is to ensure the attendance of those students enrolled in their school. A student who has been absent 10 days for an unknown reason must be reported as a dropout. If the student is reported as a dropout, the charter school must immediately notify the district of residence in writing of this condition on the 10th day.

Recommendation:

The charter school must make a concerted effort to notify the resident district of school dropouts in a timely manner in accordance with school register instructions.

Finding:

The charter school reported a student on the Charter School Enrollment System and subsequently received charter school aid for a special education student who is attending a private school for the disabled. The educational costs for the outside placement at the private school are paid by the resident school district and not the charter school.

Recommendation:

The charter school must establish and implement procedures to ensure that any student attending a private school for the disabled is “dropped” from the charter school reporting to ensure that the district of residence is not double-billed for the student.

Finding:

The charter school reported full Average Daily Enrollment for a student on the Charter School Enrollment System (CHE) and subsequently received 100% of eligible charter school aid for student who is attending a county vocational program. County vocational schools are funded directly by the state for all enrolled students.

Recommendation:

The charter school must establish and implement procedures to ensure that the enrolled days of any student attending a county vocational program are reduced in the CHE to reflect that the student is only enrolled at the charter school part-time so as to ensure that the charter school is not receiving overpayment from the district of residence.

Finding:

The charter school reported special education classification on the Charter School Enrollment System for a student who was identified and began receiving related services subsequent to October 15th. Students identified after October 15th must be reported in the subsequent year.

Recommendation:

The charter school must establish and implement procedures to ensure reporting of Special Education Categorical Aid only for students who are identified and receiving related services prior to the October 15th ASSA reporting deadline.

SECTION III – REPORTING
CHAPTER 4 – AUDITOR’S MANAGEMENT REPORT (AMR)

Finding:

It was noted that the charter school was utilizing public school funds for non-mandated transportation of students to and from school (courtesy busing) in violation of N.J.S.A. 18A:39.

Recommendation:

The charter school must discontinue this practice immediately. If the charter school wishes to provide this service, it may either charge the parents for the full cost of the service or seek non-public sources of funding for the service.

Follow-up on Prior Year Findings

In accordance with government auditing standards, our procedures included a review of all prior year recommendations including findings. 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 "2012-X:"

Approved budgetary line accounts should not be over expended. (2012-X)

We have also reviewed any findings contained in the audit reports issued by the Office of Fiscal Accountability and Compliance (OFAC). Corrective action had been taken on all findings in the report dated XX/YY/ZZ with the exception of the finding listed below. This finding is also included in the Schedule of Findings and Questioned Costs.

During and after the preparation and completion of the Application for Extraordinary Aid (EXAID) and supporting work papers in the area of in- charter school costs through the resident district, the charter school did not ensure that costs were submitted in accordance with EXAID directions published by Office of School Finance. (2012-X)

[If there were no prior year findings and no OFAC audit report findings, indicate "Not Applicable" in this section. Do not omit the section.]

Acknowledgment

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

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CHAPTER 4 – AUDITOR’S MANAGEMENT REPORT (AMR)

School Food Service

SCHEDULE OF MEAL COUNT ACTIVITY

ANYTOWN CHARTER SCHOOL
FOOD SERVICE FUND
NUMBER OF MEALS SERVED AND (OVER) UNDERCLAIM
ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Click on the link below to access page III-4.21 containing the sample federal (III-4.21 a) and state (III-4.21b) Schedule(s) of Meal Count Activity:

[ScheduleofMealCountActivity.xls](#)

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To link to the sample Schedule of Audited Enrollments as of October 15th, click on the following link:

[schedule of audited enrollments.xls](#)

Select the tab entitled “October 15”

To link to the sample Schedule of Audited Enrollments as of the last day of school, click on the following link:

[schedule of audited enrollments.xls](#)

Select the tab entitled “Last Day of School”

SECTION III – REPORTING
CHAPTER 5 – AUDIT SUMMARY

All charter schools are required to have their auditor complete the Audit Summary (Audsum) and the CAFR and the charter schools must transmit the auditor completed audsum data to the NJ Department of Education via the web application. The department uses this information for various reporting and analytical purposes. The information from the Audsum will be downloaded into the actual column of the DOE budget software used by the charter schools. Charter schools cannot access and revise this data via the budget program if the data is incorrect. Only the auditor can make corrections through the submission of a revised Audsum. For revisions, both the auditor and the board secretary/business administrator must provide electronic signatures (within the web application) and revised CAFR pages must also be submitted, if applicable. **The board secretary/business administrator is responsible for providing a careful review of the reports generated by the web application and the provision of his/her electronic signature as to the accuracy of the information.** Both the auditor and charter school personnel are advised to pay particular attention to the accuracy of the data submitted to avoid having to resubmit the data!

Auditor's Note – The department **highly recommends** that the Audsum be completed prior to filing the CAFR. The Audsum has numerous edits that can flag common reporting errors such as the reporting of excess surplus, special education program expenditures, food service operations, and fund balances.

An audit report **will be considered incomplete** until the required Audsum is received by the statutory deadline.

Fund Balance (General Fund)

Separate lines for the breakout of the June 30 fund balance (general fund) are provided in the Audsum web application. Corresponding lines for the July 1 beginning fund balance classifications are also provided to enable reporting the appropriate balances. Governmental Accounting Standards Board Statement No. 54 (GASBS No. 54) is required for June 30, 2012 financial statements. Minimal changes have been made to the existing Audsum account titles for reserved fund balance (GASBS No. 54 Restricted Category). Reserve for encumbrances will continue to be separately reported in Audsum as Year End Encumbrances – Committed and Assigned on line 90010 which replaces line 10020 and memo accounts 10021 and 10022, replaced by 90015 and 90016, respectively.

The following list is to be followed for the classification of ending fund balance – general fund: Unspendable/Restricted/Committed/Assigned Fund Balance. Line number changes for June 30, 2012 Audsum are necessary to align the budget and Audsum line numbers. Selected lines based upon the preliminary 2011-12 audsum available at the publication of this Audit Program, are highlighted in the table below:

Title		New Audsum line #	Old Audsum line #
Legal Reserves		90025	10010
Year End Encumbrances (Reserved for Encumbrances) – Committed & Assigned		90010	10020
*Year End/Reserved for Encumbrances – State & Local Deferred Revenue Fund 15		90015	10021
*Year End/Reserved for Encumbrances – Federal Deferred Revenue Fund 15		90016	10022
Maintenance reserve account		90045	10050
Emergency Reserve		90055	10055
Total – Reserves and Encumbrances		90065	10060
Unassigned General Fund Balance		90075	10070
Assigned Fund Balance - Designated for Subsequent Year's Expenditure		90080	10075

The Year End/Reserved for Encumbrances – State & Local Fund 15 and Year End/Reserved for Encumbrances – Federal Fund 15 lines are a subset of the amount reported in line 90010, formerly line 10020. The total of these two lines should match the amount reported on the Fund 15 Balance Sheet as Year End Encumbrances at the end of the audit year.

Transfer of Surplus to the Capital Projects Fund

When specifically approved by Commissioner, charter schools may transfer surplus from the general fund to the capital projects fund. Such transfers should be shown in the CAFR as an operating transfer with the appropriate disclosure made in the notes to the financial statements. When reporting on the Audsum, the restated balances after the transfer should be reported as the July 1 balances.

Health Cost (Premium) withholding

There will be a memo collection for health cost withholding in the 6/30/12 Audsum. See page II-90.1 for information on the withholding.

Appropriations and Carryover

There will be a memo collection of Preschool Carryover. This amount must agree with what is reported on the Schedule of Preschool Expenditures as carryover. Preschool appropriations reported on the E-2 must agree with preschool appropriations reported in Audsum.

SECTION III-REPORTING
CHAPTER 6 – AUDIT CHECKLISTS & QUESTIONNAIRE

TO BE COMPLETED BY BOARD SECRETARY/BUSINESS ADMINISTRATOR

Questionnaire

The Questionnaire is to be completed annually by the charter school board secretary/ business administrator for use by public school accountants when reviewing compliance with account coding of administrative expenditures. The charter school’s auditors will review this questionnaire in conjunction with their test of transactions and include a finding and recommendation for questionnaires substantially incomplete or inaccurate. .

Checklists

Three checklists, (Current Operating Funds, Student Activity Fund, and Food Service Fund) of actions to be performed or documents to have available in advance of the audit are provided following the Questionnaire to assist board secretaries/business administrators in preparing for the year-end audit. These checklists may be modified by the audit firm to incorporate additional documents as needed.

ADMINISTRATIVE CLASSIFICATIONS QUESTIONNAIRE

(To Be Completed by the Board Secretary/ Business Administrator)

Auditors should retain this questionnaire in their workpapers. The department may at a future time request this document for use in assessing potential need for further guidance and training.

1. a. Were all salaries of administrative staff requiring a school administrative, principal or school business administrative certificate recorded in administrative functions 230, 240, and 25X?
Yes _____ No _____

b. If no to 1a, is the coding consistent with prior years? Yes _____ No _____

c. If no to 1a, please list the position, the account coding and the rationale for account classification other than administration (attach additional sheet if necessary):

2. Is there a decline in administrative expenditures relative to total general fund expenditures from the previous year? Yes _____ No _____

If yes, is the decline the result of reclassification or allocation of salaries? Yes _____ No _____

Please provide an explanation for any fluctuation (attach additional sheet if necessary):

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3. Were there any salaries recorded in functions 230, 240, and 25X in the prior year and not in the current year?
Yes _____ No _____

If yes, please list the position, the account coding and the rationale for the change (attach additional sheet if necessary):

4. Were there any non-certificated administrative staff allocated to a support function (exclude clerical positions)?
Yes _____ No _____

If yes, please list the position, account classification, and allocation method used (attach additional sheet if necessary):

5. Were any supervisor positions, with the exception of “supervisors of instruction,” requiring a principal or supervisory certification allocated to a support function?
Yes _____ No _____

If yes, please list the position, account classification, and allocation method used (attach additional sheet if necessary):

6. Did any of the administrative functions (functions 230, 240, and 25X) have salary expenditures for administrators and no related clerical support salaries? For example, salaries are recorded in function 240-103, salaries of principals/vice principal but nothing was reported in function 240-105, salaries of secretarial and clerical assistants.
Yes _____ No _____

If yes, please list the function(s) and rationale (attach additional sheet if necessary):

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**CHECKLIST FOR ANNUAL AUDIT
CURRENT OPERATING FUNDS**

SCHOOL YEAR 2011-12

- () 1. Copy of complete board-approved budget reviewed by the executive county superintendent, including supporting documents and statements and any attachments.
- () 2. The entries in the financial records of the Board Secretary and the Treasurer (if applicable) of school moneys must be up-to-date and balances reconciled.
 - a. Complete all posting and closing entries for all financial records, including the net payroll account and payroll agency accounts, and bond and interest account as of June 30, 2012.
 - b. All adjusting entries must be made as of June 30 to reflect the accounting records on a modified accrual basis.
 - c. Annual report submitted to the board pursuant to N.J.S.A. 18A:17-10.
 - d. All entries in the Athletic Association records must be up-to-date and records must be balanced.
- () 3. Complete Comprehensive Annual Financial Report (CAFR) as of June 30, 2012.
- () 4. Trial balance reflecting adjusting and closing entries as of June 30, 2012, as support for the CAFR.
- () 5. All books and records of the board secretary/business administrator including but not limited to:
 - a. General Journal for FY 2011-12
 - b. Special Purpose Journals for FY 2011-12
 - c. General Ledgers for FY 2011-12
 - d. Revenue Subsidiary Ledgers for FY 2011-12
 - e. Expenditure Subsidiary Ledgers for FY 2011-12
 - f. Chart of Accounts for FY 2011-12
- () 6. All purchase orders for the year.
 - a. Analyses of open purchase orders at June 30, 2012.
 - b. Separate lists must be prepared for those orders representing accounts payable at June 30th and those orders that will be liquidated and paid in the subsequent fiscal years.
 - c. The total of these lists should agree with the June 30th general ledger balances for accounts payable and reserve for encumbrances, respectively.
- () 7. Monthly reconciliations of all checking accounts must be prepared and available.
 - a. Bank statements for 13 months, including related canceled checks, debit and credit memos, returned by the bank and duplicate deposit tickets for the period July 1, 2011 through July 31, 2012.
- () 8. All cash on hand including the petty cash fund, must be deposited in the bank depository by June 30, 2012.
- () 9. List of investments, if any, outstanding as of June 30, 2012.
- () 10. Copies of all applications, third party contracts (when applicable), revenue verification notices, all approved budgets and budget modifications in connection with State and Federal Aid, including information on all approved special programs or projects.

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- () 11. Copies of required financial Special Project Completion Reports filed in connection with State, Federal or special projects, such as SEMI, NCLB, Vocational reports, etc. Copies of prior year Special Project Completion Reports and copies of warrants remitting unexpended balances that were not approved for carryover to the grantor agency.
- () 12a. Evidence that the charter school had designated an employee who is responsible for the coordination of the charter school's SEMI.
- () 12. Monthly statutory financial statements of the Secretary (Form A-148) and Treasurer (if applicable) (A-149) per *N.J.S.A. 18A:17-9* and 36.
- () 13 Annual report submitted to the board pursuant to *N.J.S.A. 18A:17-10*.
- () 14. Minutes of board meetings, which should be reviewed prior to the audit to determine whether the proceedings are complete and properly signed. In connection with Board action, were the following subject matters recorded in the minutes?

Full spread of the adopted detailed budget
N.J.S.A. 18A:22-8
 Board resolutions and full detail of Budget Transfers of line items with the budget or from surplus.
N.J.S.A. 18A:22-8.1 as amended by P.L. 2004, c.73.
 Organization Meeting
N.J.S.A. 18A:10-5
 Establishment of Petty Cash Fund
N.J.S.A. 18A:19-13, N.J.A.C. 6A:23-2.9
 Official Depositories
N.J.S.A. 18A:17-34
 Official Newspaper Designated
N.J.S.A. 18A:18A-21
 Bill or Voucher List
N.J.S.A. 18A:19-4
 Change Orders on Awarded Contracts
N.J.A.C. 6A:23A-21.1
 Summary of Bids Received
N.J.S.A. 18A:18A-21
 Award of Contracts Bid
N.J.S.A. 18A:18A-36, 37 and *N.J.S.A.18A:18A-3, 4*.
 Designation of EUS
N.J.S.A. 18A:18A-5 and *N.J.S.A.18A:18A-37*
 Designation of Qualified Purchasing Agent
N.J.S.A.18A:18A-3
 Authorization of Competitive Contracting Process
N.J.S.A. 18A:18A-4.1, 4.3, 4.4, 4.5
 Payment of Emergency Contracts
N.J.S.A. 18A:18A-7
 Monthly Financial Report of the Treasurer of School Moneys (if applicable) (Form A-149)
N.J.S.A. 18A:17-36

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Monthly Financial Report of the Secretary
 (Form A-148)
 N.J.S.A. 18A:17-9
 Investments-Authorization, Purchase and Recording
 N.J.S.A. 18A:20-37 and N.J.S.A. 18A:20-38
 Reading and discussion of recommendations of the Annual
 Report of Audit
 N.J.S.A. 18A:23-5
 Applicable Resolutions of Cancellations
 Establishment of Emergency Reserve Fund
 N.J.S.A. 18A:7F-41(c)1
 Resolution to request Commissioner approval to transfer
 funds from the Emergency Reserve
 N.J.S.A.18A:7F-41(c)(1) (if applicable)

Required Board of Trustees Policies

Travel and Expense Reimbursement Policy
 N.J.A.C. 6A:23A-7.2
 Public Relations and Professional Services Policy
 N.J.A.C. 6A:23A-22.6
 Nepotism Policy
 N.J.A.C. 6A:23A-22.10
 Contributions and Contracts Awards Policy
 N.J.A.C. 6A:23A-22.11
 Policy on Exceeding Purchase Order Amounts
 N.J.A.C. 6A:23A-22.15
 Prohibition of Harassment, Intimidation, Bullying
 N.J.S.A. 18A:37-15

- () 15. All vouchers, properly documented, and purchase orders should be available for inspection and review. The secretary should be certain that all paid claims have been properly approved for payment, recorded in the minutes, and that affidavits or declarations have been completed on those exceeding one hundred and fifty dollars (*N.J.S.A. 18A:19-3*).
- () 16. A separate file including copies of all legal advertisements approved budget, requests for bids, and resolutions awarding contracts or agreements for professional services.
- () 17. All contracts, agreements, leases, and bids received in connection with the advertising referred to above. Contracts which the school board has entered into with the State Division of Purchase and Property in the purchase of materials, supplies or equipment for the charter school must be available for review by the charter school auditor.
- () 18. A schedule of all insurance coverage and fidelity bond coverage in effect during the year, and the related policies or continuation certificates, and fidelity bonds.
- () 19. All employee contracts and a schedule of board approved salaries; a schedule of fringe benefits and post retirement payments by employee, type of benefit, and dollar amount/value; authorization for non-contractual fringe benefits.

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- () 20. A schedule detailing all staff whose position requires a school administrative, principal or school business administrator certificate pursuant to *N.J.A.C. 6A:9-12.3*. Such positions should include superintendent, assistant superintendent, school business administrator, director, principal, assistant/vice principal, etc. The format should include the title, salary, general ledger account code(s), and if all or part of each salary is not coded to a general ledger administrative function (230, 240, or 25X), provide an explanation for the deviation from administration, including any allocation methodology used.
- () 21. An analysis of any balance in the net payroll or payroll agency account.
- () 22. Monthly and quarterly remittance returns for all payroll agencies. Payroll tax reports, quarterly and calendar year end, including W-2s, for federal and state.
- () 22a. Forms 1099 and transmittal form.
- () 22b. NJ Form E-CERT1, Certification of Compliance with Federal and State Law Respecting the Reporting of Compensation of Certain Employees.
- () 23. Evidence of establishment and maintenance of a cafeteria plan for health benefits required by *N.J.S.A. 18A:16-19.1* as amended by P.L. 2011c.78, section 44
- () 24. All paid and voided warrants and payroll checks, together with the bank statements on which they are listed, arranged in order by month. Certified and approved payroll registers in chronological order.
- () 25. The Treasurer of School Moneys (if the charter school has a treasurer) should have his or her records in order and available during the course of audit.
- () 26. Board resolution at year end (June 1 – June 30) to supplement the capital reserve with unanticipated revenue or unexpended line-item appropriation amounts, or both if applicable.
- () 27. All contracts, including leases and conveyances. Include all salary and other written contracts.
- () 28. Records, bills, orders and other supporting documentation of Athletic Association.
- () 29. The October 15, 2011 and supporting workpapers, documentation of internal procedures, school registers, applications for free and reduced meals, and student's individualized education program (IEP).
- () 30. Approved Preschool Program Operational Plan, the 2011-12 Budget Statement Supporting Documentation Items 15 (Preschool Program Aid) which represent the approved plan, approved Carryover Funds forms and approved Transfer Notification Forms.
- () 31. Schedule of the amounts reimbursed by the state for the current year FICA employer contribution for its TPAF members on an accrual basis.
- () 32. Analysis for each balance sheet account balance as of June 30, 2012 (see Section I, Chapter 8, page I-8.2) including a schedule of June 30 encumbrances that supports the Reserve for Encumbrance account balance.
- () 33. Analysis of the miscellaneous income account including a schedule of receivables for miscellaneous income.

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- () 34. E-rate – funding requests and claims for reimbursement for each of the following eligible service categories: telecommunications services, internet access and internet connections. Universal Service Fund Form 470 (E-rate), Description of Services Requested and Certification and Form 471, Services Ordered and Certification. If received, Form 486, Receipt of Service Notification, and funding commitment letter, if applicable.
- () 35. Summary Schedule of Prior Audit Findings prepared in accordance with USOMB Circular A-133 section .315, if applicable;
 - a. Corrective Action Plan which was submitted to the executive county superintendent;
 - b. Copy of charter school certification to the executive county superintendent that all corrective action of prior year has been taken.
- () 36. Copies of any audit or compliance report received from oversight or regulatory agencies during the current year and copies of any dispute resolutions related to prior year issues.
- 37. Special Education Medicaid Initiative (SEMI) – refer to SEMI Provider Handbook and other correspondence from the NJ Department of the Treasury:
 - () a. Parental consent forms.
 - () b. Documentation to verify that a service was provided on a specific date.
 - () c. Records to indicate that a pupil either has a current IEP that specifies the services or was referred for evaluation.
 - () d. Records which specify the practitioner providing the related service. The record should be adequate to verify that the service was provided to the pupil by a specific practitioner on a specific date.
- () 38. Analysis of all debt outstanding during the year and supporting documentation to demonstrate the charter school’s adherence to N.J.S.A.18A:36A-10.
- () 39. Documentation to support all out of state travel expenditures should be available.

Items required for Charter School Wide financial statement

- () 1. Capital asset schedules, including the following detail:
 - a. Date placed in service.
 - b. Cost/basis.
 - c. Beginning of the year balance - accumulated depreciation.
 - d. Current year depreciation.
 - e. Ending balance - accumulated depreciation.
 - f. Classification of the asset. (e.g., land, building, equipment)
 - g. Method of depreciation. (e.g., straight line)
 - h. Useful life of each asset used in computing the depreciation. LEAs may refer to the standard useful life table on the following page for guidance on useful life of each asset. LEAs are not required to utilize the standard useful lives suggested but should develop a policy appropriate for the charter school use.
“This chart originally appeared in the book GASB Statement No. 34 Implementation Recommendations for School Districts and is reprinted with permission of the Association of School Business Officials International: www.asbointl.org”.
 - i. Identification by program.

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If the asset is specifically identifiable to a program (see the lines used in the Statement of activities), then that program should be noted and depreciation should be charged to that program. If not, there should be an indication that it is not specifically identifiable. The assets should be in one of two categories based on how the each asset is used - 1) governmental fund or 2) business like activity (enterprise fund).

- () 2. Schedule of long-term liabilities for each of the debt categories; capital leases; compensated absences; other – (specify) and include:
 - a. Beginning of year balance
 - b. Additions
 - c. Reductions
 - d. End of year balance
 - e. Amount due within one year

- () 3. Schedule of interest accrued on long-term debt.

- () 4. Trust documents (trust instruments or letter specifying restrictions) which support classification as either a permanent trust or private purpose trusts (e.g. scholarships.)

- () 5. Worksheet calculation for converting from governmental fund balances to net asset balances.

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The following table relates to item 1(h) under “Items required for GASB 34 financial reporting.”

Figure 4.1

Asset Class	Examples	Est. Useful Life in Years
Land		N/A
Site Improvements	Paving flagpoles, retaining walls, sidewalk, fencing, outdoor lighting	20
School Buildings		50
Portable Classrooms		25
HVAC Systems	Heating, ventilation, and air-conditioning system	20
Roofing		20
Interior Construction		25
Carpet Replacement		7
Electrical/Plumbing		30
Sprinkler/Fire System	Fire suppression systems	25
Outdoor Equipment	Playground, radio towers, fuel tanks, pumps	20
Machinery & Tools	Shop & maintenance equipments, tools	15
Kitchen Equipment	Appliances	15
Custodial Equipment	Floor scrubbers, vacuums, etc	15
Science & Engineering	Lab equipment, scientific apparatus	10
Furniture & Accessories	Classroom and office furniture	20
Business Machines	Fax, duplicating & printing equipment	10
Copiers		5
Communications Equipments	Mobile, portable radios, non-computerized	10
Computer Hardware	PCs, printers, network hardware	5
Computer Software	Instructional, other short-term	5 to 10
Computer Software	Administrative or long term	10 to 20
Audio Visual Equipment	Projectors, cameras (still & digital)	10
Athletics Equipment	Gymnastics, football, weight machines, wrestling mats	10
Musical Instruments	Pianos, string, Bass, percussion	10
Library Books	Collections	5 to 7
Licensed Vehicles	Buses, other on-road vehicles	8
Contractors Equipment	Major off-road vehicles, front-end loaders, large tractors, mobile air compressor	10
Grounds Equipment	Mowers, tractors, attachments	15

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**CHECKLIST FOR ANNUAL AUDIT
STUDENT ACTIVITY FUND**

(NAME OF SCHOOL)

SCHOOL YEAR 2011-12

- () 1. Monthly bank reconciliations of all checking accounts:
 - a. Bank statements for 13 months, including related canceled checks returned by the bank and duplicate deposit slips for the period July 1, 2011 through July 31, 2012.
- () 2. Cash Receipts and Cash Disbursements Journal.
- () 3. General Ledger of School Accounts.
- () 4. Paid and unpaid Invoices and Payment Forms covering School Year.
- () 5. Savings Account Pass Books or Certificates, including interest credited to June 30.
- () 6. Petty Cash Fund (including unreimbursed invoices) and School Change Fund, if applicable.
- () 7. Prenumbered receipts for the period July 1, 2011 through July 31, 2012.
- () 8. Copy of Annual Cumulative Report of Cash Receipts, Cash Disbursements and Balances at June 30, including completion of bank reconciliation at June 30, 2012.
- () 9. Records, bills, orders and other supporting documentation of the Student Activity Accounts.
- () 10. All entries in the Student Activity Account records must be up-to-date and records must be balanced.
- () 11. Copies of board resolutions approving each fund.
- () 12. Schedule of accounts receivable and accounts payable.

**CHECKLIST FOR ANNUAL AUDIT
FOOD SERVICE FUND**

(NAME OF SCHOOL)

SCHOOL YEAR 2011-12

- () 1. Monthly bank reconciliations of all checking accounts.
 - a. Bank statements for 13 months, including related canceled checks, returned by the bank and duplicate deposit slips for the period July 1, 2011 through July 31, 2012.
- () 2. Cash Receipts and Cash Disbursements Journal.
- () 3. General Ledger.
- () 4. Paid invoices and unpaid invoices applicable to the school year.
- () 5. Savings Account Pass Books or Certificates, including interest credited to June 30.
- () 6. Petty cash fund (including unreimbursed invoices) and School Change Fund, if applicable.
- () 7. Prenumbered receipts or billings for the period July 1, 2011 through July 31, 2012 for special affairs.
- () 8. Daily cash register tapes, properly identified, and daily cashier reports, indicating reconciliation to deposit.
- () 9. Reimbursement claims filed and schedule of claims receivable as of June 30.
- () 10. Copies of advertisements for bids, and copies of such bids awarded.
- () 11. Schedule of any receivables or payables as of June 30.
- () 12. Schedule of closing inventory of food and supplies.
- () 13. Copy of annual food service manager's report of operations for the school year.
- () 14. Agreement for School Nutrition Programs dated, signed by authorized representative and approved by New Jersey State Department of Education/Agriculture Officials. (all done by certification on a web-based system – SNEARS)
- () 15. Eligibility documents for free and reduced price meals.
- () 16. Meal count records, Edit Check Worksheets and daily summary sheets of number and type of meals served.
- () 17. Monthly Report (Summary of Meals Claimed) and Payment Log for period of audit. (in SNEARS)

- () 18. Verification summary (in SNEARS).
- () 19. Food Service Management Company contract (if applicable).
- () 20. Paid invoices to Food Service Management Company with fully itemized and verified bills (if applicable).
- () 21. Records, bills, orders and supporting documentation of the Food Service Fund.
- () 22. All entries in the Food Service Fund records must be up-to-date and records must be balanced.
- () 23. Food Service Management Company (FMSC) **SSAE No. 16 Type 2 Report** (formerly known as SAS #70 report) (if applicable).
- () 24. FSMC records identifying amounts of discounts, rebates and other applicable credits.
- () 25. FSMC accounting of donated commodities used during the year.
- () 26. Child Nutrition Program Agreement Addendum to participate in the Fresh Fruit and Vegetable Program, if applicable
- () 27. **Provide documentation supporting current status of all prior year CNP findings (if applicable)**

A U D I T Q U E S T I O N N A I R E 2011-12
(To Be Completed by the Public School Auditor)

CHARTER SCHOOL _____ COUNTY _____

The Audit Questionnaire is a checklist of items specific to New Jersey charter schools which auditors should include as part of the audit workpapers to support the auditor’s opinion on the charter school’s compliance with laws and regulations. This checklist should be signed by the auditor and kept with the auditor’s workpapers and available to the department upon request.

Irregularities shown by answers given to questions must be covered by a comment and recommendation in the Auditor’s Management Report.

1. Was the charter school able to demonstrate an accounting system that was maintained in accordance with Governmental GAAP and the State prescribed publication entitled GAAP for New Jersey School Districts, A Technical Systems Manual?
Yes _____ No _____

	<u>Yes</u>	<u>No</u>	<u>Not Applicable</u>
2. Were copies of the following reports completed and available for examination?			
Treasurer's (if applicable) Monthly Financial Statements. (N.J.S.A. 18A:17-36) (Form A-149)	_____	_____	_____
Secretary's Monthly Financial Report filed on a monthly basis. (N.J.S.A. 18A:17-9a) (Form A-148)	_____	_____	_____
Was the year-end report (June 30, 2012 A-148) prepared by the secretary, passed by board resolution and reflected in the minutes of the Board of Trustees at the July meeting?	_____	_____	_____
T.P.A.F. Reimbursement for June 30 – should be submitted to NJDOE by September 30. (N.J.S.A.18A:66-90)	_____	_____	_____

3. Were the following Cash Reconciliations prepared monthly? If no, explain.

	<u>Monthly</u>		
	<u>Yes</u>	<u>No</u>	<u>N/A</u>
General Operating Fund	_____	_____	_____
Food Service Fund	_____	_____	_____
Net Salary Account	_____	_____	_____
Payroll Agency Account	_____	_____	_____
Permanent Fund	_____	_____	_____
Trust Fund	_____	_____	_____
Athletic Fund	_____	_____	_____
Student Activity Accounts	_____	_____	_____

4. (A) Was the following information verified utilizing the bookkeeping records, maintained in accordance with Governmental GAAP?

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Rental Billings	_____	_____	_____
Rental Revenue Accounts Receivable	_____	_____	_____
Miscellaneous Revenue	_____	_____	_____
Miscellaneous Revenue Accounts Receivable	_____	_____	_____
Accounts Payable (including liabilities due to grantor agencies)	_____	_____	_____
Outstanding Purchase Orders	_____	_____	_____
Analysis of Net Payroll Account Balances	_____	_____	_____
Analysis of Payroll Agency Account Balances	_____	_____	_____

(B) Were the Board Secretary/Business Administrator Administrative Classifications Questionnaire and audit checklists (Operating Fund, Student Activity Fund and Food Service Fund) completed by the Board Secretary/Business Administrator and were the records ready for audit?

Yes _____ No _____

5. Were the following revenue verification notices on hand for examination?

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Charter School Aid Payment Schedules (FY12 Projection, 10/15/11 & FY12 Final)	_____	_____	_____
Other: _____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

6. (A) Were the minutes properly signed?

Yes _____ No _____

(B) Are pre-numbered pages and/or marginal notes used in the maintenance of the minutes?

Yes _____ No _____

(C) In connection with Board action, were the following subject matters recorded in the minutes?

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Full spread of the approved budget <i>N.J.S.A. 18A:22-8</i>	_____	_____	_____
Full detail of Budget Transfers <i>N.J.S.A. 18A:22-8.1</i>	_____	_____	_____
Organization Meeting <i>N.J.S.A. 18A:10-5</i>	_____	_____	_____
Establishment of Petty Cash Fund <i>N.J.S.A. 18A:19-13, N.J.A.C. 6A:23A-16.8</i>	_____	_____	_____
Official Depositories <i>N.J.S.A. 18A:17-34</i>	_____	_____	_____
Official Newspaper Designated <i>N.J.S.A. 18A:18A-21</i>	_____	_____	_____
Bill or Voucher List <i>N.J.S.A. 18A:19-4</i>	_____	_____	_____
Change Orders on Awarded Contracts <i>N.J.A.C. 6A:23A-21.1</i>	_____	_____	_____
Authorizations for Advertisement of Bids <i>N.J.S.A. 18A:18A-21</i>	_____	_____	_____
Summary of Bids Received <i>N.J.S.A. 18A:18A-21</i>	_____	_____	_____
Award of Contracts Bid <i>N.J.S.A. 18A:18A-36, 37 and N.J.S.A. 18A:18A-3, 4,</i>	_____	_____	_____
Designation of EUS <i>N.J.S.A. 18A:18A-5 and N.J.S.A. 18A:18A-37</i>	_____	_____	_____
Designation of Qualified Purchasing Agent <i>N.J.S.A. 18A:18A-3</i>	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Authorization of Competitive Contracting Process N.J.S.A. 18A:18A-4.1, 4.3, 4.4, 4.5	_____	_____	_____
Payment of Emergency Contracts N.J.S.A. 18A:18A-7	_____	_____	_____
N.J.S.A. 18A:22-18 and N.J.S.A. 18A:22-39	_____	_____	_____
Monthly Financial Report of the Treasurer of School Moneys (if applicable) (Form A-149) N.J.S.A. 18A:17-36	_____	_____	_____
Monthly Financial Report of the Secretary (Form A-148) N.J.S.A. 18A:17-9	_____	_____	_____
Investments-Authorization, Purchase and Recording N.J.S.A. 18A:20-37 and N.J.S.A. 18A:20-38	_____	_____	_____
Reading and discussion of recommendations of the Annual Report of Audit N.J.S.A. 18A:23-5	_____	_____	_____
Applicable Resolutions of Cancellations N.J.S.A.18A:7G-31	_____	_____	_____
Board acknowledgment of audit firm peer review report N.J.A.C. 6A:23A-16.2(i)2	_____	_____	_____

Required Board of Trustees Policies

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Travel and Expense Reimbursement Policy N.J.S.A. 18A:11-12, N.J.A.C.6A:23A-7.2	_____	_____	_____
Public Relations and Professional Services Policy N.J.A.C. 6A:23A-22.6	_____	_____	_____
Policy on SEMI Reimbursement N.J.A.C. 6A:23A-5.3(e)1	_____	_____	_____
Nepotism Policy N.J.A.C. 6A:23A-22.10	_____	_____	_____
Contributions & Contract Awards Policy N.J.A.C. 6A:23A-22.11	_____	_____	_____
Policy on Exceeding Purchase Order Amounts N.J.A.C. 6A:23A-22.15	_____	_____	_____
Harassment, Intimidation or Bullying Policy N.J.S.A. 18A:37-15	_____	_____	_____

7. (A) Are records maintained in conformance with requirements prescribed by the state board of education per *N.J.A.C. 6A:23A-16.1*? Yes _____ No _____
- (B) If an electronic data processing bookkeeping service company is used, is an audit of the internal controls of the service company on file per *N.J.A.C. 6A:23A-16.6*? Yes _____ No _____

8. (A) Condition of Records: Comment on needed improvements in the Auditor's Management Report.

	<u>Satisfactory</u>	<u>Unsatisfactory</u>
Treasurer (if applicable)-General	_____	_____
Secretary-General	_____	_____
Food Service	_____	_____
Payroll	_____	_____
Permanent Fund	_____	_____
Trust Fund	_____	_____
Athletic Funds	_____	_____
Student Activity Funds	_____	_____
Other:		
_____	_____	_____
_____	_____	_____
_____	_____	_____

- (B) Are the Treasurer's (if applicable) records maintained independently of the Board Secretary's?
 Yes _____ No _____

- (C) Were records of the Treasurer (if applicable) and Board Secretary reconciled on a monthly basis?
 Yes _____ No _____

- (D) In your opinion, are the books and records of any official in such unsatisfactory condition that comment and recommendation is made in the Auditor's Management Report?
 Yes _____ No _____ N/A _____
 If answer is "yes", specify the officials referred to _____

9. (A) Were all payrolls approved by the charter school board of trustees and certified by the Secretary and President of the Board prior to issuance of salary checks? Yes _____ No _____

- (B) Were bank deposits to Payroll Salary and Agency accounts detailed as to sources of Appropriations, Special Funds, Refund or Other Sources? Yes _____ No _____

- (C) Where outside services (computer services, etc.) are utilized, are the records adequate and do they leave an "audit trail?" Yes _____ No _____

- (D) Were payroll tax filings properly prepared, including fringe benefits where applicable? Yes _____ No _____

10. (A) Is there a requisition system operative in the charter school? Yes _____ No _____

- (B) Is there a sequential purchase order system operative in the charter school? ___ Yes ___ No
- (C) Are purchase orders numerically recorded in a central register? Yes ___ No ___
- (D) Is an encumbrance system utilized in accordance with Governmental GAAP? Yes ___ No ___
11. Are there credit cards utilized by board members and employees? Yes ___ No ___
If answer is "yes", a comment and recommendation is required.
12. Were the monthly certifications of line-item appropriations and fund status filed in accordance with N.J.A.C. 6A:23A-16.10(c) and Division of Finance Policy Bulletin 200-11? Yes ___ No ___
(If no, appropriate comments and recommendations must be included in the annual audit report)
13. Has the Board's Records Custodian adopted and made available to the public a Records Request Form (N.J.S.A. 47:1A-5(f)) (OPRA)? Yes ___ No ___
14. Has the statement of rights of appeal been posted pursuant to N.J.S.A. 47:1A-5(j) (OPRA)? Yes ___ No ___
15. Expenditure Classification Test Results Summary
- | | | |
|------------------------------|----|---------|
| Dollar Value of Items Tested | \$ | _____ |
| Dollar Value of Errors Noted | \$ | _____ |
| Dollar Value Error Rate | | _____ % |
| Total Expenditures* | \$ | _____ |

*General Fund and Special Revenue Fund excluding on-behalf payments for TPAF (pension and FICA).

16. Is the charter school appropriately assisting the State in maximizing federal participation pursuant to section 7 of P.L. 1968, c.413 (C.30:4D-7) (SEMI Program)? Consider the following:
- (A) Has the charter school appointed a SEMI Coordinator or contact person? Yes ___ No ___
- (B) Has the charter school applied for participation in the SEMI Program with the Department of Education, Medicaid and the third party billing administrator? Yes ___ No ___
- (C) Do the IEPs identify services which are eligible for reimbursement under the SEMI Program? Yes ___ No ___
- (C1) Has the charter school documented delivery to eligible students by Medicaid qualified practitioners of the services identified for reimbursement in item (C) above in the third party administrator's proprietary software system for reimbursement? Yes ___ No ___
- (D) Does the school have a process for identifying new students eligible for the SEMI Program? Yes ___ No ___
- (E) Does the charter school have a process for acquiring parental consent for students eligible for the SEMI Program? Yes ___ No ___

(F) Are parental consent forms available in the student file? Yes _____ No _____

(G) Does the charter school have a process for documenting expenditures reimbursement under the SEMI Program (refer to the SEMI Provider Handbook)? Yes _____ No _____

(H) Has the school been updating service data in a timely manner? Yes _____ No _____

(I) Are annual reviews held for the students in the SEMI Program? Yes _____ No _____

(J) Are IEPs available for claims made under the SEMI Program? Yes _____ No _____

(K) Has the charter school designated which staff is responsible for submitting financials? Yes _____ No _____

(L) Has the charter school been updating and certifying the required quarterly and annual financial submissions in a timely manner? Yes _____ No _____

17. Were administrative staff whose position requires a school administrative, principal or school business administrator certificate recorded in the administrative functions, and if not was the account coding in compliance with department guidance (NJ Chart of Accounts) and was proper supporting documentation maintained for any allocations? Yes _____ No _____

18. Did the charter school file its annual report required by *N.J.S.A. 18A:17-10* by August 1, 2012? Yes _____ No _____

19. Is the charter school current in submitting all claims for reimbursable costs under the Federal E-rate program (the Schools and Libraries Universal Support Mechanism) for encouraging the use of the internet? Yes _____ No _____

20. Has the charter school applied for the maximum amount of Federal E-rate program funds in each of the following areas:

- (A) Telecommunications Services Yes _____ No _____
- (B) Internet Access Yes _____ No _____
- (C) Internet Connections Yes _____ No _____

21. Did the charter school participate in the following cost savings programs during 2011-12? (N.J.S.A. 18A:55-3 and N.J.A.C. 6A:23A-6.1(b))

(A) Alliance for Competitive Energy Services (ACES) Yes _____ No _____
If no, why didn't the charter school participate?

(B) Alliance for Competitive Telecommunications (ACT) Yes _____ No _____

If no, why didn't the charter school participate?

(C) New Jersey School Boards Association Insurance Group or a joint insurance fund Yes _____ No _____

If no, why didn't the charter school participate?

(D) New Jersey State Health Benefits Plan Yes _____ No _____
If no, why didn't the charter school participate?

22. Does the charter school's actual audited per pupil legal cost for the year ended June 30, 2011 exceed 130% of the 2010-11 audit statewide average legal cost per pupil published in the 2012 *Taxpayers Guide to Education Spending*? Yes _____ No _____

(A) If yes, have the procedures required by N.J.A.C. 6A:23A-22.6 been adopted by resolution or memo at the earliest board meeting subsequent to the release of the 2012 *Taxpayers Guide to Education Spending* effective for 2012-13? Yes _____ No _____

(B) If no, has evidence been provided that such procedures would not result in a reduction of costs for 2012-13? Yes _____ No _____

SECTION III – REPORTING
CHAPTER 7 – SYNOPSIS AND CORRECTIVE ACTION PLAN

Synopsis and Hearing of Audit

***N.J.S.A. 18A:23-3* states in part that "The Commissioner annually shall publish a summary of such recommendations as made for each charter school and the steps which have been taken in each charter school for their implementation."**

***N.J.S.A. 18A:23-4* states "The secretary of the board shall prepare or have prepared a synopsis or summary of the annual audit and recommendations, prior to the holding of the meeting of the board of trustees to take action thereon; A copy of which synopsis or summary shall be available for distribution to interested parties at the meeting."**

In order to comply with the above requirements, it is requested that the Secretary of the Board prepare the audit synopsis under the following format:

- a. Governmental Funds Balance Sheet (Exhibit B-1).
- b. Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance (Exhibit B-2).
- c. Reflect each audit recommendation under the applicable heading listed below. Include the sub headings listed on page III-4.5:
 1. Administrative Practices & Procedures
 2. Financial Planning, Accounting & Reporting
 3. School Purchasing Programs
 4. School Food Service
 5. Student Body Activities
 6. Facilities and capital assets
 7. Miscellaneous
 8. Follow-up on prior year findings
- d. A copy of the minutes of the board meeting at which the audit recommendations were read and discussed must be filed with the executive county superintendent of schools together with the synopsis within 30 days following the meeting at which the audit was discussed. **Specific board action and disposition of each audit recommendation must be duly noted in the minutes of the board. A general statement of the Board's acceptance of the audit and recommendations is NOT in compliance. In addition, the minutes must address the corrective actions voted by the board and a completed Corrective Action Plan signed by both the chief school administrator and the board secretary/school business administrator must be included with the synopsis.**

The copy of the minutes, synopsis and corrective action plan are submitted to the executive county superintendent and will be filed with the State Department of Education by the executive county superintendent after they have been reviewed for accuracy and completeness. Please see the following page for a sample Corrective Action Plan (CAP).

The school business administrator must submit a certification (see sample format at end of this chapter or a statement on charter school letterhead will be accepted) when all corrective actions have been fully implemented, but no later than June 30th of the subsequent fiscal year. The certification letter is to be submitted to the Single/Grants Audit Unit, Office of Compliance Investigation, P.O. Box 500, Trenton, NJ 08625-0500 or scanned (PDF) and submitted via email to eCAFR@doe.state.nj.us.

SECTION III – REPORTING
CHAPTER 7 – SYNOPSIS AND CORRECTIVE ACTION PLAN

A copy of the Corrective Action Plan and certification should also be submitted to the Office of Charter Schools, P.O. Box 500, Trenton, NJ 08625, Attn: Kathy Ambrosio.

The certification letter is to be submitted to the Office of Charter Schools, P.O. Box 500, Trenton, NJ 08625-0500, Attn: Katy Ambrosio and to the Executive County Superintendent of Schools.

CORRECTIVE ACTION PLAN -2011-12

NAME OF SCHOOL _____ COUNTY _____

TYPE OF AUDIT _____

DATE OF BOARD MEETING _____

CONTACT PERSON _____

TELEPHONE NUMBER _____

RECOMMENDATION NUMBER	CORRECTION ACTION APPROVED BY THE BOARD	METHOD OF IMPLEMENTATION	PERSON RESPONSIBLE FOR IMPLEMENTATION	COMPLETION DATE OF IMPLEMENTATION
_____	_____	_____	_____	_____

CHIEF SCHOOL ADMINISTRATOR/LEAD PERSON

DATE

BOARD SECRETARY/SCHOOL BUSINESS ADMINISTRATOR

DATE

[SAMPLE] CERTIFICATION OF IMPLEMENTATION OF CORRECTIVE ACTION PLAN

For the Fiscal Year ended June 30, 2012

Name of Charter School _____
County _____

I hereby certify that all corrective actions listed on the charter school's Corrective Action Plan (CAP) for the fiscal year indicated above have been fully implemented with the following exceptions:

CAP
Recommendation
Number

_____ [Comments] _____
_____ [Comments] _____

Board Secretary/Business Administrator Date

Chief School Administrator/Lead Person Date

Submit by June 30, 2012 to:
Scan (PDF) to eCAFR@doe.state.nj.us or mail to:
NJ Department of Education
Single/Grants Audit Unit
Office of Compliance Investigation
P.O. Box 500
Trenton, NJ 08625-0500

Submit a copy of the certification to:

NJ Department of Education
Kathy Ambrosio
Office of Charter Schools
P.O. Box 500
Trenton, NJ 08625-0500

SECTION III – REPORTING
CHAPTER 8 –QUALITY ASSESSMENT REVIEW CHECKLIST

A Quality Assessment (Control) Review will be performed at the state level on each audit. The auditor should familiarize himself/herself with the following Quality Assessment (Control) Review form. The auditor’s review of this form should ensure that the audit contains sufficient information to answer the questions contained in the review, as well as eliminate time consuming correspondence with the Single/ Grants Audit Unit personnel in assuring compliance with Federal and State audit requirements.

QUALITY ASSESSMENT REVIEW

Charter School _____

County _____

Audit Period _____ Date of Report _____

Received By Deadline _____

Auditor Name _____ Audit Firm _____

Reviewed By _____ Date _____

Summary of Quality Assessment Review

In my opinion, the CAFR is:

- Acceptable, and requires no or only minor corrections.
- Substandard, and requires one or more major changes.

Comments: _____

I. Qualifications and Independence of Auditor

1. Is the audit performed by a certified public accountant or registered municipal accountant? Yes _____ No _____

 Is the audit performed by a public school accountant?
 (Contact the State Board of Accountancy at 1-973-504-6380 to ascertain if licensed as both a public accountant and a public school accountant.) Yes _____ No _____
2. Is the audit report free of indications that the auditor is not independent? If not, follow up to determine if independence was impaired in appearance or in fact. Yes _____ No _____
3. Does the auditor have an external quality control review on file with the department? Yes _____ No _____

II. Financial Statements

The format of the CAFR should conform to the publication, Financial Accounting for New Jersey Charter Schools - The Audit Program, and should strictly adhere to the prescribed sectioning of the report and numbering of exhibits as shown on pages **xii to xiv** of The Audit Program. If a section or exhibit is not applicable to the charter school, the notation "N/A" should be indicated against that item in the Table of Contents. Exhibit numbers for any additional statements required under the circumstances should be assigned using the next available exhibit number within that series of statements/schedules.

1. Is a complete table of contents as reflected in The Audit Program or the "Appendix A" (if appropriate) included? Yes ___ No ___
 If "No", describe deficiencies:

2. Are sections properly designated? Yes ___ No ___
 (If "No", make corrections in the CAFR and describe below.)

3. Are exhibits properly numbered? Yes ___ No ___
 (If "No", make corrections in the CAFR and describe below.)

4. Are all statements and schedules reflected in The Audit Program Outline to the CAFR (p xv through xvii), either included in the CAFR or designated "N/A" in the table of contents? Yes ___ No ___
 If answer is "No", list all omitted financial statements not designated as "N/A" in the table of contents. If additional space is needed, attach additional sheets.

5. Do the fund types used in the financial statements conform to those described in GASB §1300.103? Yes ___ No ___ N/A ___

- 6a. Does the information presented in the combining statements in Other Supplementary Information agree to the applicable funds statements or budget to GAAP reconciliation? Yes ___ No ___ N/A ___

- 6b. Does the statement of net assets include a balance for capital assets, net of accumulated depreciation? Yes ___ No ___ N/A ___

- 6c. Does the statement of net assets include two lines for Noncurrent liabilities – Due within one year and Due in more than one year? Yes ___ No ___ N/A ___

7. Have the basic financial statements, required supplementary information and other supplementary information been prepared in the format of the CAFR Outline? Yes___ No___ N/A___
8. Has GASB Statement No. 54 been implemented? Did the charter school's CAFR reflect fund balance as non-spendable, restricted, committed, assigned, and unassigned? Yes___ No___ N/A___
- (a) Have capital reserve funds been classified as restricted fund balance – capital reserve? Yes___ No___ N/A___
- (b) Has unreserved fund balance included in the upcoming year's budget as budgeted fund balance been classified as assigned to – designated for subsequent year's expenditures? Yes___ No___ N/A___
- (c) Are reserves related to insurance policies for other than incurred but not reported claims (IBNR) classified as unrestricted fund balance? Yes___ No___ N/A___
- (d) Are all other reported "restrictions", "commitments" and "assignments" appropriate? Yes___ No___ N/A___
- (e) Have the appropriate disclosures related to the components of fund balance been made in the notes to the financial statements? Yes___ No___
9. Are all interfund transfers reflected in the CAFR in accordance with statute and properly reported in accordance with GASB §1800.102-105? Yes___ No___ N/A___
10. Do the Budgetary Comparison Schedules reflect over-expenditures of line accounts in violation of *N.J.A.C. 6A:23A-16.10*? Yes___ No___
- Is a comment and recommendation regarding over-expenditures included in the Auditor's Management Report? If not, a note to the auditor must be included in the QAR letter. Yes___ No___ N/A___
11. If the charter school's is self-insured for workmen's compensation, have they properly accounted for the activity in accordance with GASB 10 and 30? (Self-insured workmen's compensation plans should be accounted for in either the general fund or an internal service fund when there is no transfer of risk). Yes___ No___ N/A___
- 11a If the charter school's uses the reimbursement method (payment in lieu of contributions) for unemployment compensation, has the information been presented in the fiduciary fund statements? Yes___ No___ N/A___

12. Does the *Statement of Net Assets* report Net Assets in three components - Invested in capital assets, net of related debt; restricted (distinguishing between major categories of restrictions, including permanent endowment principal – nonexpendable); and unrestricted (GASB 34, ¶477)? If no, answer (a) below.
- Yes____ No____
- (a) Does the independent auditor’s report contain the associated qualification of opinion?
- Yes____ No____
13. Does the *Statement of Net Assets* report the portion of compensated absences which matures within one year separately from the long-term portion? (GASB §2200.116)
- Yes____ No____ N/A____
14. Do the notes to the financial statements include: (GASB §2300)
- (a) A summary of significant accounting policies that includes:
- i. An identification of the component units combined to form the reporting entity and the key criteria considered? (GASB §2600.119)
- Yes____ No____
- ii. The basis of accounting including revenue recognition policies?
- Yes____ No____
- (b) Interfund receivables and payables?
- Yes____ No____ N/A____
- (c) Excess of expenditures over appropriations in individual funds?
- Yes____ No____ N/A____
- (d) Deficit fund balances or retained earnings of individual funds?
- Yes____ No____ N/A____
- (e) Material violations of finance-related legal and contractual provisions? (GASB §1200.112)
- Yes____ No____ N/A____
- (f) Do the notes to the financial statements for capital assets and noncurrent liabilities agree to the *Statement of Net Assets*? (GASB §2300.111)
- Yes____ No____ N/A____

III. Reporting

15. Does the Independent Auditor's Report contain the following items:
- (a) A title that includes the word independent?
- Yes____ No____
- (b) A statement that the financial statements of the governmental activities, the business-type activities, and each major fund, which collectively comprise the charter school’s basic financial statements as listed in the table of contents were audited?
- Yes____ No____
- (c) A statement that the financial statements are the responsibility of management and that the auditor's responsibility is to express opinions on these financial statements based on his audit?
- Yes____ No____

- (d) A statement that the audit was conducted in accordance with generally accepted auditing standards (GAGAS), *Government Auditing Standards* issued by the Comptroller General of the United States and audit requirements prescribed by the Division of Administration & Finance, Department of Education, State of New Jersey? Yes _____ No _____
- (e) A statement that generally accepted auditing standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement? Yes _____ No _____
- (f) A statement that the audit includes:
- i. Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements? Yes _____ No _____
 - ii. Assessing the accounting principles used and significant estimates made by management? Yes _____ No _____
 - iii. Evaluating the overall financial statement presentations? Yes _____ No _____
- (g) A statement that the auditor believes that his audit provides a reasonable basis for his opinion(s)? Yes _____ No _____
- (h) An opinion as to whether the financial statements present fairly, in all material respects the respective financial position of the governmental activities, the business-type activities, and each major fund as of the balance sheet date and the respective changes in financial position and cash flows, where applicable, for the period then ended in conformity with accounting principles generally accepted in the United States of America? Yes _____ No _____
- Briefly describe any qualifications:

- (i) A statement that in accordance with *Government Auditing Standards*, the auditor has also issued a report dated (include report date) on the consideration of the charter school's internal control over financial reporting and on tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. A statement that that the purpose of that report is to describe the scope of the testing of internal control, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. Yes ___ No ___
- (j) Identification of the accompanying required supplementary information, such as management's discussion and analysis and budgetary comparison schedules accompanying the financial statements and that limited procedures were applied? Yes ___ No ___
- (k) Identification of additional information accompanying the financial statements [relevant combining schedules] that have been subjected to the auditing procedures applied in the audit of the basic financial statements? Yes ___ No ___ N/A ___
- (l) Identification of additional supplementary information [such as the introductory section and statistical section] that has not been subjected to the auditing procedures? Yes ___ No ___ N/A ___
- (m) An opinion as to whether the schedule of expenditures of federal awards and/or schedule of expenditures of state financial assistance is (are) fairly stated in all material respects in relation to the basic financial statements taken as a whole or a disclaimer of opinion? Briefly describe any qualifications: Yes ___ No ___ N/A ___

- (n) An opinion as to whether the combining statements and schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole or a disclaimer of opinion? Briefly describe any qualifications: Yes ___ No ___

- (o) Identification that the introductory section and statistical section was not audited? Yes ___ No ___
- (p) The signature of the public accountant who performed the audit? Yes ___ No ___
 (The audit report must be signed by the individual making the audit or in charge of the audit and not by the firm or corporation, which employs the auditor.)

- (q) The date of the audit report? Yes ___ No ___
16. (a) Have the schedules of expenditures of federal awards and expenditures of state financial assistance been prepared as prescribed by The Audit Program in Section II-SA? Yes ___ No ___ N/A ___
- If "No", describe deficiencies:

- (b) Do the funds received per the schedules agree with department/state disbursement records? Yes ___ No ___ N/A ___
- (c) Based on federal and state financial assistance expenditures, was the proper type of audit report prepared? Yes ___ No ___ N/A ___
- Total Federal Expenditures _____
 Total State Expenditures _____
17. Do the Notes to the Schedules of Awards and Financial Assistance include the following:
- (a) Basis of accounting of the data? Yes ___ No ___
- (b) Disclosure of the nature of differences between amounts presented in the schedules and amounts reported in related reports? Yes ___ No ___ N/A ___
- (c) Relationship of the data presented to the financial statements? Yes ___ No ___
- (d) Assumptions used to value noncash programs and means of calculations? Yes ___ No ___ N/A ___
- (e) Unique matters necessary to understand the amounts presented for any individual program? Yes ___ No ___ N/A ___
- (f) Other matters considered necessary to ensure the schedule is not misleading? Yes ___ No ___ N/A ___
18. Are the following reports included?
- Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*? Yes ___ No ___ N/A ___
- Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 that reflects updated reporting on the schedule of expenditures of federal awards under SAS No. 119 *Supplementary Information in Relation to the Financial Statements Taken as a Whole*? (Refer to the SAS No. 119 information section on page III-2.4 of this Audit Program, where applicable.) Yes ___ No ___ N/A ___
19. Does the Report on Internal Control over Financial Reporting and Compliance and Other Matters contain the following elements?

- (a) A statement that the auditor has audited the financial statements and a reference to the auditor's report on the basic financial statements? Yes _____ No _____
- (b) A statement that the audit was conducted in accordance with generally accepted auditing standards, *Government Auditing Standards* issued by the Comptroller General of the United States and audit requirements prescribed by the Division of Administration & Finance, Department of Education, State of New Jersey? Yes _____ No _____
- (c) A statement that, in planning and performing the audit, the auditor considered the internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, no opinion on the effectiveness of the charter school's internal control over financial reporting is expressed? Yes _____ No _____
- (d) If no material weaknesses, significant deficiencies or reportable instances of noncompliance or other matters identified have been identified, does the report include the definitions of:
- i. a deficiency in internal control (SAS 115)? Yes _____ No _____
 - ii. a material weakness (SAS 115)? Yes _____ No _____
- (e) If no material weaknesses have been identified; however, significant deficiencies and reportable instances of noncompliance, and other matters have been identified:
Does the report include definitions of:
- i. a deficiency in internal control (SAS 115)? Yes _____ No _____
 - ii. a material weakness (revised by SAS 115)? Yes _____ No _____
 - iii. a significant deficiency (revised by SAS 115)? Yes _____ No _____

- (f) If material weaknesses have been identified;
Does the report include definitions of:
- i. a deficiency in internal control (SAS 115)? Yes _____ No _____
 - ii. a material weakness (revised by SAS 115)? Yes _____ No _____
 - iii. a significant deficiency (revised by SAS 115)? Yes _____ No _____
- (g) A statement that the auditor's consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses? Yes _____ No _____
- (h) Was a deficiency considered to be a material weakness or a significant deficiency noted? (if "Yes" answer (i.)-(ii.), if "No" skip to 19.(i))
- i. A statement that noted material weakness and/or significant deficiencies are described in the accompanying schedule of findings and questioned costs and the related finding reference number? Yes _____ No _____ N/A _____
 - ii. A statement about whether the auditor believes any of the significant deficiencies described in the report are material weaknesses and, if so:
Identifies which one(s)? Yes _____ No _____
- (i) If no deficiencies were noted:
A statement that no matters that the auditor considered to be a material weakness were noted? Yes _____ No _____
- (j) A statement that, as part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, the auditor performed tests of compliance with certain provisions of laws, regulations, contracts, and grants? Yes _____ No _____
- (k) A statement that the auditor's objective was not to provide an opinion on compliance with those provisions? Yes _____ No _____
- (l) A statement that the results of tests performed disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and audit requirements prescribed by the Division of Administration and Finance, Department of Education, State of New Jersey? Yes _____ No _____ N/A _____
- (m) A statement that the results of tests performed disclosed instances of non-compliance that are required to be reported under *Government Auditing Standards* and audit requirements prescribed by the Division of Administration and Finance, Department of Education, State of New Jersey, and reference to the accompanying schedule of findings and questioned costs by finding reference number? Yes _____ No _____ N/A _____
- (n) If applicable, statements that certain matters were reported to management in a separate letter (the Auditor's Management Report)? Yes _____ No _____ N/A _____

- (o) A statement that the report is intended for the information of the Board, the New Jersey Department of Education, and Federal awarding agencies? Yes _____ No _____
- (p) The signature of the public accountant who performed the audit?
(The audit report must be signed by the individual making the audit or in charge of the audit and not by the firm or corporation, which employs the auditor.) Yes _____ No _____
- (q) The date of the auditor's report? Yes _____ No _____

20. Does the **Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance** include the following:

- (a) A statement that the entity's compliance with the requirements described in U.S. Office of Management and Budget Circular A-133 Compliance Supplement and the New Jersey *State Grant Compliance Supplement* that could have a direct and material effect on each of its major programs was audited? Yes _____ No _____
- (b) A statement that compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the entity's management and that the auditor's responsibility is to express an opinion on compliance based on his or her audit? Yes _____ No _____
- (c) A statement that the audit was conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, audit requirements prescribed by the Division of Administration and Finance, Department of Education, State of New Jersey, and New Jersey OMB Circular Letter 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*? Yes _____ No _____
- (d) A statement that those standards and *Government Auditing Standards* issued by the Comptroller General of the United States, OMB Circular A-133 and New Jersey OMB Circular Letter 04-04 require that the auditor plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in item *a*, above, that could have a direct and material effect on a major program occurred? Yes _____ No _____
- (e) A statement that an audit includes examining, on a test basis, evidence about the entity's compliance with the requirements referred to in *a*, above, and performing such other procedures as considered necessary in the circumstances? Yes _____ No _____

- (f) A statement that the auditor believes that his or her audit provides a reasonable basis for an opinion? Yes ___ No ___
- (g) Reference to the accompanying schedule of findings and questioned costs for instances of noncompliance required to be reported in accordance with OMB Circular A-133 and New Jersey OMB Circular Letter 04-04 including related finding reference numbers? Yes ___ No ___ N/A ___
 Where applicable, identification of the type of compliance requirement and the major federal program for which noncompliance was reported [list the reference numbers of the related findings, for example, 20X1-3 and 20X1-6]? Yes ___ No ___ N/A ___
- (h) An opinion as to whether the entity complied in all material respects, with the requirements referred to in item *a*, above that could have a direct and material effect on each of its major federal programs? Yes ___ No ___
 Briefly describe any qualifications:

- (i) A statement that the management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal and state programs? Yes ___ No ___
- (j) A statement that, in planning and performing the audit, the auditor considered the internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and New Jersey OMB Circular Letter 04-04? Yes ___ No ___
- (k) If the auditor did not identify any material weaknesses, or significant deficiencies in internal control over compliance; does the report include the definitions of:
 i. Deficiency in internal control over compliance? Yes ___ No ___ N/A ___
 ii. Material weakness in internal control over compliance? Yes ___ No ___ N/A ___
- (l) If the auditor identified material weaknesses and/or significant deficiencies in internal control over compliance; does the report include the definitions of:
 i. Deficiency in internal control over compliance? Yes ___ No ___ N/A ___
 ii. Material weakness in internal control over compliance? Yes ___ No ___ N/A ___
 iii. Significant deficiency in internal control over compliance? Yes ___ No ___ N/A ___

- (m) A statement that the auditor's consideration of internal control over compliance was for a limited purpose and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses? Yes____ No____
- (n) A statement as to whether the auditor identified any deficiencies in internal control over compliance that are considered material weaknesses? Yes____ No____
(if "Yes" answer (i)), if "No" answer (o) and(p)
- i. Is reference made to the schedule of findings and questioned costs and reference number(s) of related findings? Yes____ No____
- (o) A statement as to whether the auditor identified any deficiency in internal control over compliance that the auditor considered to be a significant deficiency? Yes____ No____
(if "Yes" answer (i.), if "No" skip to (p))
- i. A statement that deficiencies in internal control over compliance that are considered significant deficiencies are described in the accompanying schedule of findings and questioned costs and the related finding reference number? Yes____ No____
- (p) If no deficiency in internal control over compliance was noted:
 i. A statement that no deficiencies in internal control over compliance that the auditor considered to be a material weakness were noted? Yes____ No____ N/A____
- (q) A statement that the report is intended for the information of the Board, the New Jersey Department of Education, and Federal awarding agencies? Yes____ No____
- (r) The signature of the public accountant who performed the audit? Yes____ No____
(The audit report must be signed by the individual making the audit or in charge of the audit and not by the firm or corporation which employs the auditor.)
- (s) The date of the auditor's report? Yes____ No____
21. Does the **Schedule of Findings and Questioned Costs** include the following four components:
- (a) A Summary of the Auditor's Results which includes:
- i. The type of report issued on the financial statements? Yes____ No____
- ii. Internal control over financial reporting:
- i. material weakness(es) identified? Yes____ No____
- ii. significant deficiency(ies) identified? Yes____ No____
- iii. A statement as to whether noncompliance material to the financial statements were disclosed by the audit of the financial statements? Yes____ No____

- iv. Internal Control Over Major Programs:
Where applicable, a statement as to whether or not material weaknesses were identified. Yes _____ No _____
A statement as to whether significant deficiencies were identified (reported). Yes _____ No _____
For federal awards? Yes _____ No _____ N/A _____
For state financial assistance? Yes _____ No _____ N/A _____
- v. The type (unqualified, qualified, adverse, or disclaimer) of report the auditor issued on compliance for major programs:
For federal awards? Yes _____ No _____ N/A _____
For state financial assistance? Yes _____ No _____ N/A _____
- vi. A statement as to whether the audit disclosed any audit findings which the auditor is required to report:
For federal awards? Yes _____ No _____ N/A _____
For state financial assistance? Yes _____ No _____ N/A _____
- vii. An identification of major programs:
For federal awards (CFDA)? Yes _____ No _____ N/A _____
For state financial assistance? Yes _____ No _____ N/A _____
- viii. The dollar threshold used to distinguish between Type A and Type B programs was computed correctly:
For federal awards?
CPA FIRM DOE Calculation
Yes _____ No _____ N/A _____
For state financial assistance?
CPA FIRM DOE Calculation
Yes _____ No _____ N/A _____
- ix. A statement as to whether the auditee qualified as a low-risk auditee:
For federal awards? Yes _____ No _____ N/A _____
For state financial assistance? Yes _____ No _____ N/A _____
- x. Do programs identified by NJDOE review calculation as Type A or B major programs on the Schedules of Expenditures agree with those identified on the Schedules of Findings and Questioned Costs (Section I – Summary of Auditor’s Results) and the Single Audit Summary Sheet section D items # 27 and #31
:For federal awards and the SF-SAC? Yes _____ No _____ N/A _____
:For state financial assistance? Yes _____ No _____ N/A _____
If No, has the program been audited in either of the two preceding years?
For federal awards? Yes _____ No _____ N/A _____
For state financial assistance? Yes _____ No _____ N/A _____
- (b) Financial Statement Findings relating to the financial statements which are required to be reported in accordance with GAGAS? Yes _____ No _____ N/A _____
- (c) Findings and questioned costs for Federal awards as per A-133 (Sec.510 (a) and (b))? Yes _____ No _____ N/A _____

- (d) Findings and questioned costs for State financial assistance? Yes ___ No ___ N/A ___
22. Does the Summary Schedule of Prior Audit Findings include the following :
- (a) The reference numbers the auditor assigns to audit findings, including the fiscal year in which the finding initially occurred? Yes ___ No ___ N/A ___
- (b) For repeat audit findings, the cross-reference to the current year audit finding number? Yes ___ No ___ N/A ___
- (c) The status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to Federal awards and State Financial Assistance? Yes ___ No ___ N/A ___
- (d) Audit findings reported in the prior audit's summary schedule of prior audit findings as follows:
- i. When fully corrected the summary schedule need only list the findings and state that corrective action was taken. Yes ___ No ___ N/A ___
- ii. When not corrected or only partially corrected, the summary schedule must describe the planned corrective action as well as any partial corrective action taken. Yes ___ No ___ N/A ___
- iii. When corrective action is significantly different from corrective action previously reported in a corrective action plan or in the Federal agencies or pass-through entity's management decision, the summary schedule shall provide an explanation. Yes ___ No ___ N/A ___
- iv. When the auditee believes the audit findings are no longer valid or does not warrant further action, the reasons for this position shall be described in the summary schedule. Yes ___ No ___ N/A ___
23. Has an acceptable Corrective Action Plan been submitted to the department with the Audit Synopsis through the county office of education? Yes ___ No ___
24. Has a copy of the Federal Data Collection Form as per USOMB Circular A-133 been received by the department if auditee expended over \$500,000 in federal financial assistance? Yes ___ No ___ N/A ___

III. Comments and Recommendations

1. Does the Auditor's Management Report contain comments as outlined in The Audit Program as to the accuracy and completeness of financial reports and claims for advances or reimbursement to federal agencies or their representatives (i.e. Food Service Fund) and Child Nutrition Requirements? Yes ___ No ___

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2. Does the Auditor's Management Report contain all the findings reported in the Single Audit Section of the CAFR? Yes _____ No _____ N/A _____
3. Does the Auditor's Management Report provide comments both negative and positive on s ignificant findings and recommendations from the previous audit to determine whether appropriate corrective actions had been taken? Yes _____ No _____ N/A _____